TOURMALINE
OIL CORP.

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

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 or 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 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.

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 (1) ($ MMs)	Production (2) (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 *(mcf/d)*	**2,240,641**	2,146,477	4%	**2,314,655**	1,994,091	16%
Oil *(bbl/d)*	**10,915**	9,954	10%	**10,817**	10,114	7%
Condensate (*bbl/d*)	**29,813**	29,109	2%	**31,895**	26,386	21%
NGL *(bbl/d)*	**67,729**	59,680	13%	**68,718**	57,451	20%
Oil equivalent *(boe/d)*	**481,897**	456,489	6%	**497,206**	426,300	17%

Production in (sold from) storage (*boe/d*)	**2,931**	1,334	120%	**746**	442	69%
Total produced volumes (*boe/d*)	**484,828**	457,823	6%	**497,952**	426,742	17%
Natural gas %	**77%**	78%		**78%**	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)

	Three Months Ended September 30,			Nine Months Ended September 30,		
(000s)	**2022**	**2021**	**Change**	**2022**	**2021**	**Change**
Natural gas						
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)%
	1,107,557	766,364	45%	**3,487,155**	1,998,014	75%
Oil						
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)%
	100,060	64,332	56%	**304,920**	180,360	69%
Condensate						
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)%
	265,321	196,030	35%	**897,875**	501,869	79%
NGL						
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%
	270,918	186,650	45%	**876,424**	459,675	91%
Total						
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	**$ 1,743,856**	$ 1,213,376	44%	**$ 5,566,374**	$ 3,139,918	77%

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$/USD$ (1)	**$ 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

	Three Months Ended September 30,			Nine Months Ended September 30,		
(000s)	**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)%
	158,265	50,243	215%	**433,936**	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)%
	135,555	59,180	129%	**388,829**	130,415	198%
Total royalties	**$ 293,820**	$ 109,423	169%	**$ 822,765**	$ 219,746	274%
Royalties as a percentage of commodity sales from production	**17.5%**	8.3%		**13.3%**	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

	Three Months Ended September 30,			Nine Months Ended September 30,		
(000s)	**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

	Three Months Ended September 30,			Nine Months Ended September 30,		
(000s)	**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

	Three Months Ended September 30,			Nine Months Ended September 30,		
(000s) except per unit amounts	**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

	Three Months Ended September 30,			Nine Months Ended September 30,		
(000s) except per unit amounts	**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")

	Three Months Ended September 30,			Nine Months Ended September 30,		
(000s) except per unit amounts	**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

		Three Months Ended September 30,		Nine Months Ended September 30,	
(000s) except per unit amounts		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")

		Three Months Ended September 30,		Nine Months Ended September 30,	
(000s) except per unit amounts		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

	Three Months Ended September 30,			Nine Months Ended September 30,		
(000s)	**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

	Three Months Ended September 30,			Nine Months Ended September 30,		
(000s)	**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

	Three Months Ended September 30,			Nine Months Ended September 30,		
(000s) except per unit amounts	**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 (1)	**$ 3.24**	$ 1.66	95%	**$ 10.46**	$ 5.77	81%
Cash flow (2)	**$ 1,051,400**	$ 761,333	38%	**$ 3,481,302**	$ 1,960,890	78%
Per share (1)(2)	**$ 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 (1)	**$ 6.11**	$ 1.10	455%	**$ 13.21**	$ 3.32	298%
Operating netback per boe (2)	**$ 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

	Three Months Ended September 30,		Nine Months Ended September 30,	
(000s)	**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 (1) and net debt (1)

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 (1)	$ 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 (2)	152,211	284,500	248,648	491,134	1,176,493
Capital commitments (3)	74,250	11,554	–	–	85,804
Senior unsecured notes (4)	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 liquefication. 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
Fair value of financial instruments - restated	**409,784**	**102,995**
Total current assets previously reported	871,609	797,525
Restatement adjustment	400,860	92,016
Total current assets - restated	**1,272,469**	**889,541**
Fair value of financial instruments – long-term asset previously reported	11,743	9,814
Restatement adjustment	1,354,441	453,081
Fair value of financial instruments - restated	**1,366,184**	**462,895**
Total Assets previously reported	15,717,713	15,492,762
Restatement adjustment	1,755,301	545,097
Total assets - restated	**17,473,014**	**16,037,859**
Deferred tax liability previously reported	1,372,819	1,122,025
Restatement adjustment	420,043	130,442
Deferred tax liability - restated	**1,792,862**	**1,252,467**
Retained earnings previously reported	3,864,823	3,619,733
Restatement adjustment	1,335,258	414,655
Retained earnings – restated	**5,200,081**	**4,034,388**
Total shareholders' equity previously reported	11,776,727	11,478,909
Restatement adjustment	1,335,258	414,655
Total shareholders' equity – restated	**13,111,985**	**11,893,564**
Total Liabilities and Shareholders' Equity previously reported	15,717,713	15,492,762
Restatement adjustment	1,755,301	545,097
Total Liabilities and Shareholders' Equity	**$17,473,014**	**$16,037,859**

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

(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 and 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:

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

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

	Three Months Ended September 30,		Nine Months Ended September 30,	
(000s)	**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:

	Three Months Ended September 30,		Nine Months Ended September 30,	
($/boe)	**2022**	**2021**	**2022**	**2021**
Revenue, excluding processing income	**$ 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:

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

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

SELECTED QUARTERLY INFORMATION

	2022[2]			2021				2020
($000s, unless otherwise noted)	**Q3**	Q2	**Q1**	**Q4**	**Q3**	**Q2**	**Q1**	**Q4**
PRODUCTION								
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
FINANCIAL								
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[1]	**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)[2]	**2,097,929**	1,743,547	675,939	996,248	361,057	420,849	247,837	629,191
Per basic share[2]	**6.23**	5.20	2.03	3.01	1.12	1.41	0.84	2.28
Per diluted share[2]	**6.11**	5.09	1.99	2.96	1.10	1.40	0.83	2.28
Total assets[2]	**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)[2]	**513,115**	(132,556)	(672,285)	(361,034)	(591,736)	(301,459)	(249,592)	111,744
Adjusted working capital (deficit)[1]	**(116,371)**	29,500	(154,563)	(103,405)	(70,391)	(86,363)	(165,236)	157,339
Capital expenditures[1]	**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
PER UNIT								
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)* [1]	**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.

