



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

As at March 31, 2023 and for the three months ended March 31, 2023 and 2022

## **CONTENTS**

- 1 Management's Discussion and Analysis
- 30 Interim Condensed Consolidated Financial Statements
- 34 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 months ended March 31, 2023 and the consolidated financial statements for the year ended December 31, 2022. 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 May 3, 2023.

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, geo-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 (including the war in Ukraine), 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

Since Russia's invasion of Ukraine in early 2022 there has been emerging global concerns over oil and natural gas supply which has resulted in higher and more volatile benchmark commodity prices. Additionally, this conflict has contributed to increased inflationary pressures on governments, businesses and communities with costs rising since 2021. In response to increasing inflation, central banks around the globe began increasing interest rates in 2022 which has continued into 2023.

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 "Business Risks and Uncertainties" in this MD&A for additional information regarding certain risks which Tourmaline and its business and operations are subject to.

## 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 has issued an IFRS Sustainability Disclosure Standard with the aim to develop sustainability disclosure standards that are globally consistent, comparable and reliable. In addition, the Canadian Securities Administrators 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 Company is awaiting further guidance from the ISSB and CDA on their final rules.

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 <https://sustainability.tourmalineoil.com/>.

The Sustainability Report was developed using the Sustainability Accounting Standards Board ("SASB") standards as a baseline for the sustainability factors significant to Tourmaline stakeholders. The Company applied SASB Oil & Gas – Exploration & Production Standard ("SASB EM-EP") and the Global Reporting Initiative ("GRI") 305-2 Energy Indirect (Scope 2) GHG Emissions Standards. The Company has also included recommendations from the Task Force on Climate Related Disclosures and incorporated discussion points and metrics outlined by the ISSB.

## SIGNIFICANT ACQUISITION ACTIVITY

There have been no significant acquisitions completed during the three months ended March 31, 2023. The following table summarizes the significant acquisition activity of the Company for the year ended December 31, 2022:

| Acquisition  | Type           | Date            | CGU          | Purchase Price <sup>(1)</sup><br>(\$ MMs) | Production <sup>(2)</sup><br>(boe/d) |
|--------------|----------------|-----------------|--------------|---|--------------------------------------|
| 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 but does not include any assumed working capital (net debt).

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

(3) Refer to the "Capital Expenditures" section of this MD&A and Note 5 of the Company's consolidated financial statements for further details about these transactions.

## PRODUCTION

|  | Three Months Ended<br>March 31, |           |        |
|--|---------------------------------|-----------|--------|
|  | 2023                            | 2022      | Change |
| Natural gas ( <i>mcf/d</i> )                       | <b>2,469,747</b>                | 2,360,941 | 5%     |
| Oil ( <i>bb/d</i> )                                | <b>11,738</b>                   | 10,617    | 11%    |
| Condensate ( <i>bb/d</i> )                         | <b>32,947</b>                   | 33,426    | (1)%   |
| NGL ( <i>bb/d</i> )                                | <b>69,606</b>                   | 69,526    | 0%     |
| Oil equivalent ( <i>boe/d</i> )                    | <b>525,916</b>                  | 507,059   | 4%     |
| Production in (sold from) storage ( <i>boe/d</i> ) | <b>(2,173)</b>                  | (3,893)   | (44)%  |
| Total produced volumes ( <i>boe/d</i> )            | <b>523,743</b>                  | 503,166   | 4%     |
| Natural gas %                                      | <b>78%</b>                      | 78%       |        |

Production for the three months ended March 31, 2023, increased 4% up to an average of 525,916 boe/d compared to 507,059 boe/d for the same quarter of 2022.

The production increase since March 31, 2022 is a result of the Company's successful exploration and production program and from the Rising Star Resources ("Rising Star") corporate acquisition which accounted for approximately 20% of the increase in production. In the first quarter of 2023, the Company's NGL production was negatively impacted by a force majeure event on the Pembina Pipeline Corporation's Northern Line in Northeast BC which lasted from January 17<sup>th</sup> to February 25<sup>th</sup>, 2023 but continues to operate at a restricted rate to date.

Included in the average production volumes discussed above, for the first quarter of 2023, was 2,173 boe/d of natural gas, which was withdrawn from storage facilities, during the quarter. Average produced volumes for the first quarter of 2023 were 523,743 boe/d. For the first quarter of 2022, 3,893 boe/d of natural gas was withdrawn from storage facilities resulting in average produced volumes of 503,166 boe/d. At March 31, 2023, and at March 31, 2022, the Company had completely withdrawn all its natural gas storage inventory.

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). Effective April 1, 2023, the Company has total storage capacity of 6.0 Bcf.

Full-year average production guidance for 2023 is expected to be 520,000-540,000 boe/d, unchanged from the previously-disclosed guidance in the Company's December 31, 2022 MD&A.

## REVENUE AND REALIZED GAINS (LOSSES)

| (000s)  | Three Months Ended  |                     |                     |
|---|---------------------|---------------------|---------------------|
|   | 2023                | 2022                | March 31,<br>Change |
| <b>Natural gas</b>  |                     |                     |                     |
| Sales from production   | \$ 866,982          | \$ 1,144,916        | (24)%               |
| Premium (loss) on risk management activities  | 394,086             | (22,448)            | 1,856%              |
| Realized gain (loss) on financial instruments   | 112,876             | (88,919)            | 227%                |
|   | <b>1,373,944</b>    | <b>1,033,549</b>    | <b>33%</b>          |
| <b>Oil</b>  |                     |                     |                     |
| Sales from production   | 98,497              | 107,889             | (9)%                |
| Premium on risk management activities   | 4,738               | 2,323               | 104%                |
| Realized (loss) on financial instruments  | (2,704)             | (16,837)            | 84%                 |
|   | <b>100,531</b>      | <b>93,375</b>       | <b>8%</b>           |
| <b>Condensate</b>   |                     |                     |                     |
| Sales from production   | 313,066             | 360,466             | (13)%               |
| (Loss) on risk management activities  | (476)               | (2,839)             | 83%                 |
| Realized (loss) on financial instruments  | (8,151)             | (51,305)            | 84%                 |
|   | <b>304,439</b>      | <b>306,322</b>      | <b>(1)%</b>         |
| <b>NGL</b>  |                     |                     |                     |
| Sales from production   | 236,735             | 281,900             | (16)%               |
| Realized gain (loss) on financial instruments   | 7,935               | (1,462)             | 643%                |
|   | <b>244,670</b>      | <b>280,438</b>      | <b>(13)%</b>        |
| <b>Total</b>  |                     |                     |                     |
| Sales from production   | 1,515,280           | 1,895,171           | (20)%               |
| Premium (loss) on risk management activities  | 398,348             | (22,964)            | 1,835%              |
| Realized gain (loss) on financial instruments   | 109,956             | (158,523)           | 169%                |
| Total revenue from commodity sales, premium (loss) on risk management activities, and realized gain (loss) on financial instruments | <b>\$ 2,023,584</b> | <b>\$ 1,713,684</b> | <b>18%</b>          |

