MANAGEMENT'S DISCUSSION AND ANALYSIS AND CONSOLIDATED FINANCIAL STATEMENTS

FOR THE YEARS ENDED DECEMBER 31, 2022 AND DECEMBER 31, 2021

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MANAGEMENT'S DISCUSSION AND ANALYSIS

For the years ended December 31, 2022 and December 31, 2021

This management's discussion and analysis ("MD&A") should be read in conjunction with Tourmaline Oil Corp.'s ("Tourmaline" or the "Company") consolidated financial statements and related notes for the years ended December 31, 2022 and December 31, 2021. These consolidated financial statements, the MD&A and additional information relating to Tourmaline can be found at www.sedar.com or at www.tourmalineoil.com. This MD&A is dated March 1, 2023.

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

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

This MD&A contains certain specified financial measures consisting of non-GAAP financial measures, non-GAAP financial ratios and capital management measures. See "Non-GAAP and Other Financial Measures" for information regarding the following non-GAAP financial measures, non-GAAP financial ratios 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, geopolitical, 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 and guidance; the payment of any dividends (regular or special) and the timing and amount thereof; the shareholder return plans and 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 COVID-19); the effects and impacts of COVID-19 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; infrastructure access and capacity and utilization of owned infrastructure; effects of regulation by governmental agencies; future operating costs; decommissioning obligations; and ability to market crude oil, condensate, natural gas and NGL successfully. Without limitation of the foregoing, future dividend payments, if any, and the level thereof is uncertain, as the Company's dividend policy and the funds available for the payment of dividends from time to time will be dependent upon, among other things, cash flow, financial requirements for the Company's operations and the execution of its growth strategy, fluctuations in working capital and the timing and amount of capital expenditures, debt service requirements and other factors beyond the Company's control. Further, the ability of Tourmaline to pay dividends will be subject to applicable laws (including the satisfaction of the solvency test contained in applicable corporate legislation) and contractual restrictions contained in the instruments governing its indebtedness, including its credit facility.

Management has included the above summary of assumptions and risks related to forward-looking information provided in this MD&A in order to provide readers with a more complete perspective on Tourmaline's future operations and such information may not be appropriate for other purposes. Tourmaline's actual results, performance or achievement could differ materially from those expressed in, or implied by, these forward-looking statements and, accordingly, no assurance can be given that any of the events anticipated by the forward-looking statements will transpire or occur, or if any of them do so, what benefits, if any, that the Company will derive therefrom. Readers are cautioned that the foregoing lists of factors are not exhaustive.

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

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

OPERATING ENVIRONMENT

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

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 other 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 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 years ended December 31, 2022 and 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	$ 896.5	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, but does not include any assumed working capital (net debt).

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

(3) Refer to the "Capital Expenditures" section of this MD&A and Note 6 of the Company's consolidated financial statements for further details about these transactions.

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 December 31, 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 December 31, 2022, Tourmaline owns 31.3% of the Topaz common shares outstanding.

PRODUCTION

	Three Months Ended December 31,			Years Ended December 31,		
	2022	**2021**	**Change**	**2022**	**2021**	**Change**
Natural gas *(mcf/d)*	**2,376,463**	2,269,290	5%	**2,330,234**	2,063,455	13%
Oil *(bbl/d)*	**11,001**	10,236	7%	**10,863**	10,145	7%
Condensate (*bbl/d*)	**32,548**	30,644	6%	**32,060**	27,459	17%
NGL *(bbl/d)*	**71,964**	65,983	9%	**69,537**	59,602	17%
Oil equivalent *(boe/d)*	**511,590**	485,078	5%	**500,832**	441,115	14%
Production in (sold from) storage (boe/d)	**(3,968)**	(1,474)	169%	**(442)**	(41)	978%
Total produced volumes (boe/d)	**507,622**	483,604	5%	**500,390**	441,074	13%
Natural gas %	**77%**	78%		**78%**	78%	

Production for the three months ended December 31, 2022, increased 5% up to an average of 511,590 boe/d compared to 485,078 boe/d for the same quarter of 2021. For the year ended December 31, 2022, average production increased 14% from 441,115 boe/d in 2021 to 500,832 boe/d in 2022.

The production increase for the three months ended December 31, 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 year is a result of corporate and property acquisitions completed in 2021 and 2022, which account for approximately 25% 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.

Included in the average production volumes discussed above, for the fourth quarter of 2022, was 3,968 boe/d of natural gas which was withdrawn from storage facilities during the quarter. Average produced volumes for the fourth quarter of 2022 were 507,622 boe/d. For the fourth quarter of 2021,1,474 boe/d of natural gas was withdrawn from storage facilities resulting in average produced volumes of 483,604 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 2023 is expected to be in the range of 520,000-540,000 boed/d, which was updated in the Company's January 12, 2023 news release.

REVENUE, PREMIUMS (LOSSES) AND REALIZED GAINS (LOSSES)

	Three Months Ended December 31,			Years Ended December 31,		
(000s)	**2022**	**2021**	**Change**	**2022**	**2021**	**Change**
Natural gas						
Sales from production	**$ 1,240,546**	$ 1,081,167	15%	**$ 5,114,700**	$ 3,179,662	61%
Premium on risk management activities	**406,078**	23,669	1,616%	**508,744**	14,112	3,505%
Realized (loss) on financial instruments	**(139,780)**	(132,610)	(5)%	**(629,445)**	(223,534)	(182)%
	1,506,844	972,226	55%	**4,993,999**	2,970,240	68%
Oil						
Sales from production	**101,930**	85,489	19%	**454,206**	286,745	58%
Premium on risk management activities	**4,785**	521	818%	**13,772**	5,709	141%
Realized (loss) on financial instruments	**(7,132)**	(15,417)	54%	**(63,475)**	(41,501)	(53)%
	99,583	70,593	41%	**404,503**	250,953	61%
Condensate						
Sales from production	**331,056**	278,714	19%	**1,400,798**	855,571	64%
(Loss) on risk management activities	**(1,622)**	(2,611)	38%	**(5,407)**	(5,878)	8%
Realized (loss) on financial instruments	**(19,299)**	(44,497)	57%	**(187,381)**	(116,218)	(61)%
	310,135	231,606	34%	**1,208,010**	733,475	65%
NGL						
Sales from production	**258,983**	263,693	(2)%	**1,141,133**	731,633	56%
Realized gain (loss) on financial instruments	**918**	(8,773)	110%	**(4,808)**	(17,038)	72%
	259,901	254,920	2%	**1,136,325**	714,595	59%
Total						
Sales from production	**1,932,515**	1,709,063	13%	**8,110,837**	5,053,611	60%
Premium on risk management activities	**409,241**	21,579	1,796%	**517,109**	13,943	3,609%
Realized (loss) on financial instruments	**(165,293)**	(201,297)	18%	**(885,109)**	(398,291)	(122)%
Total revenue from commodity sales and premium on risk management activities and realized (loss) on financial instruments	**$ 2,176,463**	$ 1,529,345	42%	**$ 7,742,837**	$ 4,669,263	66%

Total sales from production for the three months ended December 31, 2022, increased 13% to $1.9 billion from $1.7 billion for the same quarter of 2021. Total sales from production for the year ended December 31, 2022, increased 60% from $5.1 billion in 2021 to $8.1 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 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 Citygate, Ventura and Dawn, all of which have historically had higher natural gas prices as compared to AECO.