INTERIM CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

CONSOLIDATED STATEMENTS OF FINANCIAL POSITION

(000s) (unaudited)	**September 30, 2022**	December 31, 2021
Assets		
Current assets:		
Cash & cash equivalents	**$ 88,699**	$ –
Accounts receivable	**767,831**	652,246
Prepaid expenses and deposits	**41,254**	26,275
Fair value of financial instruments *(note 4)*	**1,427,349**	11,202
Total current assets	**2,325,133**	689,723
Long-term asset	**3,034**	3,773
Fair value of financial instruments *(note 4)*	**2,523,066**	8,388
Exploration and evaluation assets *(note 5)*	**304,144**	369,882
Property, plant and equipment *(note 6)*	**14,230,186**	13,463,578
Right-of-use asset (*note 7*)	**10,344**	10,825
Investment in Topaz (note 11)	**655,799**	745,924
Total Assets	**$20,051,706**	$ 15,292,093
Liabilities and Shareholders' Equity		
Current liabilities:		
Accounts payable and accrued liabilities	**$ 1,003,514**	$ 775,485
Fair value of financial instruments *(note 4)*	**771,068**	252,172
Lease liabilities (*note 7*)	**3,101**	2,997
Decommissioning obligations *(note 8)*	**30,000**	20,103
Income tax payable	**4,335**	–
Total current liabilities	**1,812,018**	1,050,757
Fair value of financial instruments (note 4)	**309,803**	91,924
Lease liabilities (*note 7)*	**7,637**	8,172
Decommissioning obligations *(note 8)*	**484,384**	628,039
Bank debt *(note 9)*	**–**	421,539
Senior unsecured notes (*note 10*)	**448,262**	448,035
Deferred taxes	**2,474,815**	1,037,275
Shareholders' equity:		
Share capital *(note 12)*	**7,699,349**	7,482,534
Contributed surplus	**265,908**	284,289
Retained earnings	**6,549,530**	3,839,529
Total shareholders' equity	**14,514,787**	11,606,352
Total Liabilities and Shareholders' Equity	**$20,051,706**	$ 15,292,093

Commitments (note 15).

Subsequent events (note 4).

See accompanying notes to the interim condensed consolidated financial statements.

CONSOLIDATED STATEMENTS OF INCOME AND COMPREHENSIVE INCOME

(000s) except per-share amounts (unaudited)	Three Months Ended September 30, 2022	Three Months Ended September 30, 2021	Nine Months Ended September 30, 2022	Nine Months Ended September 30, 2021
Commodity sales from production (*note 16*)	**$ 1,677,370**	$1,323,203	**$ 6,178,322**	$ 3,344,548
Premium gain (loss) on risk management activities (*note 16*)	**334,751**	15,303	**107,868**	(7,636)
Marketing revenue (*note 16*)	**5,456**	13,195	**34,325**	40,530
Royalties	**(293,820)**	(109,423)	**(822,765)**	(219,746)
Other income	**17,818**	10,453	**38,854**	37,245
Realized loss on financial instruments	**(268,265)**	(125,130)	**(719,816)**	(196,994)
Unrealized gain (loss) on financial instruments *(note 4)*	**1,865,901**	(251,990)	**3,194,050**	(448,475)
	3,339,211	875,611	**8,010,838**	2,549,472
Expenses:				
Operating	**193,331**	157,854	**579,267**	430,932
Transportation	**206,648**	175,143	**659,934**	485,200
Marketing purchases (*note 16)*	**4,793**	11,494	**29,305**	37,731
General and administration	**24,291**	21,313	**76,994**	65,442
Share-based payments	**5,710**	5,835	**16,627**	11,386
Depletion, depreciation and amortization (*notes 5, 6 and 7*)	**284,930**	276,506	**876,284**	795,499
Income from investment in Topaz (*note 11)*	**(6,428)**	(2,238)	**(28,379)**	(1,879)
(Gain) on loss of control of Topaz	**–**	–	**–**	(321,189)
(Gain) on acquisitions and divestitures	**(113,517)**	(244,343)	**(121,954)**	(244,343)
Realized foreign exchange gain	**(10,049)**	(5,497)	**(21,878)**	(6,524)
Unrealized foreign exchange gain	**(3,557)**	(7,074)	**(6,306)**	(3,611)
Total expenses	**586,152**	388,993	**2,059,894**	1,248,644
Income from operations	**2,753,059**	486,618	**5,950,944**	1,300,828
Finance expenses	**12,911**	18,755	**35,723**	49,065
Income before taxes	**2,740,148**	467,863	**5,915,221**	1,251,763
Income tax expense	**4,335**	–	**4,335**	–
Deferred tax expense	**637,884**	106,806	**1,393,471**	218,603
Net income and comprehensive income before non-controlling interest	**2,097,929**	361,057	**4,517,415**	1,033,160
Net income and comprehensive income attributable to:				
Shareholders of the Company	**2,097,929**	361,057	**4,517,415**	1,029,743
Non-controlling interest	**–**	–	**–**	3,417
	$ 2,097,929	$ 361,057	**$ 4,517,415**	$ 1,033,160
Net income per share attributable to common shareholders *(note 13)*				
Basic	**$ 6.23**	$ 1.12	**$ 13.50**	$ 3.37
Diluted	**$ 6.11**	$ 1.10	**$ 13.21**	$ 3.32

See accompanying notes to the interim condensed consolidated financial statements.

CONSOLIDATED STATEMENTS OF CHANGES IN EQUITY

(000s) (unaudited)	Share Capital	Contributed Surplus	Retained Earnings	Non-Controlling Interest	Total Equity
Balance at December 31, 2021	$ 7,482,534	$ 284,289	$ 3,839,529	$ –	$11,606,352
Share-based payments	–	16,627	–	–	16,627
Capitalized share-based payments	–	12,870	–	–	12,870
Options exercised (*note 12*)	216,815	(47,878)	–	–	168,937
Dividends paid (*note 12*)	–	–	(1,807,414)	–	(1,807,414)
Income attributable to common shareholders	–	–	4,517,415	–	4,517,415
Balance at September 30, 2022	**$ 7,699,349**	**$ 265,908**	**$ 6,549,530**	**$ –**	**$ 14,514,787**

(000s) (unaudited)	Share Capital	Contributed Surplus	Retained Earnings	Non-Controlling Interest	Total Equity
Balance at December 31, 2020	$ 6,328,115	$ 307,152	$ 2,173,828	$ 467,443	$ 9,276,538
Issue of common shares on corporate and property acquisitions	939,580	–	–	–	939,580
Issue of Topaz common shares to NCI	–	–	21,421	210,423	231,844
Share issue costs, net of tax on issuance of Topaz common shares	–	–	(2,962)	(3,593)	(6,555)
Share-based payments	–	11,386	–	–	11,386
Capitalized share-based payments	–	8,147	–	–	8,147
Options exercised (*note 12*)	178,258	(38,706)	–	–	139,552
Purchase of common shares under NCIB	(4,493)	(2,052)	–	–	(4,493)
Dividends paid (*note 12*)	–	–	(150,898)	(10,892)	(161,790)
Dividends declared	–	–	(247,217)		(247,217)
Income attributable to common shareholders	–	–	1,029,743	–	1,029,743
Income attributable to non-controlling interest	–	–	–	3,417	3,417
Loss of control of Topaz	–	(1,458)	78,914	(666,798)	(589,342)
Balance at September 30, 2021	$ 7,441,460	$ 284,469	$ 2,902,829	$ –	$10,628,758

See accompanying notes to the interim condensed consolidated financial statements.