Total sales from production for the three months ended March 31, 2023 decreased 20% to \$1.5 billion from \$1.9 billion for the same quarter of 2022. The decrease for the period can be attributed to a decrease in the AECO and Station 2 natural gas benchmark prices as well as lower oil and condensate benchmark prices in the first quarter of 2023.

Included in the premium (loss) on risk management activities are the premiums/losses 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 City Gate, Chicago, Ventura, Dawn, and Asia (via the US Gulf Coast) all of which have historically had higher natural gas prices as compared to AECO.

The three months ended March 31, 2023, included a premium on risk management activities of \$398.3 million compared to a loss of \$23.0 million for the same period of the prior year. For the three months ended March 31, 2023, AECO prices, on average, were lower than the prices received (after transportation) at the other hubs where Tourmaline sells its natural gas including Sumas, Asia (via the Gulf Coast), PG&E Malin and PG&E Citygate, resulting in a gain on risk management activities. The loss on risk management activities for the three months ended March 31, 2022, reflects a loss on the price received (after transportation) at Chicago, Ventura, PG&E Malin, PG&E City Gate and Dawn compared to the price at AECO which created losses at those hubs.

Total revenue, for the three months ended March 31, 2023, was also impacted by a realized gain on financial instruments of \$110.0 million (three months ended March 31, 2022 – realized loss on financial instruments of \$158.5 million) reflecting higher prices received on financial commodity contracts when compared to lower benchmark prices.

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

#### BENCHMARK OIL AND GAS PRICES:

|                                  |           | Three Months Ended<br>March 31, |        |
|----------------------------------|-----------|---------------------------------|--------|
|                                  | 2023      | 2022                            | Change |
| Natural gas                      |           |                                 |        |
| NYMEX Last Day (USD\$/mcf)       | \$ 3.42   | \$ 4.95                         | (31)%  |
| AECO 5A (CAD\$/mcf)              | \$ 3.28   | \$ 4.76                         | (31)%  |
| West Coast Station 2 (CAD\$/mcf) | \$ 3.16   | \$ 4.73                         | (33)%  |
| Sumas (USD\$/mmbtu)              | \$ 9.96   | \$ 4.44                         | 124%   |
| ATP 5A Day Ahead (CAD\$/mcf)     | \$ 3.21   | \$ 4.85                         | (34)%  |
| Chicago City Gate (USD\$/mmbtu)  | \$ 2.79   | \$ 4.42                         | (37)%  |
| Ventura (USD\$/mmbtu)            | \$ 2.97   | \$ 4.47                         | (34)%  |
| PG&E Malin (USD\$/mmbtu)         | \$ 11.04  | \$ 4.60                         | 140%   |
| PG&E City Gate (USD\$/mmbtu)     | \$ 12.03  | \$ 5.26                         | 129%   |
| Dawn (USD\$/mmbtu)               | \$ 2.86   | \$ 4.42                         | (35)%  |
| JKM (USD\$/mmbtu)                | \$ 19.62  | \$ 31.18                        | (37)%  |
| Oil and condensate               |           |                                 |        |
| NYMEX (USD\$/bbl)                | \$ 75.99  | \$ 95.01                        | (20)%  |
| Edmonton Par (CAD\$/bbl)         | \$ 99.62  | \$ 118.77                       | (16)%  |
| Edmonton Condensate (CAD\$/bbl)  | \$ 106.68 | \$ 123.18                       | (13)%  |

#### CURRENCY – EXCHANGE RATES:

|                            |           | Three Months Ended<br>March 31, |        |
|----------------------------|-----------|---------------------------------|--------|
|                            | 2023      | 2022                            | Change |
| CAD\$/USD\$ <sup>(1)</sup> | \$ 0.7396 | \$ 0.7896                       | (6)%   |

(1) Average rates for the period.

**TOURMALINE REALIZED PRICES:**

|                         | Three Months Ended<br>March 31, |           |        |
|-------------------------|---------------------------------|-----------|--------|
|                         | 2023                            | 2022      | Change |
| Natural gas (\$/mcf)    | \$ 6.18                         | \$ 4.86   | 27%    |
| Oil (\$/bbl)            | \$ 95.16                        | \$ 97.72  | (3)%   |
| Condensate (\$/bbl)     | \$ 102.67                       | \$ 101.82 | 1%     |
| NGL (\$/bbl)            | \$ 39.06                        | \$ 44.82  | (13)%  |
| Oil equivalent (\$/boe) | \$ 42.75                        | \$ 37.55  | 14%    |

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

The realized average natural gas price for the three months ended March 31, 2023, increased by 27% to \$6.18/mcf from \$4.86/mcf in the same period of the prior year. The increase is the result of significantly higher natural gas benchmark prices at Sumas, PG&E Malin and PG&E Citygate, compared to the same period of the prior year, prior to any deductions for transportation. Additionally, in January 2023, Tourmaline began delivering gas to Cheniere Energy in the US Gulf Coast which receives a Japan Korea Marker ("JKM") benchmark price which, during the period, was significantly higher than the Canadian benchmark natural gas prices. The higher commodity prices at these hubs were partially offset by lower benchmark natural gas prices received at the other major hubs where the Company sells its natural gas.