The three and twelve months ended December 31, 2022 included a premium on risk management activities of $409.2 million and $517.1 million, respectively, compared to a premium of $21.6 million and $13.9 million, respectively, for the same periods of the prior year. For the three and twelve months ended December 31, 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 from commodity sales and the premium 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 December 31,			Years Ended December 31,		
	2022	**2021**	**Change**	**2022**	**2021**	**Change**
Natural gas						
NYMEX Last Day *(USD$/mcf)*	**$ 6.26**	$ 5.83	7%	**$ 6.64**	$ 3.84	73%
AECO 5A *(CAD$/mcf)*	**$ 5.14**	$ 4.68	10%	**$ 5.34**	$ 3.64	47%
West Coast Station 2 (*CAD$/mcf*)	**$ 3.19**	$ 3.70	(14)%	**$ 4.46**	$ 3.31	35%
Sumas (*USD$/mmbtu*)	**$ 14.30**	$ 5.44	163%	**$ 8.08**	$ 3.97	104%
ATP 5A Day Ahead (*CAD$/mcf*)	**$ 4.89**	$ 5.03	(3)%	**$ 5.59**	$ 4.27	31%
Chicago Citygate (*USD$/mmbtu*)	**$ 5.37**	$ 4.59	17%	**$ 6.09**	$ 5.19	17%
Ventura (*USD$/mmbtu*)	**$ 5.61**	$ 4.55	23%	**$ 6.09**	$ 5.96	2%
PG&E Malin (*USD$/mmbtu*)	**$ 14.36**	$ 5.36	168%	**$ 8.38**	$ 3.95	112%
PG&E Citygate (*USD$/mmbtu*)	**$ 15.81**	$ 6.27	152%	**$ 9.59**	$ 4.96	93%
Dawn (*USD$/mmbtu*)	**$ 5.16**	$ 4.65	11%	**$ 6.04**	$ 3.59	68%
Oil and condensate						
NYMEX WTI *(USD$/bbl)*	**$ 82.64**	$ 77.10	7%	**$ 94.33**	$ 68.14	38%
Edmonton Par *(CAD$/bbl)*	**$ 108.16**	$ 92.11	17%	**$ 119.84**	$ 80.66	49%
Edmonton Condensate (*CAD$/bbl*)	**$ 115.48**	$ 100.10	15%	**$ 121.46**	$ 86.09	41%

CURRENCY – EXCHANGE RATES:

	Three Months Ended December 31,			Years Ended December 31,		
	2022	2021	**Change**	**2022**	2021	**Change**
CAD$/USD$ [1]	**$ 0.7369**	$ 0.7935	(7)%	**$ 0.7688**	$ 0.7979	(4)%

(1) Average rates for the period.

TOURMALINE REALIZED PRICES [1]:

	Three Months Ended December 31,			Years Ended December 31,		
	2022	2021	**Change**	**2022**	2021	**Change**
Natural gas *($/mcf)*	**$ 6.89**	$ 4.66	48%	**$ 5.87**	$ 3.94	49%
Oil *($/bbl)*	**$ 98.39**	$ 74.96	31%	**$ 102.02**	$ 67.77	51%
Condensate *($/bbl)*	**$ 103.57**	$ 82.15	26%	**$ 103.23**	$ 73.18	41%
NGL *($/bbl)*	**$ 39.26**	$ 41.99	(7)%	**$ 44.77**	$ 32.85	36%
Oil equivalent *($/boe)*	**$ 46.24**	$ 34.27	35%	**$ 42.36**	$ 29.00	46%

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

The realized average natural gas price for the three months ended December 31, 2022, increased by 48% to $6.89/mcf from $4.66/mcf for the same period of the prior year. For the year ended December 31, 2022, the realized average natural gas price was $5.87/mcf, which is 49% 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 and ATP 5A for the three months ended December 31, 2022, prior to any deductions for transportation.

Realized oil prices increased by 31% and 51% for the three and twelve months ended December 31, 2022, respectively, compared to the same periods of the prior year. The increase reflects the increase in benchmark oil prices in the three and twelve months ended December 31, 2022 compared to the same periods in 2021, partially offset by the realized loss on financial instruments.

For the three and twelve months ended December 31, 2022, the realized price of condensate was $103.57/bbl and $103.23/bbl, which is 26% and 41%, respectively, higher than the same periods of the prior year. The increase reflects the higher benchmark prices received during the periods, partially offset by the realized loss on financial instruments.

The realized NGL price for the three months ended December 31, 2022, decreased by 7% compared to the same period of the prior year. The decrease reflects lower benchmark prices for propane and butane which experienced weaker pricing as supply and inventory grew faster than demand for those commodities.

For the twelve months ended December 31, 2022, the realized NGL price increased by 36% compared to the prior year. The increase reflects significantly higher benchmark prices for ethane, propane, butane and pentane, which correlates with the increase in natural gas, oil and condensate benchmark prices for the periods.

ROYALTIES

(000s)	Three Months Ended December 31, 2022	2021	Change	Years Ended December 31, 2022	2021	Change
Natural gas						
Crown royalties	**$ 191,098**	$ 108,404	76%	**$ 752,719**	$ 269,538	179%
GORR royalties	**35,982**	38,523	(7)%	**151,938**	73,979	105%
Royalty credits	**(64,289)**	(57,466)	12%	**(307,930)**	(164,725)	87%
	162,791	89,461	82%	**596,727**	178,792	234%
Oil, condensate and NGL						
Crown royalties	**142,823**	103,326	38%	**612,877**	284,273	116%
GORR royalties	**14,118**	12,875	10%	**61,399**	27,090	127%
Royalty credits	**(26,948)**	(37,494)	(28)%	**(155,454)**	(102,241)	52%
	129,993	78,707	65%	**518,822**	209,122	148%
Total royalties	**$ 292,784**	$ 168,168	74%	**$ 1,115,549**	$ 387,914	188%
Royalties as a percentage of commodity sales from production	**15.2%**	9.8%		**13.8%**	7.7%	

For the three and twelve months ended December 31, 2022, the average effective royalty rate was 15.2% and 13.8% compared to 9.8% and 7.7%, respectively, for the same periods of the prior year. The significantly higher realized prices as well as benchmark commodity prices in 2022 resulted in higher natural gas, oil, condensate and NGL royalties compared to the prior year. The higher prices have 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.

Natural gas royalties of $596.7 million, for the year ended December 31, 2022, included crown and GORR royalties of $904.7 million offset by credits of $307.9 million. For the year ended December 31, 2021, natural gas royalties of $178.8 million included crown and GORR royalties of $343.5 million offset by credits of $164.7 million. Included in the credits received for the three and twelve months ended December 31, 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 2023 to be approximately 16%, consistent with the 2022 royalty rate, reflecting continued strong commodity prices as well as depleting credits. 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 December 31,			Years Ended December 31,		
(000s)	**2022**	**2021**	**Change**	**2022**	**2021**	**Change**
Marketing revenue	**$ 15,377**	$ 13,514	14%	**$ 49,702**	$ 54,044	(8)%
Marketing purchases	**$ (14,021)**	$ (10,671)	31%	**$ (43,326)**	$ (48,402)	(10)%

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 December 31, 2022, marketing revenue increased by 14% and marketing purchases increased by 31% compared to the same period of 2021. The increase in marketing revenue can be attributed to the increase in benchmark oil and condensate prices partially offset by a decrease in third-party volumes purchased and sold in 2022 compared to the same period of the prior year.

For the twelve months ended December 31, 2022, marketing revenue and marketing purchases decreased by 8% and 10%, respectively, compared to the year ended December 31, 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. The lower third-party volume purchased is a result of less third-party volumes available 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 December 31,			Years Ended December 31,		
(000s)	**2022**	**2021**	**Change**	**2022**	**2021**	**Change**
Other income	**$ 14,558**	$ 8,489	71%	**$ 53,412**	$ 45,734	17%

Other income for the three and twelve months ended December 31, 2022, was $14.6 million and $53.4 million, respectively, compared to $8.5 million and $45.7 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. For the year ended December 31, 2022, these increases were partially 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

(000s) except per-unit amounts	Three Months Ended December 31, 2022	2021	Change	Years Ended December 31, 2022	2021	Change
Operating expenses	**$ 206,344**	$ 176,360	17%	**$ 785,611**	$ 607,292	29%
Per boe	**$ 4.38**	$ 3.95	11%	**$ 4.30**	$ 3.77	14%

Operating expenses include all periodic lease and field-level expenses and exclude income recoveries from processing third-party volumes. For the fourth quarter of 2022, total operating expenses were $206.3 million compared to $176.4 million for the same period of 2021, an increase of 17% over a production base increase of 5%. Operating costs for the year ended December 31, 2022 were $785.6 million compared to $607.3 million for the same period in 2021, reflecting a 29% increase in total costs over a 14% increase in production.

On a per-boe basis, the costs increased from $3.95/boe for the fourth quarter of 2021 to $4.38/boe in the fourth quarter of 2022. For the year ended December 31, 2022, operating costs were $4.30/boe, up from $3.77/boe, in the prior year. The increase in per-boe costs for the year 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 $0.10/boe for the year ended December 31, 2022, when compared to the same period of the prior year. The higher per-boe costs for the three and twelve months ended December 31, 2022, also reflect inflationary pressures as well as 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 2023 are expected to average approximately $4.50/boe. The increase over 2022 per-boe costs takes into consideration the higher anticipated property taxes and carbon taxes as well as general inflation. The Company continues to increase its liquids portfolio which also carries higher operating costs. Actual cash costs can change, however, depending on a number of factors, including the Company's actual production levels.