CONSOLIDATED STATEMENTS OF CASH FLOW

(000s) (unaudited)	Three Months Ended September 30, 2022	Three Months Ended September 30, 2021	Nine Months Ended September 30, 2022	Nine Months Ended September 30, 2021
Cash provided by (used in):				
Operations:				
Net income	**$ 2,097,929**	$ 361,057	**$ 4,517,415**	$1,029,743
Items not involving cash:				
Depletion, depreciation and amortization	**284,930**	276,506	**876,284**	795,499
Accretion (*note 8*)	**5,586**	3,233	**14,340**	8,786
Lease interest expense (*note 7*)	**82**	85	**237**	265
Share-based payments (*note 14*)	**5,710**	5,835	**16,627**	11,386
Income tax expense	**4,335**	–	**4,335**	–
Deferred tax expense	**637,884**	106,806	**1,393,471**	218,603
Unrealized (gain) loss on financial instruments (*note 4*)	**(1,865,901)**	251,990	**(3,194,050)**	448,475
Gain on loss of control of Topaz *(note 11)*	**–**	–	**–**	(321,189)
Gain on acquisitions and divestitures	**(113,517)**	(244,343)	**(121,954)**	(244,343)
Amortization on long-term asset	**247**	246	**739**	738
Non-controlling interest	**–**	–	**–**	3,417
Unrealized foreign exchange gain	**(3,557)**	(7,074)	**(6,306)**	(3,611)
Income from investment in Topaz *(note 11)*	**(6,428)**	(2,238)	**(28,379)**	(1,879)
Decommissioning expenditures (*note 8*)	**(4,207)**	(2,981)	**(26,361)**	(8,841)
Dividends received from Topaz (*note 11*)	**12,642**	12,211	**39,239**	23,841
Changes in non-cash operating working capital	**56,467**	(217,478)	**91,695**	(172,233)
Total cash flow from operating activities	**1,112,202**	543,855	**3,577,332**	1,788,657
Financing:				
Issue of common shares	**43,356**	100,920	**168,937**	139,552
Issuance of Topaz common shares to NCI	**–**	–	**–**	197,336
Lease payments (*note 7*)	**(893)**	(1,016)	**(2,747)**	(3,000)
Dividends paid (*note 12*)	**(748,480)**	(55,739)	**(1,807,414)**	(161,790)
Decrease in cash on loss of control of Topaz	**–**	–	**–**	(177,357)
Decrease in bank debt	**(14,513)**	(792,842)	**(424,978)**	(1,322,323)
Increase in senior unsecured notes	**75**	199,127	**227**	447,959
Total cash flow (used in) financing activities	**(720,455)**	(549,550)	**(2,065,975)**	(879,623)
Investing:				
Property, plant and equipment (*note 6*)	**(483,065)**	(391,826)	**(1,183,028)**	(1,014,766)
Property acquisitions (*note 6*)	**(41)**	(54,482)	**(261,717)**	(519,140)
Proceeds from divestitures (*note 6*)	**67,659**	390,200	**71,380**	390,996
Corporate acquisitions (*note 6*)	**(67,770)**	–	**(67,770)**	–
Proceeds from sale of Topaz common shares	**–**	103,824	**–**	103,824
Changes in non-cash investing working capital	**180,169**	175,454	**18,477**	127,359
Total cash flow from (used in) investing activities	**(303,048)**	223,170	**(1,422,658)**	(911,727)
Changes in cash	**88,699**	210,930	**88,699**	(9,238)
Cash, beginning of period	**–**	–	**–**	220,168
Cash, end of period	**$ 88,699**	$ 210,930	**$ 88,699**	$ 210,930

Cash is defined as cash and cash equivalents.

See accompanying notes to the interim condensed consolidated financial statements.

NOTES TO THE INTERIM CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

AS AT SEPTEMBER 30, 2022 AND FOR THE THREE AND NINE MONTHS ENDED SEPTEMBER 30, 2022 AND 2021

(tabular amounts in thousands of dollars, unless otherwise noted) (unaudited)

Corporate Information:

Tourmaline Oil Corp. (the "Company") was incorporated under the laws of the Province of Alberta on July 21, 2008. The Company is engaged in the acquisition, exploration, development and production of petroleum and natural gas properties.

These unaudited interim condensed consolidated financial statements reflect only the Company's proportionate interest in such activities. The unaudited interim condensed consolidated financial statements were authorized for issue by the Board of Directors on November 2, 2022.

The Company's registered office is located at Suite 2400, 525 – 8th Avenue S.W., Calgary, Alberta, Canada T2P 1G1.

OPERATING ENVIRONMENT

The COVID-19 pandemic had a significant 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 which have resulted 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 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 exposure drafts for its 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 ("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.

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 Sustainability Accounting Standards Board.

1. BASIS OF PREPARATION

These unaudited interim condensed consolidated financial statements have been prepared in accordance with International Accounting Standard 34, "Interim Financial Reporting". These unaudited interim condensed consolidated financial statements do not include all of the information and disclosure required in the annual financial statements and should be read in conjunction with the Company's consolidated financial statements for the year ended December 31, 2021.

These unaudited interim condensed consolidated financial statements are presented in Canadian dollars and include the accounts of Tourmaline Oil Corp., Rising Star Resources Ltd ("Rising Star"), and its 100% owned subsidiary Tourmaline Oil Marketing Corp., which has a functional currency of US dollars.

The accounting policies and significant accounting judgments, estimates, and assumptions used in these unaudited interim condensed consolidated financial statements are consistent with those described in notes 1 and 2 of the Company's consolidated financial statements for the year ended December 31, 2021, with the exception of additional significant accounting judgements, estimates and assumptions related to the natural gas embedded derivative further discussed in note 2.

2. 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
Fair value of financial instruments - restated	**409,784**	**102,995**
Total current assets previously reported	871,609	797,525
Restatement adjustment	400,860	92,016
Total current assets - restated	**1,272,469**	**889,541**
Fair value of financial instruments – long-term asset previously reported	11,743	9,814
Restatement adjustment	1,354,441	453,081
Fair value of financial instruments - restated	**1,366,184**	**462,895**
Total Assets previously reported	15,717,713	15,492,762
Restatement adjustment	1,755,301	545,097
Total assets - restated	**17,473,014**	**16,037,859**
Deferred tax liability previously reported	1,372,819	1,122,025
Restatement adjustment	420,043	130,442
Deferred tax liability - restated	**1,792,862**	**1,252,467**
Retained earnings previously reported	3,864,823	3,619,733
Restatement adjustment	1,335,258	414,655
Retained earnings – restated	**5,200,081**	**4,034,388**
Total shareholders' equity previously reported	11,776,727	11,478,909
Restatement adjustment	1,335,258	414,655
Total shareholders' equity – restated	**13,111,985**	**11,893,564**
Total Liabilities and Shareholders' Equity previously reported	15,717,713	15,492,762
Restatement adjustment	1,755,301	545,097
Total Liabilities and Shareholders' Equity	**$17,473,014**	**$16,037,859**

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

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

3. DETERMINATION OF FAIR VALUE

A number of the Company's accounting policies and disclosures require the determination of fair value, for both financial and non-financial assets and liabilities. Fair values have been determined for measurement and/or disclosure purposes based on the following methods. When applicable, further information about the assumptions made in determining fair values is disclosed in the notes specific to that asset or liability.