Realized oil prices decreased by 3% for the three months ended March 31, 2023, compared to the same period of the prior year consistent with lower benchmark oil prices.

For the three months ended March 31, 2023, the realized price of condensate was \$102.67/bbl, which is 1% higher than the prior year. The realized price for the first quarter of 2023 reflects lower realized losses on financial instruments partially offset by the lower benchmark prices when compared to the same period of the prior year.

The realized NGL price for the three months ended March 31, 2023, decreased by 13% compared to the same period of the prior year. The decrease correlates with the decrease in natural gas, oil and condensate benchmark prices in the period.

## ROYALTIES

| (000s)   | Three Months Ended |            |                     |
|--|--------------------|------------|---------------------|
|  | 2023               | 2022       | March 31,<br>Change |
| Natural gas  |                    |            |                     |
| Crown royalties  | \$ 177,755         | \$ 144,270 | 23%                 |
| GORR royalties   | 24,883             | 33,223     | (25)%               |
| Royalty credits  | (84,445)           | (73,208)   | 15%                 |
|  | <b>118,193</b>     | 104,285    | 13%                 |
| Oil, condensate and NGL                                      |                    |            |                     |
| Crown royalties  | 117,736            | 123,960    | (5)%                |
| GORR royalties   | 13,192             | 14,670     | (10)%               |
| Royalty credits  | (27,909)           | (39,181)   | (29)%               |
|  | <b>103,019</b>     | 99,449     | 4%                  |
| Total royalties  | \$ 221,212         | \$ 203,734 | 9%                  |
| Royalties as a percentage of commodity sales from production | 14.6%              | 10.8%      |                     |

For the quarter ended March 31, 2023, the average effective royalty rate was 14.6% compared to 10.8% for the same period of the prior year. The higher commodity price environment in 2022 and 2023 accelerated the rate at which royalty credits are used up thereby reducing the period in which wells are eligible for a lower royalty rate.

Natural gas royalties of \$118.2 million, for the three months ended March 31, 2023, included crown royalties of \$177.8 million offset by credits of \$84.4 million. For the three months ended March 31, 2022, natural gas royalties of \$104.3 million included crown royalties of \$144.3 million offset by credits of \$73.2 million. Included in the credits received for the three months ended March 31, 2023 and 2022 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 now expects its royalty rate for 2023 to be approximately 15%, which has been reduced from the previous guidance of 16%. The reduced rate reflects lower forecast commodity prices in 2023 compared to the previous forecast. The royalty rate is sensitive to commodity prices, and as such, an increase in commodity prices will increase the actual rate.

## COMMODITY MARKETING

| (000s)              | Three Months Ended<br>March 31, |           |        |
|---------------------|---------------------------------|-----------|--------|
|                     | 2023                            | 2022      | Change |
| Marketing revenue   | \$ 43,467                       | \$ 11,851 | 267%   |
| Marketing purchases | \$ 13,137                       | \$ 10,254 | 28%    |

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 March 31, 2023, marketing revenue increased by 267% and marketing purchases increased by 28% compared to the same period of 2022. The increase in marketing revenue relates to revenue received by Tourmaline for third-party natural gas purchased by Cheniere Energy at an index price in the Gulf coast and subsequently sold at a JKM benchmark price under Tourmaline's natural gas supply agreement. The net revenue from this transaction was recorded as marketing revenue on the unaudited condensed interim statement of income and comprehensive income.

## OTHER INCOME

| (000s)       | Three Months Ended<br>March 31, |           |        |
|--------------|---------------------------------|-----------|--------|
|              | 2023                            | 2022      | Change |
| Other income | \$ 11,452                       | \$ 12,355 | (7)%   |

Other income for the three months ended March 31, 2023 was \$11.5 million compared to \$12.4 million for the same period of the prior year. The decrease in other income is related to a decrease in the sale of carbon credits.

## OPERATING EXPENSES

| (000s) except per unit amounts | Three Months Ended<br>March 31, |            |        |
|--------------------------------|---------------------------------|------------|--------|
|                                | 2023                            | 2022       | Change |
| Operating expenses             | \$ 219,002                      | \$ 191,918 | 14%    |
| Per boe                        | \$ 4.63                         | \$ 4.21    | 10%    |

Operating expenses include all periodic lease and field-level expenses and exclude income recoveries from processing third-party volumes. For the first quarter of 2023, total operating expenses were \$219.0 million compared to \$191.9 million in 2022, an increase of 14% over a production base increase of 4%.

On a per-boe basis, the costs increased from \$4.21/boe for the first quarter of 2022 to \$4.63/boe in the first quarter of 2023. The higher per-boe costs for the three months ended March 31, 2023, reflect higher fuel and power costs, higher property taxes, insurance, and carbon taxes as well as general inflationary pressures. 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 2023 are expected to average approximately \$4.50/boe as disclosed in the Company's December 31, 2022 MD&A. The increase over 2022 per-boe costs takes into consideration the higher anticipated property taxes and carbon taxes as well as general inflation. 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

|                                       | Three Months Ended<br>March 31, |            |        |
|---------------------------------------|---------------------------------|------------|--------|
| <i>(000s) except per unit amounts</i> | 2023                            | 2022       | Change |
| Natural gas transportation            | \$ 200,110                      | \$ 171,407 | 17%    |
| Oil and NGL transportation            | 53,960                          | 51,761     | 4%     |
| Total transportation                  | \$ 254,070                      | \$ 223,168 | 14%    |
| Per boe                               | \$ 5.37                         | \$ 4.89    | 10%    |

For the first quarter of 2023, total transportation expenses were \$254.1 million compared to \$223.2 million in the first quarter of 2022. Transportation expenses in 2023 reflect increased costs related to higher production volumes compared to the prior year.