TRANSPORTATION

	Three Months Ended December 31,			Years Ended December 31,		
(000s) except per unit amounts	**2022**	**2021**	**Change**	**2022**	**2021**	**Change**
Natural gas transportation	**$ 194,936**	$ 154,988	26%	**$ 705,554**	$ 524,104	35%
Oil and NGL transportation	**44,001**	43,549	1%	**193,317**	159,633	21%
Total transportation	**$ 238,937**	$ 198,537	20%	**$ 898,871**	$ 683,737	31%
Per boe	**$ 5.08**	$ 4.45	14%	**$ 4.92**	$ 4.25	16%

For the fourth quarter of 2022, total transportation expenses were $238.9 million compared to $198.5 million in the fourth quarter of 2021. For the year ended December 31, 2022, transportation expenses were $898.9 million, compared to $683.7 million for the same period of 2021. Transportation expenses in 2022 reflect increased costs related to higher production volumes, including more volumes sold outside of Alberta, compared to the prior year.

On a per-boe basis, transportation costs increased from $4.45/boe in the fourth quarter of 2021 to $5.08/boe in the fourth quarter of 2022. For the year ended December 31, 2022, the per-boe transportation costs increased from $4.25/boe in the prior year to $4.92/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 ("G&A") EXPENSES

	Three Months Ended December 31,			Years Ended December 31,		
(000s) except per-unit amounts	**2022**	**2021**	**Change**	**2022**	**2021**	**Change**
G&A expenses	**$ 38,003**	$ 34,286	11%	**$ 158,444**	$ 132,490	20%
Administrative and capital recovery	**(1,886)**	(2,264)	(17)%	**(8,367)**	(6,852)	22%
Capitalized G&A	**(9,737)**	(10,216)	(5)%	**(46,703)**	(38,390)	22%
Total G&A expenses	**$ 26,380**	$ 21,806	21%	**$ 103,374**	$ 87,248	18%
Per boe	**$ 0.56**	$ 0.49	14%	**$ 0.57**	$ 0.54	6%

Total G&A expenses in the fourth quarter of 2022 were $26.4 million compared to $21.8 million for the same quarter of 2021. For the year ended December 31, 2022, G&A expenses were $103.4 million compared to $87.2 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 2023 are expected to average approximately $0.60/boe. Actual costs per boe can change, however, depending on a number of factors including the Company's actual production levels.

SHARE-BASED PAYMENTS

	Three Months Ended December 31,		Years Ended December 31,	
(000s)	**2022**	**2021**	**2022**	**2021**
Total share-based payments	**$ 20,904**	$ 8,929	**$ 50,401**	$ 28,462
Capitalized share-based payments	**(8,800)**	(3,867)	**(21,670)**	(12,014)
Share-based payments expense	**$ 12,104**	$ 5,062	**$ 28,731**	$ 16,448

The Company recognized $12.1 million and $28.7 million of share-based payments expense for the three and twelve months ended December 31, 2022, compared to $5.1 million and $16.4 million for the same periods of the prior year. Capitalized share-based payments for the three and twelve months ended December 31, 2022 were $8.8 million and $21.7 million compared to $3.9 million and $12.0 million, respectively, for the same periods of the prior year.

Share-based payments are higher in 2022 compared to the same periods of 2021, which reflects options with a significantly higher fair value being expensed in 2022 compared to 2021.

STOCK OPTION PLAN

The Company uses the fair-value method for the determination of non-cash, share-based payments expense. During the fourth quarter of 2022, 180,500 stock options were granted at a weighted-average exercise price of $77.56 per option.

RESTRICTED SHARE UNIT (“RSU”) PLAN

In the fourth quarter of 2022, the Company introduced a non-treasury based RSU plan and granted RSUs to officers, employees, and consultants of the Company. The RSUs can be granted throughout the year and vest 1/3 on each of the first, second and third anniversaries from the date of grant. The RSUs will be settled on the vesting date in common shares purchased by an independent third-party service provider in the open market and therefore will not have a dilutive effect on the Company’s common shares.

During the fourth quarter of 2022, the Company granted 237,328 RSUs and recognized $0.5 million of RSU payments expense for the three months ended December 31, 2022 (December 31, 2021 – nil). Capitalized RSU payments for the three months ended December 31, 2022 were $0.4 million (December 31, 2021 – nil). Both of these amounts are included in the share-based payments table above.

DEPLETION, DEPRECIATION, AMORTIZATION AND IMPAIRMENT (REVERSAL) ("DD&A")

	Three Months Ended December 31,		**Years Ended December 31,**	
(000s) except per unit amounts	**2022**	**2021**	**2022**	**2021**
Total depletion, depreciation, amortization and impairment	**$ 308,232**	$ 51,045	**$ 1,184,516**	$ 846,544
Less mineral lease expiries	**(1,030)**	(20,886)	**(32,530)**	(48,007)
Add impairment reversal (expense)	–	236,810	–	236,810
DD&A	**$ 307,202**	$ 266,969	**$ 1,151,986**	$ 1,035,347
Per boe	**$ 6.53**	$ 5.98	**$ 6.30**	$ 6.43

DD&A expense, excluding mineral lease expiries and impairment reversal (expense), was $307.2 million for the fourth quarter of 2022 compared to $267.0 million for the same period of 2021. DD&A expense includes depletion of oil and gas interests (excluding plant and facilities) of $288.3 million (three months ended December 31, 2021 - $251.2 million) and combined depreciation of plants and facilities, office equipment, furniture and fixtures and ROU asset.

For the twelve-month period ended December 31, 2022, DD&A expense (excluding mineral lease expiries and impairment reversal (expense) was $1.2 billion compared to $1.0 billion for the same period of 2021. Included in DD&A expense is $1.1 billion attributable to depletion expense related to oil and gas interests (December 31, 2021 - $1.0 billion). The increase in DD&A expense in 2022 over 2021 is primarily due to higher production volumes as well as a higher depletable base, including an increase in future development costs reflecting inflationary pressures.

The per-unit DD&A rate (excluding the impact of mineral lease expiries and impairment reversal (expense)) of $6.53/boe for the fourth quarter of 2022 increased compared to the rate of $5.98/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 year ended December 31, 2022, the DD&A rate (excluding the impact of mineral lease expiries and impairment reversal (expense)) of $6.30/boe decreased compared to the rate of $6.43/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, in 2022, 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 December 31, 2022 were $1.0 million, compared to expiries in the same quarter of the prior year of $20.9 million. For the twelve months ended December 31, 2022, expiries were $32.5 million compared to $48.0 million for the same period of 2021. The expired leases for the twelve months ended December 31, 2022 amount to approximately 2.5% of Tourmaline's total land base.

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

At December 31, 2022, the Company did not identify indicators of impairment on any of its cash-generating units ("CGUs") and therefore, an impairment test was not performed. The Company has no CGUs with historical impairment that have not been fully reversed.

At December 31, 2021, the Company identified indicators of impairment reversal on the Spirit River CGU due to the increase in expected future cash flows and the significant and sustained improvement in forecasted oil and gas commodity prices.

The Company determined that there should be 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.

FINANCE EXPENSES

	Three Months Ended December 31,			Years Ended December 31,		
(000s)	**2022**	**2021**	**Change**	**2022**	**2021**	**Change**
Interest on loans and borrowings	**$ 8,909**	$ 8,386	6%	**$ 29,616**	$ 37,313	(21)%
Capitalized borrowing costs	–	(464)	100%	–	(1,073)	100%
Accretion expense	**6,813**	3,071	122%	**21,153**	11,857	78%
Lease interest	**82**	84	(2)%	**319**	349	(9)%
Foreign exchange (gain) loss on U.S. denominated debt	**13,876**	36,381	(62)%	**6,666**	25,587	(74)%
Realized (gain) loss on cross-currency swaps	**(13,876)**	(36,381)	(62)%	**(6,666)**	(25,587)	(74)%
Realized (gain) loss on interest rate swaps	–	6,022	(100)%	–	14,110	(100)%
Transaction costs on corporate and property acquisitions	–	692	(100)%	**439**	4,300	(90)%
Total finance expenses	**$ 15,804**	$ 17,791	(11)%	**$ 51,527**	$ 66,856	(23)%

Finance expenses for the three months ended December 31, 2022, totaled $15.8 million compared to $17.8 million for the same period of 2021. The average combined bank debt and senior unsecured notes outstanding, and the average effective interest rate on the debt was $737.0 million and 3.81% for the three months ended December 31, 2022, compared to $1.3 billion and 1.64% for the same period of 2021, respectively.