Tourmaline classifies the fair value of financial instruments according to the following hierarchy based on the amount of observable inputs used to value the instrument.

Level 1 – Quoted prices are available in active markets for identical assets or liabilities as of the reporting date. Active markets are those in which transactions occur in sufficient frequency and volume to provide pricing information on an ongoing basis.

Level 2 – Pricing inputs are other than quoted prices in active markets included in Level 1. Prices are either directly or indirectly observable as of the reporting date. Level 2 valuations are based on inputs, including quoted forward prices for commodities, time value and volatility factors, which can be substantially observed or corroborated in the marketplace.

Level 3 – Valuations in this level are those with inputs for the asset or liability that are not necessarily based on observable market data.

The fair value of cash and cash equivalents, accounts receivable, deposits, and accounts payable and accrued liabilities approximate their carrying amounts due to their short-term nature. Bank debt bears interest at a floating market rate with applicable variable margins, and accordingly the fair market value approximates the carrying amount. The senior unsecured notes are carried at amortized cost. The Company's derivative financial instruments have been assessed on the fair value hierarchy described above and classified as Level 2. The Company's natural gas embedded derivative has been assessed on the fair value hierarchy described above and classified as Level 3.

4. FINANCIAL RISK MANAGEMENT

The Board of Directors has overall responsibility for the establishment and oversight of the Company's risk management framework. The Board has implemented and monitors compliance with risk management policies. The Company's risk management policies are established to identify and analyze the risks faced by the Company, to set appropriate risk limits and controls, and to monitor risks and adherence to market conditions and the Company's activities. The Company's financial risks are consistent with those discussed in note 4 of the Company's consolidated financial statements for the year ended December 31, 2021.

Market Risk:

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 and foreign exchange contracts to be effective economic hedges. As a result, all such contracts are recorded on the interim consolidated statement of financial position at fair value, with changes in the fair value being recognized as an unrealized gain or loss on the interim consolidated statement of income and comprehensive income.

The Company has the following financial derivative contracts in place as at September 30, 2022 [1]:

		2022	2023	2024	2025	2026	Fair Value *(000s)*
Gas							
AECO swaps [2]	*mmbtu/d*	63,205	44,262	18,917	–	–	$ (74,387)
	CAD$/mmbtu	$ 2.21	$ 2.27	$ 2.26			
NYMEX swaps	*mmbtu/d*	202,130	198,329	80,000	60,000	60,000	$ (347,300)
	USD$/mmbtu	$ 3.17	$ 3.35	$ 3.94	$ 4.14	$ 4.14	
Swaps - other	*mmbtu/d*	5,000	–	–	–	–	$ (2,546)
	USD$/mmbtu	$ 3.69					
AECO basis swaps	*mmbtu/d*	9,400	–	–	–	–	$ 2,382
	CAD$/mmbtu	$ (1.16)					
International swaps	*mmbtu/d*	–	26,685	11,694	2,932	–	$ (107,279)
	USD$/mmbtu		$ 34.20	$ 27.13	$ 30.00		
Basis differentials – other	*mmbtu/d*	37,500	37,500	27,500	–	–	$ (20,838)
	USD$/mmbtu	$ 0.29	$ 0.29	$ 0.28			
AECO financial collars	*mmbtu/d*	31,577	16,087	3,535	–	–	$ (28,005)
	CAD$/mmbtu	$2.17-2.67	$2.27-2.73	$2.41-2.85			
Call options (writer) [3]	*mmbtu/d*	68,370	34,932	20,000	10,000	10,000	$ (53,495)
	USD$/mmbtu	$ 4.08	$ 8.43	$ 8.00	$ 9.00	$ 9.00	
Oil							
Financial swaps	*bbls/d*	11,500	6,240	1,000	–	–	$ (4,064)
	USD$/bbl	$ 67.37	$ 76.00	$ 78.20			
Financial swaps	*bbls/d*	500	650	249	–	–	$ (13,398)
	CAD$/bbl	$ 62.20	$ 64.09	$ 63.95			
Financial collars	*bbls/d*	1,300	400	–	–	–	$ (12,049)
	CAD$/bbl	$ 51.65 - 61.09	$ 58.25 - 70.24				
NYMEX call options	*bbls/d*	3,000	2,581	–	–	–	$ (20,386)
	USD$/bbl	$ 91.67	$ 68.67				
Propane financial swaps [4]	*bbls/d*	4,011	740	–	–	–	$ 8,378
	USD$/bbl	$ 47.85	$ 49.89				
Total fair value							$ (672,987)

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

(2) These deals are 7A underlying.

(3) These are European calls whereby the counterparty can exercise the option monthly on a particular day to purchase NYMEX at a specified price.

(4) Propane financial swaps include OPIS Conway, Argus FEI, and Baltic LPG Freight financial swap transactions.

The Company has entered into the following financial commodity derivative contracts subsequent to September 30, 2022:

Type of Contract	**Quantity**	**Time Period**	**Contract Price**
Financial swaps - oil	1,000 bbls/d	January 2023 – December 2023	$81.50 USD/bbl
Financial swaps - propane	500 bbls/d	January 2023 – December 2023	$43.53 USD/bbl

The Company has the following financial foreign currency derivative contracts in place at September 30, 2022:

		2022	**2023**	**2024**	**Fair Value *(000s)***
Costless collar [1]	*$USD(000s) Monthly*	$ 51,000	$ 115,583	$ 61,000	$ (236,430)
		$ 1.226 –	$ 1.268 –	$ 1.279 –	
	$CAD/$USD	$ 1.320	$ 1.383	$ 1.413	
Average rate forward	*$USD(000s) Monthly*	$ 30,000	$ 37,833	$ 17,000	$ (59,538)
	$CAD/$USD	$ 1.269	$ 1.295	$ 1.30	
Average rate puts	*$USD(000s) Monthly*	$ 7,667	–	–	$ (638)
	$CAD/$USD	$ 1.209	–	–	
Total fair value					$ (296,606)

(1) A portion of these financial collars have a European call writer option at period end that if called would result in an average rate forward for the following year in the following amounts, $25.5 million/month at $1.319 for 2023, $61.7 million/month at $1.390 for 2024 and $33.0 million/month at $1.440 for 2025.