On a per-boe basis, transportation costs increased from \$4.89/boe in the first quarter of 2022 to \$5.37/boe in the first quarter of 2023. The increase in per-unit costs reflects higher fuel gas expense due to the higher natural gas benchmark prices at PG&E Malin and PG&E Citygate as well as the additional transportation expense related to delivering natural gas to the US Gulf Coast which began in January 2023.

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

| <i>(000s) except per unit amounts</i> | Three Months Ended<br>March 31, |           |        |
|---------------------------------------|---------------------------------|-----------|--------|
|                                       | 2023                            | 2022      | Change |
| G&A expenses                          | \$ 44,900                       | \$ 42,253 | 6%     |
| Administrative and capital recovery   | (2,150)                         | (2,166)   | (1)%   |
| Capitalized G&A                       | (10,896)                        | (13,306)  | (18)%  |
| Total G&A expenses                    | \$ 31,854                       | \$ 26,781 | 19%    |
| Per boe                               | \$ 0.67                         | \$ 0.59   | 14%    |

Total G&A expenses in the first quarter of 2023 were \$31.9 million compared to \$26.8 million for the same quarter of 2022. 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.

On a per-boe basis, G&A costs increased from \$0.59/boe to \$0.67/boe reflecting the increase in total G&A expenses partially offset by higher production over the period.

G&A expenses for 2023 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<br>March 31, |          |
|---------------------------------------|---------------------------------|----------|
|                                       | 2023                            | 2022     |
| Share-based payments                  | \$ 22,673                       | \$ 9,435 |
| Capitalized share-based payments      | (9,184)                         | (4,133)  |
| Total share-based payments            | \$ 13,489                       | \$ 5,302 |
| Per boe                               | \$ 0.28                         | \$ 0.12  |

The Company recognized \$13.5 million of share-based payments expense for the first quarter of 2023 compared to \$5.3 million for the first quarter of 2022. Capitalized share-based payments for the first quarter of 2023 were \$9.2 million compared to \$4.1 million for the same period of the prior year.

Share-based payments are higher in 2023 compared to the same period of 2022, which reflects options with a higher fair value being expensed in 2023 compared to 2022 and the expense related to the Company's restricted share unit ("RSU") plan which was introduced in the fourth quarter of 2022.

## STOCK OPTION PLAN

The Company uses the fair-value method for the determination of non-cash share-based payments expense. During the first quarter of 2023, 343,000 stock options were granted at a weighted-average exercise price of \$61.85 per option and 362,242 options were exercised, bringing \$7.5 million of cash into treasury.

## RSU PLAN

At March 31, 2023, the Company had 246,870 RSUs outstanding and recognized \$1.6 million of RSU payments expense for the three months ended March 31, 2023 (March 31, 2022 – nil). Capitalized RSU payments for the three months ended March 31, 2023 were \$1.2 million (March 31, 2022 – nil). Both of these amounts are included in the share-based payments table above.

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

| <i>(000s) except per unit amounts</i>          | Three Months Ended<br>March 31, |            |
|--|---------------------------------|------------|
|  | 2023                            | 2022       |
| Total depletion, depreciation and amortization | \$ 313,818                      | \$ 293,681 |
| Less mineral lease expiries                    | (2,974)                         | (19,211)   |
| Depletion, depreciation and amortization       | \$ 310,844                      | \$ 274,470 |
| Per boe  | \$ 6.57                         | \$ 6.01    |

DD&A expense, excluding mineral lease expiries, was \$310.8 million for the first quarter of 2023 compared to \$274.5 million for the same period of 2022. DD&A expense includes depletion of oil and gas interests (excluding plant and facilities) of \$291.1 million (three months ended March 31, 2022 - \$256.0 million). The increase in DD&A expense in 2023 over 2022 is primarily due to higher production volumes as well as a higher depletable base, including an increase in future development costs reflecting inflationary pressures.

The per-unit DD&A rate (excluding the impact of mineral lease expiries) of \$6.57/boe for the first quarter of 2023 increased compared to the rate of \$6.01/boe for the same period of the prior year. The increase in the per boe rate is 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 as well as the increase in future development costs.

Mineral lease expiries for the three months ended March 31, 2023 were \$3.0 million, compared to expiries in the same quarter of the prior year of \$19.2 million. The expired leases for the three months ended March 31, 2023 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 or reversal of impairment. At March 31, 2023 and December 31, 2022, the Company did not identify indicators of impairment on any of its CGUs and therefore, impairment tests were not performed.

## FINANCE EXPENSES

| (000s)   | Three Months Ended<br>March 31, |                  |            |
|--|---------------------------------|------------------|------------|
|  | 2023                            | 2022             | Change     |
| Interest expense   | \$ 9,220                        | \$ 6,805         | 35%        |
| Accretion expense  | 3,797                           | 3,689            | 3%         |
| Lease interest expense                                   | 96                              | 78               | 23%        |
| Foreign exchange (gain) on U.S. denominated debt         | –                               | (7,210)          | 100%       |
| Realized loss on cross-currency swaps                    | –                               | 7,210            | (100)%     |
| Transaction costs on corporate and property acquisitions | –                               | 10               | (100)%     |
| <b>Total finance expenses</b>                            | <b>\$ 13,113</b>                | <b>\$ 10,582</b> | <b>24%</b> |

Finance expenses for the three months ended March 31, 2023, totaled \$13.1 million compared to \$10.6 million for the same period of 2022. During the first quarter of 2023, the combined average bank debt and senior unsecured notes outstanding was \$0.8 billion compared to \$1.0 billion for the same period of 2022. The average effective interest rate on the combined bank debt and senior unsecured notes for the three months ended March 31, 2023 was 3.93% compared to 1.91% for the three months ended March 31, 2022.