For the year ended December 31, 2022, finance expenses totaled $51.5 million compared to $66.9 million for the same period of 2021. The average combined bank debt and senior unsecured notes outstanding, and the average effective interest rate on the debt for the year ended December 31, 2022, was $818.8 million and 2.70% compared to $1.7 billion and 1.71% for the same period of 2021, respectively.

Interest expense decreased for the year ended December 31, 2022, due to the decrease in average bank debt outstanding compared to 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 and twelve-month periods ended December 31, 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 loss due to the weakening of the Canadian dollar. Concurrent with the draw of U.S. dollar denominated borrowings, the Company entered into cross-currency swaps to offset the foreign currency risk resulting from holding U.S. dollar denominated borrowings. This transaction allows the Company to take advantage of the interest rate spread between CDOR and SOFR without taking on any foreign exchange risk.

INCOME TAXES

	Three Months Ended December 31,		Years Ended December 31,	
(000s)	**2022**	**2021**	**2022**	**2021**
Current income taxes	**$ 7,599**	$ –	**$ 11,934**	$ –
Deferred income taxes	**$ 13,838**	$ 275,414	**$ 1,407,309**	$ 494,017

For the three and twelve months ended December 31, 2022, current income taxes were $7.6 million and $11.9 million, respectively, compared to nil and nil for the same periods of the prior year. In 2022, the Company became taxable as a result of taxable income being in excess of available tax deductions.

For the three months ended December 31, 2022, the provision for deferred income taxes was $13.8 million compared to $275.4 million for the same period of the prior year. The decrease in deferred income taxes is primarily due to an unrealized loss of $1.8 billion recorded on the Company's JKM natural gas supply agreement embedded derivative in the fourth quarter of 2022 resulting in significantly lower income before taxes compared to the same period of 2021.

For the year ended December 31, 2022, the provision for deferred income taxes was $1.4 billion compared to deferred income taxes of $0.5 billion for the same period of 2021. The deferred income taxes for the year ended December 31, 2022 reflect income before taxes of $5.9 billion including the unrealized gain on the Company's JKM natural gas supply agreement embedded derivative of $2.0 billion. There was income before taxes for the year ended December 31, 2021 of $2.5 billion.

CASH FLOW FROM OPERATING ACTIVITIES, CASH FLOW AND NET EARNINGS

	Three Months Ended December 31,			Years Ended December 31,		
(000s) except per unit amounts	**2022**	**2021**	**Change**	**2022**	**2021**	**Change**
Cash flow from operating activities	**$ 1,115,399**	$1,058,460	5%	**$ 4,692,731**	$ 2,847,117	65%
Per share [(1)]	**$ 3.24**	$ 3.14	3%	**$ 13.70**	$ 8.99	52%
Cash flow [(2)]	**$ 1,402,647**	$ 968,236	45%	**$ 4,883,949**	$ 2,929,126	67%
Per share [(1)(2)]	**$ 4.08**	$ 2.88	42%	**$ 14.26**	$ 9.25	54%
Net earnings (loss)	**$ (30,366)**	$ 996,248	(103)%	**$ 4,487,049**	$ 2,025,991	121%
Per share [(1)]	**$ (0.09)**	$ 2.96	103%	**$ 13.10**	$ 6.40	105%
Operating netback per boe [(2)]	**$ 30.56**	$ 22.10	38%	**$ 27.04**	$ 18.57	46%

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

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

Cash flow for the three months ended December 31, 2022 was $1.4 billion or $4.08 per diluted share compared to $1.0 billion or $2.88 per diluted share for the same period of 2021. For the year ended December 31, 2022, cash flow was $4.9 billion or $14.26 per diluted share compared to $2.9 billion or $9.25 per diluted share for the same period of 2021. The increase in cash flow for the three and twelve months ended December 31, 2022, compared to the same periods of the prior year, is due to the significant increase in the benchmark prices for all commodities as well as increased production volume.

The Company had an after-tax net loss for the three months ended December 31, 2022 of $30.4 million or $0.09 per share compared to after-tax net earnings of $996.2 million or $2.96 per diluted share for the same period of 2021. After-tax net loss for the three months ended December 31, 2022, reflect an unrealized loss of $1.8 billion, relating to a natural gas embedded derivative recorded in 2022. Partially offsetting the impact of the unrealized loss on the natural gas embedded derivative was a 38% increase in the Company's operating netback per boe and increased production volume. Included in the after-tax net earnings for the three months ended December 31, 2021 is a reversal of PP&E impairment of $236.8 million which was originally recorded in the first quarter of 2020.

For the twelve-month period ended December 31, 2022, after-tax net earnings were $4.5 billion or $13.10 per diluted share compared to after-tax net earnings of $2.0 billion or $6.40 per diluted share for the same period of the prior year. The increase in after-tax net earnings in 2022, compared to 2021, reflects a 46% increase in the Company's operating netback per boe and increased production volume. After-tax net earnings for the year ended December 31, 2022, also reflect an unrealized gain of $2.0 billion, relating to the JKM natural gas supply agreement embedded derivative recorded in 2022.

CAPITAL EXPENDITURES

	Three Months Ended December 31,		Years Ended December 31,	
(000s)	**2022**	**2021**	**2022**	**2021**
Land and seismic	**$ 20,228**	$ 4,376	**$ 53,743**	$ 32,975
Drilling and completions	**392,757**	309,170	**1,314,593**	1,011,413
Facilities	**69,810**	97,392	**254,449**	347,871
Property acquisitions	**12,126**	26,721	**273,843**	545,861
Property dispositions	**(109)**	(1,560)	**(71,489)**	(392,556)
Other	**11,170**	11,362	**54,208**	44,807
Total capital expenditures	**$ 505,982**	$ 447,461	**$ 1,879,347**	$ 1,590,371

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

During the fourth quarter of 2022, the Company invested $506.0 million of cash consideration compared to $447.5 million for the same period of 2021. Expenditures on exploration and production were $482.8 million for the fourth quarter of 2022 compared to $410.9 million for the same quarter of 2021. During the twelve-month period ended December 31, 2022, the Company invested $1.9 billion of cash consideration, net of dispositions, compared to $1.6 billion for the same period of 2021.

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

	Year Ended December 31, 2022		Year Ended December 31, 2021	
	Gross	**Net**	**Gross**	**Net**
Drilled	**259**	**240.30**	297	280.10
Completed	**280**	**258.90**	278	264.94
Tied-in	**271**	**252.50**	277	256.00

Exploration and production capital expenditures in 2023 are forecast to be $1.675 billion plus an additional $100.0 million in exploration directed spending. The Company expects drilling and completions costs of approximately $1.48 billion and facilities expenditures (including equipment, pipelines and tie-ins) of $295.0 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 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 acquired assets 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 year ended December 31, 2022, the Company completed property acquisitions for cash consideration of $273.8 million, including the acquisitions discussed above (December 31, 2021- $545.9 million) and $9.5 million in property acquisitions for non-cash consideration (December 31, 2021 - $89.4 million). The Company assumed $20.9 million in decommissioning liabilities as a result of these acquisitions (December 31, 2021 - $27.3 million).

For the year ended December 31, 2022, the Company also completed property dispositions, including the dispositions discussed above, for total cash consideration of $71.5 million (December 31, 2021 - $392.6 million) and non-cash consideration of $9.5 million (December 31, 2021 – $21.5 million).

LIQUIDITY AND CAPITAL RESOURCES

Bank debt

The Company has a covenant-based, unsecured, five-year extendible revolving credit facility in place with a syndicate of banks. The revolving credit facility is in the amount of $2.55 billion with a maturity date of June 2027. The maturity date may, at the request of the Company and with consent of the lenders, be extended on an annual basis. The revolving credit facility includes an expansion feature ("accordion") which allows the Company, upon approval from the lenders, to increase the facility amount by up to $500 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 SOFR (for U.S. borrowings), plus applicable margins.

Under the terms of the revolving credit facility, Tourmaline is subject to the following covenants, on a rolling four-quarter basis: (i) the ratio of adjusted EBITDA(1) to interest expense must exceed 3:1, and (ii) the ratio of total debt(1) to total capitalization(1) must not exceed 0.6:1. At December 31, 2022, adjusted EBITDA for the purposes of the above-noted covenant calculations was $5.0 billion (December 31, 2021 - $3.0 billion), on a rolling four-quarter basis. At December 31, 2022, the ratio of adjusted EBITDA to interest expense was 167:1 and the ratio of total debt to total capitalization was 0.1:1. As at, and for the year ending, December 31, 2022, the Company is in compliance with all debt covenants.