The Company has not entered into any foreign currency derivative contracts subsequent to September 30, 2022.

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 liquefication. Due to the fact that the volumes are delivered to a counterparty in the United States but Tourmaline ultimately receives a JKM index price, it was determined that the agreement also 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 natural gas 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 of the 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.

The following table includes quantitative information for the unobservable inputs for the Level 3 natural gas embedded derivative as at September 30, 2022.

	Net fair value asset (millions)	Valuation Approach	Significant unobservable input	Range of significant unobservable inputs/weighted average
Natural gas embedded derivative	$3,839.1	Market approach incorporating present value techniques	JKM index pricing spread relative to NYMEX	231% - 953% / 494%

The Level 3 fair value measurements of the natural gas embedded derivative could be materially impacted by a change in the discount rate and significant price movements in natural gas, including international LNG prices. At September 30, 2022, a change in the discount rate or a change in the price of the JKM index over the 15-year contract would have the following impact on the fair value of the embedded derivative:

(000s)	Discount rate		JKM Price	
	1% Increase	1% decrease	5% Increase	5% decrease
Fair value – increase (decrease)	$ (62,005)	$ 64,626	$ 286,102	$ (286,102)

The following table is a summary of the fair value of financial instruments as at September 30, 2022:

(000s)	**Financial derivative contracts**	**Foreign currency derivative contracts**	**Natural gas embedded derivative**	**Total**
Current asset	$ 62,066	$ 321	$ 1,364,962	$ 1,427,349
Long-term asset	48,762	129	2,474,175	2,523,066
Current liability	(582,126)	(188,942)	–	(771,068)
Long-term liability	(201,689)	(108,114)	–	(309,803)
Total fair value of financial instruments	**$ (672,987)**	**$ (296,606)**	**$ 3,839,137**	**$ 2,869,544**

The following table provides a summary of the unrealized gains (losses) on financial instruments recorded in the interim consolidated statements of income and comprehensive income for the three and nine months ended September 30, 2022 and 2021:

	Three Months Ended September 30,		**Nine Months Ended September 30,**	
(000s)	**2022**	**2021**	**2022**	**2021**
Unrealized gain (loss) on financial instruments – commodity contracts	**$ 50,857**	$ (238,471)	**$ (361,809)**	$ (445,819)
Unrealized gain on financial instruments – interest rate swaps	**–**	2,844	**–**	15,188
Unrealized (loss) on financial instruments – foreign currency	**(268,792)**	(16,363)	**(283,278)**	(17,844)
Unrealized gain on financial instruments – natural gas embedded derivative	**2,083,836**	–	**3,839,137**	–
Total unrealized gain (loss) on financial instruments	**$ 1,865,901**	$ (251,990)	**$ 3,194,050**	$ (448,475)

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

The Company has the following physical commodity contracts in place at September 30, 2022 (1)(9):

		2022	2023	2024	2025	2026
Gas						
Fixed price (2)	*mmbtu/d*	584,394	400,899	138,677	90,043	33,174
	CAD$/mmbtu	$ 4.99	$ 4.61	$ 4.44	$ 4.49	$ 4.23
Basis differentials - AECO (3)	*mmbtu/d*	230,870	203,247	120,833	81,726	63,452
	USD$/mmbtu	$ (0.70)	$ (0.74)	$ (0.69)	$ (0.67)	$ (0.63)
Basis differentials - Dawn	*mmbtu/d*	20,000	20,000	16,667	10,000	10,000
	USD$/mmbtu	$ (0.10)	$ (0.08)	$ (0.06)	$ (0.04)	$ (0.04)
Basis differentials – Stn 2 (4)	*mmbtu/d*	7,984	–	–	–	–
	CAD$/mmbtu	$ 0.02				
Basis differentials – Hunt (5)	*mmbtu/d*	20,000	16,658	–	–	–
	USD$/mmbtu	$ (0.50)	$ (0.50)			
Basis differentials – Other (6)	*mmbtu/d*	50,000	47,514	62,500	35,000	–
	USD$/mmbtu	$ 0.30	$ 0.16	$ (0.09)	$ (0.24)	
Oil						
Basis differentials (7)	*bbls/d*	1,539	–	–	–	–
	USD$/bbl	$ (4.67)				
Condensate differentials (8)	bbls/d	3,078	–	–	–	–
	USD$/bbl	$ (1.83)				

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

(2) These include AECO, Dawn, Stn 2, Hunt, PGE, Malin, Iroquois, Chicago and Emerson.

(3) A portion of these basis deals have a cap on NYMEX, 44.4 mmcf/d at USD$4.48/mcf for 2022-2024.

(4) These volumes are priced at a basis to 7A.

(5) A portion of these basis deals have a cap on Hunt of USD$3.00/mmbtu, delivered at Stn 2.

(6) These are basis differentials for non-AECO markets.

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

(8) Tourmaline sells physical condensate at a fixed differential to NYMEX.

(9) Tourmaline also has entered into deals to sell 20,000 mmbtu/d priced off Chicago GDD that extends into 2030; 5,000 mmbtu/d priced off Chicago GDD that extends to 2023; and 30,000 mmbtu/d priced of Chicago GDD that extends into 2027. Tourmaline reserves the right to periodically fix the price or lock in the basis in each market.

The Company has entered into the following physical contracts subsequent to September 30, 2022:

Type of Contract	Quantity	Time Period	Contract Price
Gas Fixed Price	6,000 GJ/d	November 2022	$5.69 CAD/GJ
Gas Fixed Price	30,000 GJ/d	November 2022 – March 2023	$5.86 CAD/GJ
Gas Fixed Price	5,000 GJ/d	December 2022	$6.25 CAD/GJ
Gas Fixed Price	100 GJ/d	March 2023	$5.50 CAD/GJ
Gas Fixed Price	60,000 GJ/d	April 2023 – October 2023	$4.18 CAD/GJ
Gas Fixed Price	40,000 GJ/d	January 2024 – December 2024	$4.21 CAD/GJ
Gas Fixed Price	30,000 GJ/d	January 2025 – December 2025	$4.32 CAD/GJ

Capital Management:

The Company's policy is to maintain a strong capital base to preserve investor, creditor and market confidence and to sustain the future development of the business. The Company considers its capital structure to include shareholders' equity, bank debt, senior unsecured notes and working capital. In order to maintain or adjust the capital structure, the Company may from time-to-time issue or buyback shares, issue debt, adjust its dividend policy and adjust its capital spending to manage current and projected debt levels. The annual and updated budgets are approved by the Board of Directors.

The key measure that the Company utilizes in evaluating its capital structure is net debt to annualized cash flow, which is defined as bank debt and senior unsecured notes plus working capital (adjusted for the fair value of short term financial instrument liabilities, short term lease liabilities, short term decommissioning obligations and unrealized foreign exchange), to annualized cash flow (based on the most recent quarter), defined as cash flow from operating activities before changes in non-cash working capital. Net debt to annualized cash flow represents a measure of the time it is expected to take to pay off the debt if no further capital expenditures were incurred and if cash flow in the next year were equal to the amount in the most recent quarter annualized.