Interest expense increased for the first quarter of 2023 due to the increase in the effective interest rate which was partially offset by the decrease in average bank debt outstanding compared to the same period of 2022. The increase in the effective interest rate reflects the higher Bank of Canada prime rate in 2023 over the same period of 2022.

For the three-month period ended March 31, 2023, there were no U.S. dollar draws on the revolving credit facility.

## INCOME TAXES

| (000s)                           | Three Months Ended<br>March 31, |                   |              |
|----------------------------------|---------------------------------|-------------------|--------------|
|                                  | 2023                            | 2022              | Change       |
| Current income taxes             | \$ 198,358                      | \$ –              | 100%         |
| Deferred income taxes (recovery) | (114,520)                       | 215,192           | (153)%       |
| <b>Income taxes</b>              | <b>\$ 83,838</b>                | <b>\$ 215,192</b> | <b>(61)%</b> |

For the three months ended March 31, 2023, current income taxes were \$198.4 million compared to nil for the same period of the prior year. In the third quarter of 2022, the Company became taxable as a result of taxable income being in excess of available tax deductions.

For the three months ended March 31, 2023, the provision for deferred income tax recovery was \$114.5 million compared to \$215.2 million of deferred income taxes for the same period of the prior year. The decrease in deferred income taxes is primarily due to the increase in current income taxes. The overall effective tax rate for March 31, 2023 was consistent with the effective tax rate for March 31, 2022.

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

| (000s) except per unit amounts           | Three Months Ended<br>March 31, |              |        |
|--|---------------------------------|--------------|--------|
|  | 2023                            | 2022         | Change |
| Cash flow from operating activities      | \$ 1,538,075                    | \$ 1,113,649 | 38%    |
| Per share <sup>(1)</sup>                 | \$ 4.48                         | \$ 3.29      | 36%    |
| Cash flow <sup>(2)</sup>                 | \$ 1,127,135                    | \$ 1,075,976 | 5%     |
| Per share <sup>(1)(2)</sup>              | \$ 3.28                         | \$ 3.18      | 3%     |
| Net earnings                             | \$ 250,320                      | \$ 675,939   | (63)%  |
| Per share <sup>(1)</sup>                 | \$ 0.73                         | \$ 1.99      | (63)%  |
| Operating netback per boe <sup>(2)</sup> | \$ 28.08                        | \$ 23.99     | 17%    |

(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 March 31, 2023, was \$1.13 billion or \$3.28 per diluted share compared to \$1.08 billion or \$3.18 per diluted share for the same period of 2022. The increase in cash flow in the first quarter of 2023, compared to the same quarter of 2022, reflects a higher operating netback as well as increased production volume. The increase was partially offset by a reduction to cash flow of \$198.4 million relating to current tax expense.

The Company had after-tax net earnings for the three months ended March 31, 2023, of \$250.3 million or \$0.73 per diluted share compared to after-tax net earnings of \$675.9 million or \$1.99 per share for the same period of 2022. The decrease in after-tax net earnings reflects an unrealized loss on financial instruments of \$661.9 million for the three months ended March 31, 2023, compared to an unrealized gain on financial instruments of \$108.1 million for the three months ended March 31, 2022. The unrealized loss in the first quarter of 2023 was partially offset by the 17% increase in the Company's operating netback per boe combined with the increase in production volume in the first quarter of 2023.

## CAPITAL EXPENDITURES

| (000s)                                  | Three Months Ended<br>March 31, |            |
|---|---------------------------------|------------|
|   | 2023                            | 2022       |
| Land and seismic                        | \$ 18,917                       | \$ 14,311  |
| Drilling and completions                | 467,720                         | 346,324    |
| Facilities                              | 102,584                         | 81,673     |
| Exploration and production expenditures | 589,221                         | 442,308    |
| Property acquisitions                   | 15                              | 24,921     |
| Property dispositions                   | (7,291)                         | (3,297)    |
| Other                                   | 12,552                          | 15,441     |
| Total capital expenditures              | \$ 594,497                      | \$ 479,373 |

During the first quarter of 2023, the Company invested \$594.5 million of cash consideration compared to \$479.4 million for the same period of 2022. Expenditures on exploration and production were \$589.2 million for the first quarter of 2023 compared to \$442.3 million for the same quarter of 2022.

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

|           | Three Months Ended<br>March 31, 2023 |       | Three Months Ended<br>March 31, 2022 |       |
|-----------|--------------------------------------|-------|--------------------------------------|-------|
|           | Gross                                | Net   | Gross                                | Net   |
| Drilled   | 77                                   | 71.37 | 72                                   | 66.40 |
| Completed | 72                                   | 67.65 | 78                                   | 72.17 |
| Tied-in   | 83                                   | 76.65 | 88                                   | 84.67 |

Exploration and production capital expenditures in 2023 are forecast to be \$1.675 billion plus an additional \$100.0 million in exploration directed spending. The Company expects drilling and completions costs of approximately \$1.46 billion, facilities expenditures (including equipment, pipelines and tie-ins) of \$295.0 million as well as land and seismic expenditures of \$20.0 million. The capital budget is closely monitored and will continue to be adjusted as required, depending on cash flow available.

### Total Property Acquisitions and Dispositions

In total, for the three months ended March 31, 2023, the Company completed property acquisitions for cash consideration of less than \$0.1 million (December 31, 2022- \$273.8 million) and nil in property acquisitions for non-cash consideration (December 31, 2022 - \$9.5 million). The Company assumed less than \$0.1 million in decommissioning liabilities as a result of these acquisitions (December 31, 2022 - \$20.9 million).

For the three months ended March 31, 2022, the Company also completed property dispositions for total cash consideration of \$7.3 million (December 31, 2022 - \$71.5 million) and non-cash consideration of nil (December 31, 2022 – \$9.5 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. The revolving credit facility is in the amount of \$2.55 billion with a maturity date of June 2027. The maturity date may, at the request of the Company and with consent of the lenders, be extended on an annual basis. The revolving credit facility includes an expansion feature ("accordion") which allows the Company, upon approval from the lenders, to increase the facility amount by up to \$500.0 million by adding a new financial institution or by increasing the commitment of its existing lenders. The revolving credit facility can be drawn in either Canadian or U.S. funds and bears interest at the agent bank's prime lending rate, banker's acceptance rates or the Secured Overnight Financing Rate ("SOFR") (for U.S. borrowings), plus applicable margins. At March 31, 2023, the revolving credit facility was undrawn.