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

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

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

Tourmaline has outstanding letters of credit in the amount of $54.9 million at December 31, 2022 (December 31, 2021 - $22.5 million) of which $30.0 million is secured by the operating credit facility and $24.9 million is secured by the demand facility, respectively.

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 December 31, 2022 including the bank debt and senior unsecured notes.

Adjusted working capital [(1)] and net debt [(1)]

As at December 31, 2022, the Company had an adjusted working capital of $124.7 million, after adjusting for the fair value of short-term financial instruments, short-term lease liabilities, short-term decommissioning obligations and unrealized foreign exchange in working capital (the working capital was $809.4 million) (December 31, 2021 – adjusted working capital deficit of $103.4 million and working capital deficit of $361.0 million, respectively). As at December 31, 2022, the Company had $170.8 million drawn against the revolving credit facility and $448.3 million of notes outstanding for total combined bank debt and senior unsecured notes of $619.1 million (net of debt issue costs) (December 31, 2021 - $869.6 million). Net debt at December 31, 2022 was $494.4 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 (December 31, 2021 - $973.0 million).

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

Normal course issuer bid

The Company has a normal course issuer bid ("NCIB") in place. On July 27, 2022, the Company renewed its NCIB allowing up to 16,800,668 common shares, representing 5% of its common shares outstanding at July 19, 2022, to be purchased over a period of twelve months commencing on August 2, 2022. Under the NCIB, common shares may be repurchased at prevailing market prices and any common shares that are purchased under the NCIB will be cancelled upon their purchase by the Company. For the year ended December 31, 2022, the Company did not purchase any common shares for cancellation.

Dividends

During the three and twelve months ended December 31, 2022, the Company paid a quarterly cash dividend of $0.25 and $0.90 per common share totalling $84.7 million and $302.7 million, respectively, compared to $0.18 and $0.67 per common share totalling $59.5 million and $210.4 million 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.

On November 18, 2022, the Company paid a special dividend of $2.25 per common share totalling $761.2 million.

On January 12, 2023, the Company declared a special dividend of $2.00 per common share totalling $677.6 million. The special dividend was paid on February 1, 2023.

Capital management

For 2023, management will continue to use internally generated cash flow to fund its exploration and development program and is dedicated to keeping a strong statement of financial position, which has proven to be very important, especially in times of volatile commodity prices. The significant increase in cash flow in 2022 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 March 1, 2023, the Company has 338,918,612 common shares outstanding and 12,578,796 stock options granted and outstanding.

COMMITMENTS AND CONTRACTUAL OBLIGATIONS

In the normal course of business, Tourmaline 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)	$ 3,848	$ 8,690	$ 5,773	$ 1,888	$ 20,199
Firm transportation agreements	934,888	1,723,377	1,401,022	5,169,104	9,228,391
Processing commitments (2)	131,827	260,604	241,773	476,057	1,110,261
Capital commitments (3)	68,404	–	–	–	68,404
Revolving credit facility (4)	–	–	269,288	–	269,288
Senior unsecured notes (5)	10,378	20,757	20,757	456,152	508,044
	$ 1,149,345	$ 2,013,428	$ 1,938,613	$ 6,103,201	$ 11,204,587

(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 5.93% being the rate applicable to outstanding debt on the credit facility at December 31, 2022 and interest paid at the maturity of the facility.

(5) Includes interest expense at 2.31% being the average rate applicable on the senior unsecured notes at December 31, 2022 with interest payments made semi-annually.

OFF-BALANCE SHEET ARRANGEMENTS

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

FINANCIAL RISK MANAGEMENT

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

The Company's risk management policies are established to identify and analyze the risks faced by the Company, to set appropriate risk limits and controls, and to monitor risks and adherence to market conditions and the Company's activities. The Company's financial risks are discussed in note 4 of the Company's audited consolidated financial statements for the year ended December 31, 2022.

As at December 31, 2022, the Company has entered into certain financial derivative contracts in order to manage commodity 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 commodity 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 entered into in 2022 are summarized in note 4 of the Company's consolidated financial statements for the year ended December 31, 2022.

The following table provides a summary of the unrealized gains and losses on financial instruments for the year ended December 31, 2022:

	Three Months Ended December 31,		**Years Ended December 31,**	
(000s)	**2022**	**2021**	**2022**	**2021**
Unrealized gain (loss) on financial instruments	**$(1,093,061)**	$ 355,226	**$ 2,100,989**	$ (93,249)

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 December 31, 2022 have been summarized and disclosed in note 4 of the Company's consolidated financial statements for the year ended December 31, 2022.

In July 2021, the Company entered into a 15-year natural gas supply agreement (“JKM 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 JKM natural gas supply 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 JKM natural gas supply agreement 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 embedded derivatives, 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 and discount rates. 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 JKM natural gas supply agreement 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 in January 2023. For the three and twelve months ended December 31, 2022, the JKM natural gas supply agreement embedded derivative resulted in an unrealized loss of $1.8 billion and an unrealized gain of $2.0 billion, respectively. At December 31, 2022, the Company recorded a level 3 fair value of the JKM natural gas supply agreement embedded derivative of $2.0 billion.

Financial derivative and physical delivery contracts entered into subsequent to December 31, 2022 are detailed in note 4 of the Company's consolidated financial statements for the year ended December 31, 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 consolidated financial statements are discussed in note 1 of the consolidated financial statements for the year ended December 31, 2022.

DISCLOSURE CONTROLS AND PROCEDURES AND INTERNAL CONTROLS OVER FINANCIAL REPORTING

The Company's Chief Executive Officer and Chief Financial Officer have designed, or caused to be designed under their supervision, disclosure controls and procedures ("DC&P"), as defined by National Instrument 52-109 – *Certification of Disclosure in Issuers' Annual and Interim Filings* ("NI 52-109"), to provide reasonable assurance that: (i) material information relating to the Company is made known to the Company's Chief Executive Officer and Chief Financial Officer by others, particularly during the periods in which the annual and interim filings are being prepared; and (ii) information required to be disclosed by the Company in its annual filings, interim filings or other reports filed or submitted by it under securities legislation is recorded, processed, summarized and reported within the time period specified in securities legislation.

The Company's Chief Executive Officer and Chief Financial Officer have designed, or caused to be designed under their supervision, internal controls over financial reporting ("ICFR"), as defined by NI 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 GAAP.

The Company's Chief Executive Officer and Chief Financial Officer have evaluated the effectiveness of the Company's DC&P and ICFR. Based on that evaluation, the Chief Executive Officer and Chief Financial Officer have concluded that, as at December 31, 2022, the Company's DC&P and ICFR are effective.

Other than the remediation of the material weakness described below, there were no changes in the Company's DC&P or ICFR during the period beginning on October 1, 2022 and ending December 31, 2022 that have materially affected, or are reasonably likely to materially affect, the Company's DC&P or ICFR. It should be noted that a control system, including the Company's disclosure and internal controls and procedures, no matter how well conceived can provide only reasonable, but not absolute, assurance that the objectives of the control system will be met and it should not be expected that the disclosure and internal controls and procedures will prevent all errors or fraud.

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

Remediation of Material Weakness

At September 30, 2022, management identified a material weakness related to the detection of embedded derivatives within marketing contracts. 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 Company's financial statements will not be prevented or detected on a timely basis. In this case, the Company did not identify whether the definition of a derivative was met and as such, did not account for an embedded derivative in one of its existing natural gas physical delivery contracts.

As a result, the Company 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 December 31, 2021. Refer to the "Accounting Restatement" section in the September 30, 2022 MD&A for details of the restatement.

Over the course of the fourth quarter of 2022, the Company has remediated the control deficiency by designing and implementing controls associated with identifying 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 enhancing contract analysis, including revising the process used to assess accounting implications for complex contracts. Management has supervised an evaluation of the remedial measures implemented by the Company in the fourth quarter of 2022. Based on this evaluation, including testing the operating effectiveness of the controls addressing the material weakness, management has concluded that the previously identified material weakness relating to the operating effectiveness of the Company's DC&P and its ICFR has been remediated as at 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

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.

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

In addition, pandemics, epidemics or outbreaks of an infectious disease in Canada or worldwide, including COVID-19, or any other similar illnesses could have an adverse impact on the Company's results, business, financial condition or liquidity. On March 11, 2020, the World Health Organization declared the outbreak of a strain of novel coronavirus disease, COVID-19, a global pandemic. The COVID-19 pandemic has negatively impacted the Canadian, U.S., and global economies; disrupted Canadian, U.S., and global supply chains; disrupted financial markets; 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.