As shown below, as at September 30, 2022, the Company's ratio of net debt to annualized cash flow was 0.13 to 1.00 (December 31, 2021 – 0.25 to 1.00).

(000s)	**As at September 30, 2022**	**As at December 31, 2021**
Net debt:		
Working capital (deficit)	**$ 513,115**	$ (361,034)
Fair value of financial instruments – short-term (asset) liability	**(656,281)**	240,970
Lease liabilities – short-term	**3,101**	2,997
Decommissioning obligations – short-term	**30,000**	20,103
Unrealized foreign exchange in working capital – (asset)	**(6,306)**	(6,441)
Adjusted working capital	**$ (116,371)**	$ (103,405)
Bank debt	**–**	(421,539)
Senior unsecured notes	**(448,262)**	(448,035)
Net debt	**$ (564,633)**	$ (972,979)
Annualized cash flow:		
Cash flow from operating activities for the quarter	**$ 1,112,202**	$ 1,058,460
Income tax expense	**(4,335)**	–
Change in non-cash working capital	**(56,467)**	(90,224)
Cash flow	**$ 1,051,400**	$ 968,236
Annualized cash flow (based on most recent quarter annualized)	**$ 4,205,600**	$ 3,872,944
Net debt to annualized cash flow	**0.13**	0.25

For the nine months ended September 30, 2022, the Company has increased its quarterly dividend from $0.18 per share to $0.225 per share and paid special dividends of $1.25, $1.50 and $2.00 per share.

5. EXPLORATION AND EVALUATION ASSETS

(000s)	
As at January 1, 2021	$ 509,533
Transfers to property, plant and equipment *(note 6)*	(52,267)
Divestitures	(6,901)
Expired mineral leases	(48,007)
Loss of control of Topaz	(32,476)
As at December 31, 2021	$ 369,882
Transfers to property, plant and equipment *(note 6)*	(34,196)
Divestitures	(42)
Expired mineral leases	(31,500)
As at September 30, 2022	**$ 304,144**

Exploration and evaluation ("E&E") assets consist of the Company's exploration projects which are pending the determination of proved and/or probable reserves. Expired mineral lease expenses have been included in the "Depletion, Depreciation and Amortization" line item on the interim statements of income and comprehensive income.

Impairment Assessment

In accordance with IFRS, an impairment test is performed if the Company identifies an indicator of impairment. At September 30, 2022 and December 31, 2021, the Company determined that no internal or external indicators of impairment existed on its E&E assets; therefore, an impairment test was not performed.

6. PROPERTY, PLANT AND EQUIPMENT ("PP&E")

Cost

(000s)	
As at January 1, 2021	$ 17,555,185
Capital expenditures	1,449,080
Transfers from exploration and evaluation *(note 5)*	52,267
Change in decommissioning liabilities *(note 8)*	22,946
Corporate acquisitions	1,438,462
Property acquisitions	662,584
Divestitures	(179,708)
Loss of control of Topaz	(1,618,413)
As at December 31, 2021	$ 19,382,403
Capital expenditures	1,195,898
Transfers from exploration and evaluation *(note 5)*	34,196
Change in decommissioning liabilities *(note 8)*	(138,966)
Property acquisitions	287,273
Corporate acquisition	306,837
Divestitures	(76,827)
As at September 30, 2022	**$ 20,990,814**

Accumulated Depletion, Depreciation, Amortization and Impairment

(000s)	
As at January 1, 2021	$ 5,923,152
Depletion, depreciation and amortization	1,031,428
Impairment (reversal)	(236,810)
Divestitures	(15,529)
Loss of control of Topaz	(783,416)
As at December 31, 2021	5,918,825
Depletion, depreciation and amortization	842,224
Divestitures	(421)
As at September 30, 2022	**$ 6,760,628**

Net Book Value

(000s)	
As at December 31, 2021	$ 13,463,578
As at September 30, 2022	**$ 14,230,186**

Future development costs of $12.3 billion were included in the depletion calculation at September 30, 2022 (December 31, 2021 – $11.0 billion).

Capitalization of G&A and Share-Based Payments

A total of $37.0 million in G&A expenditures have been capitalized and included in PP&E for the nine months ended September 30, 2022 (December 31, 2021 – $38.4 million). Also included in PP&E are non-cash share-based payments of $12.9 million (December 31, 2021 - $12.0 million).

Impairment Assessment

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 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.

Corporate Acquisition

Rising Star

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.

Results from operations for Rising Star are included in the Company's unaudited interim consolidated financial statements from the closing date of the transaction. The estimated acquisition date fair value attributed to the PP&E was derived from the estimate of proved and probable oil and gas reserves and the related cash flows prepared at December 31, 2021 by independent third-party reserve evaluators and internally updated to reflect activity up to August 10, 2022. The estimated proved and probable oil and gas reserves and the related cash flows were discounted at a rate based on what a market participant would have paid, as well as market metrics in the prevailing area at that time. The acquisition has been accounted for using the purchase method based on estimated fair values as follows, using discount rates based on what a market participant would have paid:

(000s)	Rising Star
Fair value of net assets acquired:	
Working capital	$ 6,401
Property, plant and equipment	306,837
Right-of-use assets	335
Bank debt	(3,439)
Lease liabilities	(335)
Decommissioning obligations	(25,367)
Deferred income taxes	(44,069)
Gain on acquisition	(49,233)
Total	$ 191,130
Consideration:	
Cash	$ 67,770
Topaz shares	123,360
Total	$ 191,130

Included in the Company's unaudited interim consolidated statements of income and comprehensive income for the nine months ended September 30, 2022, are the following amounts relating to Rising Star since August 10, 2022:

(000s)	Rising Star
Oil and natural gas sales	$ 13,350
Net income and comprehensive income attributable to common shareholders	$ 3,746

If the Company had acquired Rising Star on January 1, 2022, the pro-forma results of the oil and gas sales and net income and comprehensive income for the nine months ended September 30, 2022 would have been as follows:

(000s)	As Stated	Rising star	Pro-forma nine months ended September 30, 2022
Oil and natural gas sales	$ 6,178,322	$ 103,636	$ 6,281,958
Net income and comprehensive income attributable to common shareholders	$ 4,517,415	$ 22,554	$ 4,539,969

Acquisitions of Oil and Natural Gas Properties

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 the above acquisitions which resulted in the acquisitions being accounted for as asset acquisitions.

Dispositions of Oil and Natural Gas Properties

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 Acquisitions and Dispositions of Oil and Natural Gas Properties

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 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, including the dispositions discussed above (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 in decommissioning liabilities as a result of these dispositions (December 31, 2021 - $0.9 million).