The Company also has a covenant-based, unsecured, operating credit facility with a Canadian bank in the amount of \$50.0 million. The operating credit facility has a maturity date of June 2024, which may, at the request of the Company and with consent of the lender, be extended on an annual basis. The covenants are the same as the revolving credit facility. At March 31, 2023, and December 31, 2022, the operating credit facility was undrawn.

Additionally, the Company has an unsecured credit facility payable on demand in the amount of \$50.0 million with a Canadian bank. At March 31, 2023 and December 31, 2022, the demand credit facility was undrawn.

Tourmaline has outstanding letters of credit in the amount of \$35.5 million at March 31, 2023 (December 31, 2022 - \$54.9 million) which are secured by the demand 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 March 31, 2023 including the bank debt and senior unsecured notes.

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

As at March 31, 2023, the Company had an adjusted working capital deficit of \$260.9 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 \$161.7 million) (December 31, 2022 – adjusted working capital of \$124.7 million and working capital of \$809.4 million, respectively). As at March 31, 2023, the Company had nil drawn against the revolving credit facility and \$448.1 million of senior unsecured notes outstanding for total bank debt and senior unsecured notes of \$448.1 million (net of debt issue costs) (December 31, 2022 - \$619.1 million). Net debt at March 31, 2023 was \$709.0 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, 2022 - \$494.4 million).

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

### **Normal course issuer bid**

The Company has a normal course issuer bid ("NCIB") in place. On July 27, 2022, the Company renewed its NCIB allowing up to 16,800,668 common shares, representing 5% of its common shares outstanding at July 19, 2022, to be purchased 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 three months ended March 31, 2023, the Company did not purchase any common shares for cancellation.

## **Dividends**

During the three months ended March 31, 2023, the Company paid its quarterly cash dividend of \$0.25 per common share totalling \$84.7 million, compared to \$0.20 per common share totalling \$66.6 million for the same period of the prior year.

On February 1, 2023, the Company paid a special dividend of \$2.00 per common share totalling \$677.6 million.

## **Capital management**

For the remainder of 2023, management will continue to use internally generated cash flow to fund its 2023 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 2022 and 2023 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.

## **INVESTMENT IN TOPAZ ENERGY CORP ("TOPAZ")**

At March 31, 2023, the Company owned 31.3% of the outstanding common shares of its associate, Topaz. For the three months ended March 31, 2023, Tourmaline recorded income from investment in Topaz of \$2.5 million and Topaz paid a cash dividend of \$0.30 per common share resulting in Tourmaline receiving \$13.5 million, which was recorded as a reduction to the investment in Topaz. For the three months ended March 31, 2022, Tourmaline recorded income from investment in Topaz of \$4.2 million and Topaz paid a cash dividend of \$0.26 per common share and Tourmaline received \$13.3 million.

The Company has entered into a number of agreements with Topaz, relating to both royalty and infrastructure assets. For the three months ended March 31, 2023, gross overriding royalties of \$32.9 million and processing fees of \$9.6 million were payable to Topaz and are included in the Company's consolidated statement of income and comprehensive income as royalties and operating expenses. For the three months ended March 31, 2022, gross overriding royalties of \$43.1 million and processing fees of \$9.8 million were payable to Topaz.

## **SHARES AND STOCK OPTIONS OUTSTANDING**

As at May 3, 2023, the Company has 339,140,950 common shares and 12,525,958 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>  | \$ 3,736    | \$ 7,920     | \$ 4,180     | \$ 994       | \$ 16,830    |
| Firm transportation agreements        | 953,766     | 1,748,934    | 1,363,334    | 5,054,397    | 9,120,431    |
| Processing commitments <sup>(2)</sup> | 141,245     | 246,554      | 207,163      | 342,362      | 937,324      |
| Capital commitments <sup>(3)</sup>    | 36,756      | –            | –            | –            | 36,756       |
| Senior unsecured notes <sup>(4)</sup> | 10,378      | 20,757       | 269,814      | 204,500      | 505,449      |
|                                       | \$1,145,881 | \$ 2,024,165 | \$ 1,844,491 | \$ 5,602,253 | \$10,616,790 |

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

(2) Includes processing commitments and power commitments.

(3) Includes drilling commitments.

(4) Includes interest expense at an annual rate of 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, 2022.

As at March 31, 2023, 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 March 31, 2023 are summarized and disclosed in note 3 of the Company's unaudited interim condensed consolidated financial statements for the three months ended March 31, 2023 and 2022.

The Company has entered into physical delivery sales contracts to manage commodity risk. These contracts are considered normal sales contracts and are not recorded at fair value in the consolidated financial statements. Physical contracts in place at March 31, 2023 have been summarized and disclosed in note 3 of the Company's unaudited interim condensed consolidated financial statements for the three months ended March 31, 2023 and 2022.

The Company has a 15-year natural gas supply agreement, under which Tourmaline will deliver 140,000 mmbtu/d (approximately 140,000 mcf/d), which commenced 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. For the three months ended March 31, 2023, the natural gas embedded derivative resulted in an unrealized (loss) of \$1.0 billion as a result of the weakening of the forecast JKM price relative to the forecast NYMEX price (three months ended March 31, 2022 – unrealized gain of \$0.5 billion). At March 31, 2023, the total fair value of the natural gas embedded derivative was \$1.0 billion.