The terms "adjusted EBITDA", "total debt", and "total capitalization" are not used by management in measuring performance but are used in the financial covenants under the Company's credit facility. Under the Company's credit facility "adjusted EBITDA" means generally net income or loss, excluding extraordinary items, plus interest expense and income taxes and adjusted for non-cash items and gains or losses on dispositions, "total debt" means generally the sum of debt plus subordinated debt, (Tourmaline currently does not have any subordinated debt), and "total capitalization" means generally the sum of the Company's shareholders' equity and all other indebtedness of the Company including bank debt, all determined on a consolidated basis in accordance with GAAP.

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 December 31,		Years Ended December 31,	
(000s)	**2022**	**2021**	**2022**	**2021**
Cash flow from operating activities (per GAAP)	**$ 1,115,399**	$ 1,058,460	**$ 4,692,731**	$ 2,847,117
Current Income Taxes	**(7,599)**	–	**(11,934)**	–
Change in non-cash working capital (deficit)	**294,847**	(90,224)	**203,152**	82,009
Cash flow	**$ 1,402,647**	$ 968,236	**$ 4,883,949**	$ 2,929,126

Capital Expenditures

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

(000s)	Three Months Ended December 31, 2022	2021	Years Ended December 31, 2022	2021
Cash flow used in investing activities (per GAAP)	**$ 548,471**	$ 468,384	**$ 1,971,129**	$ 1,380,111
Corporate acquisitions	–	–	**(67,770)**	–
Proceeds from sale of investments	–	–	–	103,824
Change in non-cash working capital (deficit)	**(42,489)**	(20,923)	**(24,012)**	106,436
Capital expenditures	**$ 505,982**	$ 447,461	**$ 1,879,347**	$ 1,590,371

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 on risk management activities and realized (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:

(000)	Three Months Ended December 31, 2022	2021	Years Ended December 31, 2022	2021
Commodity sales from production	**$ 1,932,515**	$1,709,063	**$ 8,110,837**	$ 5,053,611
Premium on risk management activities	**409,241**	21,579	**517,109**	13,943
Realized loss on financial instruments	**(165,293)**	(201,297)	**(885,109)**	(398,291)
Royalties	**(292,784)**	(168,168)	**(1,115,549)**	(387,914)
Transportation costs	**(238,937)**	(198,537)	**(898,871)**	(683,737)
Operating expenses	**(206,344)**	(176,360)	**(785,611)**	(607,292)
Operating netback	**$ 1,438,398**	$ 986,280	**$ 4,942,806**	$ 2,990,320

Non-GAAP Financial Ratio

Operating Netback per-boe

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

($/boe)	Three Months Ended December 31, 2022	2021	Years Ended December 31, 2022	2021
Revenue, excluding processing income	**$ 46.24**	$ 34.27	**$ 42.36**	$ 29.00
Royalties	**(6.22)**	(3.77)	**(6.10)**	(2.41)
Transportation costs	**(5.08)**	(4.45)	**(4.92)**	(4.25)
Operating expenses	**(4.38)**	(3.95)	**(4.30)**	(3.77)
Operating netback	**$ 30.56**	$ 22.10	**$ 27.04**	$ 18.57

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:

	As at December 31,	
(000s)	**2022**	**2021**
Working capital (deficit)	**$ 809,449**	$ (361,034)
Fair value of financial instruments – short-term (asset) liability	**(709,286)**	240,970
Lease liabilities – short-term	**3,109**	2,997
Decommissioning obligations – short-term	**30,000**	20,103
Unrealized foreign exchange in working capital – (asset)	**(8,605)**	(6,441)
Adjusted working capital (deficit)	**$ 124,667**	$ (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:

	As at December 31,	
(000s)	**2022**	**2021**
Bank debt	**$ (170,767)**	$ (421,539)
Senior unsecured notes	**(448,342)**	(448,035)
Adjusted working capital (deficit)	**124,667**	(103,405)
Net debt	**$ (494,442)**	$ (972,979)

SELECTED QUARTERLY INFORMATION

	2022				2021			
($000s, unless otherwise noted)	**Q4**	**Q3**	**Q2**	**Q1**	**Q4**	**Q3**	**Q2**	**Q1**
PRODUCTION								
Natural gas *(mcf)*	**218,634,600**	206,138,993	213,277,064	212,484,691	208,774,653	197,475,909	174,322,330	172,588,310
Oil, condensate and NGL *(bbls)*	**10,627,244**	9,978,028	10,221,120	10,221,181	9,831,392	9,084,310	8,287,097	8,277,417
Oil equivalent *(boe)*	**47,066,350**	44,334,527	45,767,297	45,635,296	44,627,168	41,996,962	37,340,819	37,042,135
Natural gas *(mcf/d)*	**2,376,463**	2,240,641	2,343,704	2,360,941	2,269,290	2,146,477	1,915,630	1,917,648
Oil, condensate and NGL *(bbls/d)*	**115,513**	108,457	112,320	113,569	106,863	98,743	91,067	91,971
Oil equivalent *(boe/d)*	**511,590**	481,897	502,937	507,059	485,078	456,489	410,339	411,579
FINANCIAL								
Total revenue from commodity sales and premium (loss) on risk management activities and realized gain (loss) on financial instruments	**2,176,463**	1,743,856	2,108,834	1,713,684	1,529,345	1,213,376	921,278	1,005,264
Cash flow from operating activities	**1,115,399**	1,112,202	1,351,481	1,113,649	1,058,460	543,855	494,673	750,129
Per diluted share	**3.24**	3.24	3.95	3.29	3.14	1.66	1.64	2.51
Cash flow [1]	**1,402,647**	1,051,400	1,353,926	1,075,976	968,236	761,333	570,232	629,325
Per diluted share	**4.08**	3.06	3.95	3.18	2.88	2.32	1.89	2.11
Net earnings (loss)	**(30,366)**	2,097,929	1,743,547	675,939	996,248	361,057	420,849	247,837
Per basic share	**(0.09)**	6.23	5.20	2.03	3.01	1.12	1.41	0.84
Per diluted share	**(0.09)**	6.11	5.09	1.99	2.96	1.10	1.40	0.83
Total assets	**18,893,041**	20,051,706	17,473,014	16,037,859	15,292,093	14,923,735	13,153,137	12,728,515
Working capital (deficit)	**809,449**	513,115	(132,556)	(672,285)	(361,034)	(591,736)	(301,459)	(249,592)
Adjusted working capital (deficit) [1]	**124,667**	(116,371)	29,500	(154,563)	(103,405)	(70,391)	(86,363)	(165,236)
Capital expenditures [1]	**505,982**	415,447	478,545	479,373	447,461	56,108	664,696	422,106
Dividends paid	**845,834**	748,480	577,854	481,080	306,765	55,739	47,656	58,395
Total outstanding shares *(000s)*	**338,685**	337,765	335,914	334,157	330,860	329,598	298,452	296,914
PER UNIT								
Natural gas *($/mcf)*	**6.89**	5.37	6.31	4.86	4.66	3.88	3.25	3.86
Oil and NGL *($/bbl)*	**63.01**	63.77	74.63	66.54	56.67	49.21	42.84	41.06
Revenue *($/boe)*	**46.24**	39.33	46.08	37.55	34.27	28.89	24.67	27.14
Operating netback *($/boe)* [1]	**30.56**	23.68	29.70	23.99	22.10	18.35	15.47	17.70