7. LEASES

Right-of-Use Assets

(000s)	As at September 30, 2022	As at December 31, 2021
Balance, beginning of period	**$ 10,825**	$ 12,018
Additions	**1,183**	1,717
Modifications	**561**	(334)
Right-of-use assets acquired from corporate acquisitions	**335**	1,343
Depreciation	**(2,560)**	(3,919)
Balance, end of period	**$ 10,344**	$ 10,825

Lease Liabilities

(000s)	As at September 30, 2022	As at December 31, 2021
Balance, beginning of period	**$ 11,169**	$ 12,175
Additions	**1,183**	1,717
Modifications	**561**	(334)
Lease liabilities acquired from corporate acquisitions	**335**	1,343
Lease interest expense	**237**	349
Lease payments	**(2,747)**	(4,081)
Balance, end of period	**$ 10,738**	$ 11,169
Current lease liabilities	**$ 3,101**	$ 2,997
Long-term lease liabilities	**$ 7,637**	$ 8,172

The Company leases office space, vehicles and IT equipment. The lease payments are discounted using the Company's incremental borrowing rate at the inception of the lease to calculate the lease liability.

8. DECOMMISSIONING OBLIGATIONS

The Company's decommissioning obligations result from net ownership interests in petroleum and natural gas assets including well sites, gathering systems and processing facilities. The Company estimates the total inflated but undiscounted amount of cash flow required to settle its decommissioning obligations is approximately $1.2 billion (December 31, 2021 – $1.0 billion). A risk-free rate of 3.09% (December 31, 2021 – 1.68%) and an inflation rate of 1.65% (December 31, 2021 – 1.82%) were used to calculate the decommissioning obligations. The decommissioning obligations at September 30, 2022 have been reduced by approximately $155.2 million reflecting the change in the risk-free rate.

(000s)	As at September 30, 2022	As at December 31, 2021
Balance, beginning of period	**$ 648,142**	$ 595,432
Obligation incurred	**16,266**	30,703
Obligation incurred on corporate acquisitions (*note 6*)	**25,367**	10,333
Obligation incurred on property acquisitions (*note 6*)	**18,115**	27,291
Obligation divested	**(26,253)**	(871)
Obligation settled	**(26,361)**	(14,172)
Accretion expense	**14,340**	11,857
Change in future estimated cash outlays	**(155,232)**	(7,757)
Loss of control of Topaz	–	(4,674)
Balance, end of period	**$ 514,384**	$ 648,142
Current decommissioning obligations	**$ 30,000**	$ 20,103
Long-term decommissioning obligation	**$ 484,384**	$ 628,039

9. BANK DEBT

(000s)	As at September 30, 2022	As at December 31, 2021
Revolving credit facility	$ –	$ 422,763
Debt issue costs	–	(1,224)
Bank debt	$ –	$ 421,539

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.

U.S. dollar LIBOR benchmarks were phased out beginning December 31, 2021, and replaced with the 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.

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.

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 (December 31, 2021 - $22.5 million), which reduces the credit available on this facility.

The Company's aggregate borrowing capacity is $3.1 billion at September 30, 2022, including the senior unsecured notes (note 10). As at, and for the quarter ending September 30, 2022, the Company is in compliance with all debt covenants.

As at September 30, 2022, the Company had nil drawn against the operating credit facility and $448.3 million of senior unsecured notes for total bank debt and senior unsecured notes of $448.3 million (net of debt issue costs) (December 31, 2021 - $869.6 million). The effective interest rate for the nine months ended September 30, 2022, was 3.11% (nine months ended September 30, 2021 – 1.75%).

10.SENIOR UNSECURED NOTES

(000s)	**As at September 30, 2022**	**As at December 31, 2021**
Senior unsecured notes	**$ 450,000**	$ 450,000
Debt issue costs	**(1,738)**	(1,965)
Senior unsecured notes	**$ 448,262**	$ 448,035

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.

11. INVESTMENT IN TOPAZ

At September 30, 2022, the Company owned 31.3% of the outstanding common shares of its associate, Topaz Energy Corp. ("Topaz"). A reconciliation of the investment in Topaz is provided below:

(000s)	**As at September 30, 2022**	**As at December 31, 2021**
Balance, beginning of period	**$ 745,924**	$ –
Fair value of investment in Topaz recognized on loss of control	–	870,498
Income from investment in Topaz	**28,379**	7,998
Dividends received from Topaz	**(39,239)**	(36,117)
Divestitures of Topaz common shares	**(87,976)**	(103,347)
Gain on dilution of investment in Topaz	**8,711**	6,892
Balance, end of period	**$ 655,799**	$ 745,924

For the nine months ended September 30, 2022, Topaz paid a cash dividend of $0.80 per common share and Tourmaline received $39.2 million, which was recorded as a reduction to the investment in Topaz.

On April 29, 2022, Topaz completed the acquisition of Keystone Royalty Corp. which resulted in the issuance of 4.2 million Topaz common shares and a reduction in Tourmaline's ownership interest from 36.6% to 35.6%. The dilution of Tourmaline's ownership in Topaz resulted in a gain of $8.7 million as the transaction was completed at a higher valuation of the Topaz shares when compared to Tourmaline's carrying value of its Topaz investment.

On August 10, 2022, the Company completed the acquisition of Rising Star which included consideration of 6.0 million Topaz common shares which resulted in a reduction in Tourmaline's ownership interest from 35.5% to 31.3%. The divestiture of Topaz common shares resulted in a reduction of Tourmaline's investment in Topaz of $88.0 million and a gain on disposition of $35.4 million.

12. SHARE CAPITAL

(a) Authorized

Unlimited number of Common Shares without par value.

Unlimited number of non-voting Preferred Shares, issuable in series.

(b) Common Shares Issued

	As at September 30, 2022		As at December 31, 2021	
(000s) except share amounts	Number of Shares	Amount	Number of Shares	Amount
Balance, beginning of period	**330,860,313**	**$ 7,482,534**	296,571,516	$ 6,328,115
Issued on corporate acquisitions	–	–	27,250,000	939,580
Purchase of common shares under NCIB	–	–	(200,000)	(4,493)
For cash on exercise of stock options	**6,904,812**	**168,937**	7,238,797	171,517
Contributed surplus on exercise of stock options	–	**47,878**	–	47,815
Balance, end of period	**337,765,125**	**$ 7,699,349**	330,860,313	$ 7,482,534

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 cash dividend of $0.225 and $0.650 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 July 27, 2022, the Company paid a special dividend of $2.00 per common share totalling $672.6 million.