## **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, 2022.

## **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 has been 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 following amounts were restated for Q1 2022:

|   | <b>2022</b>    |
|---|----------------|
| (000s) except per-share amounts (unaudited)                         | <b>Q1</b>      |
| Unrealized gain (loss) on financial instruments previously reported | \$ (437,023)   |
| Restatement adjustment  | 545,097        |
| <b>Unrealized gain (loss) on financial instruments - restated</b>   | <b>108,074</b> |
| Income from operations previously reported                          | 356,616        |
| Restatement adjustment  | 545,097        |
| <b>Income from operations – restated</b>                            | <b>901,713</b> |
| Income before tax previously reported                               | 346,034        |
| Restatement adjustment  | 545,097        |
| <b>Income before tax – restated</b>                                 | <b>891,131</b> |
| Deferred tax expense previously reported                            | 84,750         |
| Restatement adjustment  | 130,442        |
| <b>Deferred tax expense - restated</b>                              | <b>215,192</b> |
| Net income and comprehensive income previously reported             | 261,284        |
| Restatement adjustment  | 414,655        |
| <b>Net income and comprehensive income - restated</b>               | <b>675,939</b> |
| Earnings per share – Basic previously reported                      | 0.79           |
| Restatement adjustment  | 1.24           |
| <b>Basic earnings per share – restated</b>                          | <b>2.03</b>    |
| Earnings per share – Diluted previously reported                    | 0.77           |
| Restatement adjustment  | 1.22           |
| <b>Diluted earnings per share - restated</b>                        | <b>\$ 1.99</b> |

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

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

There were no changes in the Company's DC&P or ICFR during the period beginning on January 1, 2023 and ending on March 31, 2023 that have materially affected, or are reasonably likely to materially affect, the Company's ICFR. It should be noted that a control system, including the Company's disclosure and internal controls and procedures, no matter how well conceived can provide only reasonable, but not absolute assurance that the objectives of the control system will be met and it should not be expected that the disclosure and internal controls and procedures will prevent all errors or fraud.

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

## **BUSINESS RISKS AND UNCERTAINTIES**

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

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 are in the midst of negotiations 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.

On January 18, 2023, the Government of British Columbia and the BRFN reached an agreement in response to the Blueberry Decision. The agreement will transform how the Province and First Nations steward land, water and resources together, and address cumulative effects in BRFN's claim area through restoration to heal the land, establish areas protected from industrial development, and constrain some of the development activities while a long-term cumulative-effects management regime is implemented. The work of achieving these goals will be carried out through a series of measures; there will be limits on new petroleum and natural gas (PNG) development and a new planning regime for future oil and gas activities. The Company is in the process of understanding how it will be impacted by the agreement and the limits on new developments.

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; contributed to a decrease in 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, 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.

The 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.

## **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 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<br>March 31, |              |
|--|---------------------------------|--------------|
|  | 2023                            | 2022         |
| Cash flow from operating activities (per GAAP) | \$ 1,538,075                    | \$ 1,113,649 |
| Current income taxes                           | (198,358)                       | –            |
| Current income taxes paid                      | 25,029                          | –            |
| Change in non-cash working capital             | (237,611)                       | (37,673)     |
| Cash flow                                      | \$ 1,127,135                    | \$ 1,075,976 |

#### 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<br>March 31, |            |
|---|---------------------------------|------------|
|   | 2023                            | 2022       |
| Cash flow used in investing activities (per GAAP) | \$ 501,598                      | \$ 459,447 |
| Change in non-cash working capital                | 92,899                          | 19,926     |
| Capital expenditures                              | \$ 594,497                      | \$ 479,373 |

## 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<br>March 31, |              |
|---|---------------------------------|--------------|
|   | 2023                            | 2022         |
| Commodity sales from production               | \$ 1,515,280                    | \$ 1,895,171 |
| Premium (loss) on risk management activities  | 398,348                         | (22,964)     |
| Realized gain (loss) on financial instruments | 109,956                         | (158,523)    |
| Royalties                                     | (221,212)                       | (203,734)    |
| Transportation costs                          | (254,070)                       | (223,168)    |
| Operating expenses                            | (219,002)                       | (191,918)    |
| Operating netback                             | \$ 1,329,300                    | \$ 1,094,864 |

## Non-GAAP Financial Ratio

### Operating Netback per-boe

Management calculates "operating netback per-boe" as operating netback divided by total production for the period. 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<br>March 31, |          |
|--------------------------------------|---------------------------------|----------|
|                                      | 2023                            | 2022     |
| Revenue, excluding processing income | \$ 42.75                        | \$ 37.55 |
| Royalties                            | (4.67)                          | (4.46)   |
| Transportation costs                 | (5.37)                          | (4.89)   |
| Operating expenses                   | (4.63)                          | (4.21)   |
| Operating netback                    | \$ 28.08                        | \$ 23.99 |

## 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:

| (000s)   | As at<br>March 31,<br>2023 | As at<br>December 31,<br>2022 |
|--|----------------------------|-------------------------------|
| Working capital  | \$ 161,663                 | \$ 809,449                    |
| Fair value of financial instruments – short-term asset             | (457,416)                  | (709,286)                     |
| Lease liabilities – short-term                                     | 3,994                      | 3,109                         |
| Decommissioning obligations – short-term                           | 30,000                     | 30,000                        |
| Unrealized foreign exchange in working capital – liability (asset) | 810                        | (8,605)                       |
| Adjusted working capital (deficit)                                 | \$ (260,949)               | \$ 124,667                    |

### 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:

| (000s)                             | As at<br>March 31,<br>2023 | As at<br>December 31,<br>2022 |
|------------------------------------|----------------------------|-------------------------------|
| Bank debt                          | \$ –                       | \$ (170,767)                  |
| Senior unsecured notes             | (448,054)                  | (448,342)                     |
| Adjusted working capital (deficit) | (260,949)                  | 124,667                       |
| Net debt                           | \$ (709,003)               | \$ (494,442)                  |