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

SELECTED ANNUAL INFORMATION

($000s unless otherwise noted)	**2022**	**2021**	**2020**
PRODUCTION			
Natural gas *(mcf)*	**850,535,422**	753,161,179	540,440,373
Oil, condensate and NGL *(bbls)*	**41,047,693**	35,480,202	23,605,398
Oil equivalent *(boe)*	**182,803,597**	161,007,066	113,678,794
Natural gas *(mcf/d)*	**2,330,234**	2,063,455	1,476,613
Oil, condensate and NGL *(bbls/d)*	**112,460**	97,206	64,496
Oil equivalent *(boe/d)*	**500,832**	441,115	310,598
FINANCIAL			
Total revenue from commodity sales and premium (loss) on risk management activities and realized gain (loss) on financial instruments	**7,742,837**	4,669,263	2,174,903
Cash flow from operating activities	**4,692,731**	2,847,117	1,125,136
Per diluted share	**13.70**	8.99	4.14
Cash flow [(1)]	**4,883,949**	2,929,126	1,185,687
Per diluted share	**14.26**	9.25	4.36
Net earnings attributable to shareholders of the Company	**4,487,049**	2,025,991	618,311
Per basic share	**13.37**	6.49	2.27
Per diluted share	**13.10**	6.40	2.27
Total assets	**18,893,041**	15,292,093	12,790,200
Working capital (deficit)	**809,449**	(361,034)	111,744
Adjusted working capital (deficit) [(1)]	**124,667**	(103,405)	157,339
Capital expenditures [(1)]	**1,879,347**	1,590,371	1,083,625
Dividends paid	**2,653,248**	468,555	161,626
Basic outstanding shares *(000s)*	**338,685**	330,860	296,572
PER UNIT			
Natural gas *($/mcf)*	**5.87**	3.94	2.68
Oil and NGL *($/bbl)*	**66.97**	47.89	30.87
Revenue *($/boe)*	**42.36**	29.00	19.13
Operating netback *($/boe)* [(1)]	**27.04**	18.57	10.93

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

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

On an annual basis, the Company has had continued production growth over the last three years. The Company's average annual production has increased from 310,598 boe per day in 2020 to 441,115 boe per day in 2021 and 500,832 boe per day in 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 $4.9 billion in 2022. 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 in 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.

MANAGEMENT'S REPORT

To the Shareholders of Tourmaline Oil Corp.:

The accompanying consolidated financial statements of Tourmaline Oil Corp. and all the information in the Annual Report are the responsibility of management and have been approved by the Board of Directors. The consolidated financial statements have been prepared by management in accordance with International Financial Reporting Standards as issued by the International Accounting Standards Board. When alternative accounting methods exist, management has chosen those it deems most appropriate in the circumstances. Financial statements are not precise since they include certain amounts based on estimates and judgments. Management has determined such amounts on a reasonable basis in order to ensure that the consolidated financial statements are presented fairly, in all material respects. The financial information contained elsewhere in this report has been reviewed to ensure consistency with the consolidated financial statements.

Management has established systems of internal controls, which are designed to provide reasonable assurance that assets are safeguarded from loss or unauthorized use and to produce reliable accounting records for the preparation of financial information. The Board of Directors is responsible for ensuring that management fulfills its responsibilities for financial reporting and internal control. It exercises its responsibilities primarily through the Audit Committee, with some assistance from the Reserves Committee regarding the annual evaluation of the Company's petroleum and natural gas reserves. The Audit Committee has reviewed the consolidated financial statements with management and the auditors, and has reported to the Board of Directors. The external auditors have access to the Audit Committee without the presence of management.

The consolidated financial statements have been audited on behalf of the shareholders by KPMG LLP, the external auditors. Their examination included such tests and procedures, as they considered necessary, to provide reasonable assurance that the consolidated financial statements are presented fairly in accordance with International Financial Reporting Standards as issued by the International Accounting Standards Board. The Board of Directors has approved the consolidated financial statements.

(signed)	*(signed)*
Michael L. Rose *President and* *Chief Executive Officer*	Brian G. Robinson *Vice-President, Finance and* *Chief Financial Officer*
Calgary, Alberta	Calgary, Alberta

March 1, 2023

INDEPENDENT AUDITORS' REPORT

To the Shareholders of Tourmaline Oil Corp.

Opinion

We have audited the consolidated financial statements of Tourmaline Oil Corp. (the “Company”), which comprise:

- the consolidated statements of financial position as at December 31, 2022 and December 31, 2021
- the consolidated statements of income and comprehensive income for the years then ended
- the consolidated statements of changes in equity for the years then ended
- the consolidated statements of cash flow for the years then ended
- and notes to the consolidated financial statements, including a summary of significant accounting policies

Hereinafter referred to as the “financial statements”.

In our opinion, the accompanying financial statements present fairly, in all material respects, the consolidated financial position of the Company as at December 31, 2022 and December 31, 2021, and its consolidated financial performance and its consolidated cash flows for the years then ended in accordance with International Financial Reporting Standards (“IFRS”) as issued by the International Accounting Standards Board (“IASB”).

Basis for Opinion

We conducted our audit in accordance with Canadian generally accepted auditing standards. Our responsibilities under those standards are further described in the “*Auditors’ Responsibilities for the Audit of the Financial Statements*” section of our auditors’ report.

We are independent of the Company in accordance with the ethical requirements that are relevant to our audit of the financial statements in Canada and we have fulfilled our other ethical responsibilities in accordance with these requirements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

Key Audit Matters

Key audit matters are those matters that, in our professional judgment, were of most significance in our audit of the financial statements for the year ended December 31, 2022. These matters were addressed in the context of our audit of the financial statements as a whole, and in forming our opinion thereon, and we do not provide a separate opinion on these matters.

We have determined the matters described below to be the key audit matters to be communicated in our auditors’ report.

Assessment of the impact of estimated proved and probable oil and gas reserves on depletion expense

Description of the matter

We draw attention to note 1, note 2 and note 6 to the financial statements. The Company depletes its net carrying value of oil and natural gas interests, excluding plants and facilities, using the unit-of-production method by reference to the ratio of production in the period to the related proved and probable oil and gas reserves, taking into account estimated forecasted future development costs necessary to bring those reserves into production. The Company recorded depletion expense related to its oil and gas interests of $1.2 billion for the year ended December 31, 2022.

The estimate of proved and probable oil and gas reserves includes significant assumptions related to:

- Forecasted oil and gas commodity prices
- Forecasted production
- Forecasted operating costs
- Forecasted royalty costs
- Forecasted future development costs.

The Company engages independent third party reserve evaluators to estimate the proved and probable oil and gas reserves and the related cash flows.

Why the matter is a key audit matter

We identified the assessment of the impact of estimated proved and probable oil and gas reserves on depletion expense as a key audit matter. Significant auditor judgement was required to evaluate the results of our audit procedures regarding the estimate of proved and probable oil and gas reserves and the related cash flows.

How the matter was addressed in the audit

The primary procedures we performed to address this key audit matter included the following:

We assessed the depletion expense calculation for compliance with IFRS as issued by the IASB.

With respect to the estimate of proved and probable oil and gas reserves:

- We evaluated the competence, capabilities and objectivity of the independent third party reserve evaluators engaged by the Company
- We compared the forecasted oil and gas commodity prices to those published by other independent third party reserve evaluators
- We compared the 2022 actual production, operating costs, royalty costs and future development costs of the Company to those estimates used in the prior year's estimate of proved oil and gas reserves to assess the Company's ability to accurately forecast
- We evaluated the appropriateness of forecasted production and forecasted operating costs, royalty costs and future development cost assumptions by comparing to 2022 actual results. We took into account changes in conditions and events affecting the Company to assess the adjustments or lack of adjustments made by the Company in arriving at the assumptions.

Evaluation of the level 3 fair value of the JKM natural gas supply agreement embedded derivative

Description of the matter

We draw attention to note 1, note 2, note 3 and note 4 to the financial statements. Under the terms of the JKM natural gas supply agreement, the Company will deliver natural gas to its counterparty at a delivery point in the United States 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 the Company ultimately receives a JKM index price, it was determined that the JKM natural gas supply agreement contained an embedded derivative as a result of the pricing spread between forecast JKM and NYMEX prices. At December 31, 2022, the Company recorded an embedded derivative asset of $2.0 billion for the JKM natural gas supply agreement. The embedded derivative asset for the JKM natural gas supply agreement is a level 3 fair value that is estimated using an internally developed model that incorporates significant unobservable assumptions related to forecasted JKM and NYMEX prices and discount rates.

Why the matter is a key audit matter

We identified the evaluation of the level 3 fair value of the JKM natural gas supply agreement embedded derivative as a key audit matter. This matter represented an area of significant risk of material misstatement requiring significant auditor effort and specialized skills and knowledge to evaluate the Company's internally developed model, including significant unobservable assumptions.

How the matter was addressed in the audit

The primary procedures we performed to address this key audit matter included the following: We inspected the terms of the relevant underlying JKM natural gas supply agreement and compared these to the Company's internally developed model for the level 3 fair value of the JKM natural gas supply agreement embedded derivative.

We compared the Company's assumptions for the forecasted JKM and NYMEX prices to market and third-party data, including adjustments for inflation. We took into account changes in conditions and events affecting the Company to assess the adjustments or lack of adjustments made by the Company in arriving at the forecasted JKM and NYMEX price assumptions.