13. EARNINGS PER SHARE

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

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2022	**2021**	**2022**	**2021**
Net income and comprehensive income attributable to shareholders of the Company for the period *(000s)*	**$ 2,097,929**	$ 361,057	**$ 4,517,415**	$ 1,029,743
Weighted average number of common shares – basic	**336,628,504**	322,678,243	**334,682,752**	305,742,262
Earnings per share – basic	**$ 6.23**	$ 1.12	**$ 13.50**	$ 3.37

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

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2022	**2021**	**2022**	**2021**
Net income and comprehensive income attributable to shareholders of the Company for the period *(000s)*	**$ 2,097,929**	$ 361,057	**$ 4,517,415**	$ 1,029,743
Weighted average number of common shares – diluted	**343,461,348**	328,272,905	**341,926,025**	309,744,281
Earnings per share – diluted	**$ 6.11**	$ 1.10	**$ 13.21**	$ 3.32

There were 3,596,175 and 3,678,675 options excluded from the weighted-average share calculations for the three and nine months ended September 30, 2022, respectively, because they were anti-dilutive (three and nine months ended September 30, 2021 – 4,931,825 and 6,899,925, respectively, options were anti-dilutive).

14. SHARE-BASED PAYMENTS

The Company has a rolling stock option plan. Under the employee stock option plan, the Company may grant options to its employees up to 28,710,035 shares of common stock, which represents 8.5% of the current outstanding common shares. The exercise price of each option equals the volume-weighted average market price for the five days preceding the issue date of the Company's stock on the date of grant and the option's maximum term is seven years. Options are granted throughout the year and vest 1/3 on each of the first, second and third anniversaries from the date of grant.

	Nine Months Ended September 30,			
	2022		**2021**	
	Number of Options	**Weighted Average Exercise Price**	**Number of Options**	**Weighted Average Exercise Price**
Stock options outstanding, beginning of period	**16,372,528**	**$ 24.83**	18,324,711	$ 22.11
Granted	**3,893,675**	**74.13**	5,256,825	31.37
Exercised	**(6,904,812)**	**24.47**	(5,976,853)	23.35
Expired	–	–	(214,164)	27.43
Forfeited	**(69,608)**	**35.85**	(135,800)	28.22
Stock options outstanding, end of period	**13,291,783**	**$ 39.41**	17,254,719	$ 24.38

The average trading price of the Company's common shares was $63.86 during the nine months ended September 30, 2022 (nine months ended September 30, 2021 – $28.76).

The following table summarizes stock options outstanding and exercisable at September 30, 2022:

Range of Exercise Price	Number Outstanding at Period End	Weighted Average Remaining Contractual Life	Weighted Average Exercise Price	Number Exercisable at Period End	Weighted Average Exercise Price
$9.39 - $17.84	3,720,589	4.50	$ 15.72	2,355,445	$ 15.07
$17.85 - $31.90	1,248,430	3.37	23.32	879,101	23.33
$31.91 - $32.11	3,611,934	5.68	31.96	784,819	31.96
$32.12 - $77.18	1,608,655	5.93	49.98	148,124	34.50
$77.19 - $77.49	3,102,175	6.93	77.49	–	–
	13,291,783	5.46	$ 39.41	4,167,489	$ 20.68

The fair value of options granted during the nine-month period ended September 30, 2022, was estimated on the date of grant using the Black-Scholes option-pricing model with the following weighted average assumptions and resulting values:

	September 30,	
	2022	**2021**
Fair value of options granted (weighted average)	**$ 25.89**	$ 9.00
Risk-free interest rate	**3.19%**	0.85%
Estimated hold period prior to exercise	**4.2 years**	4.6 years
Expected volatility	**42%**	40%
Forfeiture rate	**1.8%**	1.9%
Dividend per share	**$ 0.86**	$ 0.62

15. COMMITMENTS

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

PAYMENTS DUE BY YEAR

(000s)	1 Year	2-3 Years	4-5 Years	>5 Years	Total
Operating commitments (1)	$ 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 (2)	152,211	284,500	248,648	491,134	1,176,493
Capital commitments (3)	74,250	11,554	–	–	85,804
Senior unsecured notes (4)	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 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.

16. REVENUE

The Company sells its production pursuant to fixed and variable priced contracts. The transaction price for variable priced contracts is based on the commodity price, adjusted for quality, location or other factors, whereby each component of the pricing formula can be either fixed or variable, depending on the contract terms. Under the contracts, the Company is required to deliver a fixed volume of crude oil, NGLs or natural gas to the contract counterparty. Revenue is recognized when a unit of production is delivered to the contract counterparty. The amount of revenue recognized is based on the agreed transaction price, whereby any variability in revenue related specifically to the Company's efforts to deliver production, and therefore the resulting revenue is allocated to the production delivered in the period during which the variability occurs. As a result, none of the variable revenue is considered constrained.

The sales of produced commodities are under contracts of varying terms of up to nine years. Revenues are typically collected on the 25th day of the month following production.

The following table presents the Company's oil, gas and NGL sales disaggregated by revenue source:

	Three Months Ended September 30,		Nine Months Ended September 30,	
(000s)	**2022**	**2021**	**2022**	**2021**
Natural gas				
Sales from production	**$ 989,106**	$ 826,225	**$ 3,874,154**	$ 2,098,495
Premium (loss) on risk management activities	**331,230**	14,069	**102,666**	(9,557)
	1,320,336	840,294	**3,976,820**	2,088,938
Oil				
Sales from production	**111,488**	73,957	**352,276**	201,256
Premium on risk management activities	**3,338**	1,599	**8,987**	5,188
	114,826	75,556	**361,263**	206,444
Condensate				
Sales from production	**306,184**	230,699	**1,069,742**	576,857
Premium (loss) on risk management activities	**183**	(365)	**(3,785)**	(3,267)
	306,367	230,334	**1,065,957**	573,590
NGL				
Sales from production	**270,592**	192,322	**882,150**	467,940
Marketing revenue (1)	**5,456**	13,195	**34,325**	40,530
Total				
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)
Marketing revenue	**5,456**	13,195	**34,325**	40,530
Revenue from contracts with customers	**$ 2,017,577**	$ 1,351,701	**$ 6,320,515**	$ 3,377,442

(1) Marketing revenue represents the sale of commodities purchased from third parties. For the three and nine months ended September 30, 2022, the Company had marketing purchases from third parties of $4.8 million and $29.3 million, respectively (three and nine months ended September 30, 2021 - $11.5 million and $37.7 million, respectively).

17. RELATED PARTY

The Company has entered into a number of agreements with Topaz, relating to both royalty and infrastructure assets. From January 1, 2022, to September 30, 2022, gross overriding royalties of $144.6 million and processing fees of $28.9 million were payable to Topaz and are included in the Company's consolidated statement of income and comprehensive income as royalties and operating expenses. At September 30, 2022, $29.1 million of the Company's accounts payable balance was due to Topaz.

From January 1, 2021, to June 8, 2021, transactions between Tourmaline and Topaz were eliminated on consolidation while Topaz was a subsidiary of Tourmaline. Subsequent to June 8, 2021, Topaz became an associate of Tourmaline and was deconsolidated, and as a result, transactions between Tourmaline and Topaz were no longer eliminated.