## SELECTED QUARTERLY INFORMATION

| (\$000s, unless otherwise noted)  | 2023               |             |             |             | 2022        |             |             |             | 2021 |
|---|--------------------|-------------|-------------|-------------|-------------|-------------|-------------|-------------|------|
|   | Q1                 | Q4          | Q3          | Q2          | Q1          | Q4          | Q3          | Q2          |      |
| <b>PRODUCTION</b>   |                    |             |             |             |             |             |             |             |      |
| Natural gas (mcf)   | <b>222,277,213</b> | 218,634,600 | 206,138,993 | 213,277,064 | 212,484,691 | 208,774,653 | 197,475,909 | 174,322,330 |      |
| Oil, condensate and NGL (bbls)  | <b>10,286,198</b>  | 10,627,244  | 9,978,028   | 10,221,120  | 10,221,181  | 9,831,392   | 9,084,310   | 8,287,097   |      |
| Oil equivalent (boe)  | <b>47,332,400</b>  | 47,066,350  | 44,334,527  | 45,767,297  | 45,635,296  | 44,627,168  | 41,996,962  | 37,340,819  |      |
| Natural gas (mcf/d)   | <b>2,469,747</b>   | 2,376,463   | 2,240,641   | 2,343,704   | 2,360,941   | 2,269,290   | 2,146,477   | 1,915,630   |      |
| Oil, condensate and NGL (bbls/d)  | <b>114,291</b>     | 115,513     | 108,457     | 112,320     | 113,569     | 106,863     | 98,743      | 91,067      |      |
| Oil equivalent (boe/d)  | <b>525,916</b>     | 511,590     | 481,897     | 502,937     | 507,059     | 485,078     | 456,489     | 410,339     |      |
| <b>FINANCIAL</b>  |                    |             |             |             |             |             |             |             |      |
| Total revenue from commodity sales and premium (loss) on risk management activities and realized gain (loss) on financial instruments | <b>2,023,584</b>   | 2,176,463   | 1,743,856   | 2,108,834   | 1,713,684   | 1,529,345   | 1,213,376   | 921,278     |      |
| Cash flow from operating activities   | <b>1,538,075</b>   | 1,115,399   | 1,112,202   | 1,351,481   | 1,113,649   | 1,058,460   | 543,855     | 494,673     |      |
| Per diluted share   | <b>4.48</b>        | 3.24        | 3.24        | 3.95        | 3.29        | 3.14        | 1.66        | 1.64        |      |
| Cash flow <sup>(1)</sup>  | <b>1,127,135</b>   | 1,402,647   | 1,051,400   | 1,353,926   | 1,075,976   | 968,236     | 761,333     | 570,232     |      |
| Per diluted share   | <b>3.28</b>        | 4.08        | 3.06        | 3.95        | 3.18        | 2.88        | 2.32        | 1.89        |      |
| Net earnings (loss)   | <b>250,320</b>     | (30,366)    | 2,097,929   | 1,743,547   | 675,939     | 996,248     | 361,057     | 420,849     |      |
| Per basic share   | <b>0.74</b>        | (0.09)      | 6.23        | 5.20        | 2.03        | 3.01        | 1.12        | 1.41        |      |
| Per diluted share   | <b>0.73</b>        | (0.09)      | 6.11        | 5.09        | 1.99        | 2.96        | 1.10        | 1.40        |      |
| Total assets  | <b>18,025,514</b>  | 18,893,041  | 20,051,706  | 17,473,014  | 16,037,859  | 15,292,093  | 14,923,735  | 13,153,137  |      |
| Working capital (deficit)   | <b>161,663</b>     | 809,449     | 513,115     | (132,556)   | (672,285)   | (361,034)   | (591,736)   | (301,459)   |      |
| Adjusted working capital (deficit) <sup>(1)</sup>   | <b>(260,949)</b>   | 124,667     | (116,371)   | 29,500      | (154,563)   | (103,405)   | (70,391)    | (86,363)    |      |
| Capital expenditures <sup>(1)</sup>   | <b>594,497</b>     | 505,982     | 415,447     | 478,545     | 479,373     | 447,461     | 56,108      | 664,696     |      |
| Dividends paid  | <b>762,320</b>     | 845,834     | 748,480     | 577,854     | 481,080     | 306,765     | 55,739      | 47,656      |      |
| Total outstanding shares (000s)   | <b>339,047</b>     | 338,685     | 337,765     | 335,914     | 334,157     | 330,860     | 329,598     | 298,452     |      |
| <b>PER UNIT</b>   |                    |             |             |             |             |             |             |             |      |
| Natural gas (\$/mcf)  | <b>6.18</b>        | 6.89        | 5.37        | 6.31        | 4.86        | 4.66        | 3.88        | 3.25        |      |
| Oil and NGL (\$/bbl)  | <b>63.16</b>       | 63.01       | 63.77       | 74.63       | 66.54       | 56.67       | 49.21       | 42.84       |      |
| Revenue (\$/boe)  | <b>42.75</b>       | 46.24       | 39.33       | 46.08       | 37.55       | 34.27       | 28.89       | 24.67       |      |
| Operating netback (\$/boe) <sup>(1)</sup>   | <b>28.08</b>       | 30.56       | 23.68       | 29.70       | 23.99       | 22.10       | 18.35       | 15.47       |      |

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

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

On an annual basis, the Company has had continued production growth over the last two years. The Company's average annual production has increased from 411,115 boe per day in 2021 to 500,832 boe per day in 2022 and 525,916 boe per day for the first three months of 2023. 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 \$2.9 billion in 2021, \$4.9 billion in 2022 and forecast 2023 cash flow is \$3.9 billion. The increase in 2022 cash flow over 2021 reflects significant increases in commodity prices and production volumes. The decreases in forecast commodity prices, offset by increased production volumes are expected to result in lower forecast cash flow in 2023.

Commodity price fluctuations can indirectly impact expected production by changing the amount of funds available to reinvest in exploration, development and acquisition activities in the future. Changes in commodity prices impact revenue and cash flow available for exploration, and also the economics of potential capital projects as low commodity prices can potentially reduce the quantities of reserves that are commercially recoverable. The Company's capital program is dependent on cash flow generated from operations and access to capital markets.