We involved valuation professionals with specialized skills and knowledge, who assisted in:

- Evaluating the appropriateness of the Company's discount rates by comparing the discount rates used to market and other external data
- Assessing the appropriateness of the methodology in the internally developed model used in the level 3 fair value of the JKM natural gas supply agreement embedded derivative.

Other Information

Management is responsible for the other information. Other information comprises:

- the information included in Management's Discussion and Analysis filed with the relevant Canadian Securities Commissions.

Our opinion on the financial statements does not cover the other information and we do not and will not express any form of assurance conclusion thereon.

In connection with our audit of the financial statements, our responsibility is to read the other information identified above and, in doing so, consider whether the other information is materially inconsistent with the financial statements or our knowledge obtained in the audit and remain alert for indications that the other information appears to be materially misstated.

We obtained the information included in Management's Discussion and Analysis filed with the relevant Canadian Securities Commissions as at the date of this auditors' report. If, based on the work we have performed on this other information, we conclude that there is a material misstatement of this other information, we are required to report that fact in the auditors' report.

We have nothing to report in this regard.

Responsibilities of Management and Those Charged with Governance for the Financial Statements

Management is responsible for the preparation and fair presentation of the financial statements in accordance with IFRS as issued by the IASB, and for such internal control as management determines is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error. In preparing the financial statements, management is responsible for assessing the Company's ability to continue as a going concern, disclosing as applicable, matters related to going concern and using the going concern basis of accounting unless management either intends to liquidate the Company or to cease operations, or has no realistic alternative but to do so.

Those charged with governance are responsible for overseeing the Company's financial reporting process.

Auditors’ Responsibilities for the Audit of the Financial Statements

Our objectives are to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditors’ report that includes our opinion.

Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with Canadian generally accepted auditing standards will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of the financial statements.

As part of an audit in accordance with Canadian generally accepted auditing standards, we exercise professional judgment and maintain professional skepticism throughout the audit.
We also:

- Identify and assess the risks of material misstatement of the financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion.

  The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.

- Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Company’s internal control.
- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by management.
- Conclude on the appropriateness of management's use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Company’s ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditors’ report to the related disclosures in the financial statements or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditors’ report. However, future events or conditions may cause the Company to cease to continue as a going concern.
- Evaluate the overall presentation, structure and content of the financial statements, including the disclosures, and whether the financial statements represent the underlying transactions and events in a manner that achieves fair presentation.
- Communicate with those charged with governance regarding, among other matters, the planned scope and timing of the audit and significant audit findings, including any significant deficiencies in internal control that we identify during our audit.
- Provide those charged with governance with a statement that we have complied with relevant ethical requirements regarding independence, and communicate with them all relationships and other matters that may reasonably be thought to bear on our independence, and where applicable, related safeguards.

- Determine, from the matters communicated with those charged with governance, those matters that were of most significance in the audit of the financial statements of the current period and are therefore the key audit matters. We describe these matters in our auditors’ report unless law or regulation precludes public disclosure about the matter or when, in extremely rare circumstances, we determine that a matter should not be communicated in our auditors’ report because the adverse consequences of doing so would reasonably be expected to outweigh the public interest benefits of such communication.

The engagement partner on the audit resulting in this auditors’ report is Brad William Robertson.

(signed) "KPMG LLP"
Chartered Professional Accountants

Calgary, Canada

March 1, 2023

CONSOLIDATED FINANCIAL STATEMENTS

CONSOLIDATED STATEMENTS OF FINANCIAL POSITION

	As at December 31,	
(000s)	**2022**	**2021**
Assets		
Current assets:		
Accounts receivable	**$ 1,093,876**	$ 652,246
Prepaid expenses and deposits	**63,872**	26,275
Fair value of financial instruments *(notes 3 and 4)*	**1,087,309**	11,202
Total current assets	**2,245,057**	689,723
Long-term asset	**2,788**	3,773
Fair value of financial instruments (*notes 3 and 4*)	**1,192,973**	8,388
Exploration and evaluation assets *(note 5)*	**289,050**	369,882
Property, plant and equipment *(note 6)*	**14,505,182**	13,463,578
Investment in Topaz (*note 11)*	**648,229**	745,924
Right-of-use asset (*note 7*)	**9,762**	10,825
Total Assets	**$18,893,041**	$15,292,093
Liabilities and Shareholders' Equity		
Current liabilities:		
Accounts payable and accrued liabilities	**$ 1,012,542**	$ 775,485
Lease liabilities (*note 7*)	**3,109**	2,997
Fair value of financial instruments *(notes 3 and 4)*	**378,023**	252,172
Decommissioning obligations *(note 8)*	**30,000**	20,103
Income tax payable	**11,934**	–
Total current liabilities	**1,435,608**	1,050,757
Bank debt *(note 9)*	**170,767**	421,539
Senior unsecured notes (*note 10*)	**448,342**	448,035
Fair value of financial instruments *(notes 3 and 4)*	**125,776**	91,924
Lease liabilities (*note 7*)	**7,046**	8,172
Decommissioning obligations *(note 8)*	**537,053**	628,039
Deferred taxes *(note 14)*	**2,481,596**	1,037,275
Shareholders' equity:		
Share capital *(note 12)*	**7,725,189**	7,482,534
Contributed surplus	**288,334**	284,289
Retained earnings	**5,673,330**	3,839,529
Total shareholders' equity	**13,686,853**	11,606,352
Total Liabilities and Shareholders' Equity	**$18,893,041**	$15,292,093

Commitments (note 21) and Subsequent events (notes 4 and 24).

See accompanying notes to the consolidated financial statements.

Approved on behalf of the Board of Directors of Tourmaline Oil Corp.:

(signed)
Jill T. Angevine, Director

(signed)
Andrew B. MacDonald, Director

CONSOLIDATED STATEMENTS OF INCOME AND COMPREHENSIVE INCOME

	Years Ended December 31,	
(000s) except per-share amounts	**2022**	**2021**
Commodity sales from production (*note 13*)	**$ 8,110,837**	$ 5,053,611
Premium on risk management activities (*note 13*)	**517,109**	13,943
Marketing revenue (*note 13*)	**49,702**	54,044
Royalties	**(1,115,549)**	(387,914)
Other income *(note 17)*	**53,412**	45,734
Realized gain (loss) on financial instruments	**(885,109)**	(398,291)
Unrealized gain (loss) on financial instruments *(note 4)*	**2,100,989**	(93,249)
	8,831,391	4,287,878
Expenses:		
Operating	**785,611**	607,292
Transportation	**898,871**	683,737
Marketing purchases *(note 13)*	**43,326**	48,402
General and administration	**103,374**	87,248
Share-based payments *(note 16)*	**28,731**	16,448
Depletion, depreciation, amortization and impairment *(notes 5, 6 and 7)*	**1,184,516**	846,544
Realized foreign exchange (gain)	**(5,940)**	(6,398)
Unrealized foreign exchange (gain)	**(8,605)**	(6,441)
Income on investment in Topaz (*note 11*)	**(34,358)**	(7,998)
(Gain) on loss of control of Topaz	–	(321,189)
(Gain) on acquisitions and divestitures	**(121,954)**	(250,048)
Total expenses	**2,873,572**	1,697,597
Income from operations	**5,957,819**	2,590,281
Finance expenses *(note 18)*	**51,527**	66,856
Income before taxes	**5,906,292**	2,523,425
Current tax expense *(note 14)*	**11,934**	–
Deferred tax expense *(note 14)*	**1,407,309**	494,017
Net income and comprehensive income before non-controlling interest	**4,487,049**	2,029,408
Net income and comprehensive income attributable to:		
Shareholders of the Company	**4,487,049**	2,025,991
Non-controlling interest	–	3,417
	$ 4,487,049	$ 2,029,408
Net income per share attributable to common shareholders *(note 15)*		
Basic	**$ 13.37**	$ 6.49
Diluted	**$ 13.10**	$ 6.40

See accompanying notes to the consolidated financial statements.

CONSOLIDATED STATEMENTS OF CHANGES IN EQUITY

(000s)	**Share Capital**	**Contributed Surplus**	**Retained Earnings**	**Non-Controlling Interest**	**Total Equity**
Balance at December 31, 2021	$ 7,482,534	$ 284,289	$ 3,839,529	$ –	$11,606,352
Share-based payments	–	28,731	–	–	28,731
Capitalized share-based payments (*note 6*)	–	21,670	–	–	21,670
Share-based payments – other *(note 14)*	–	7,057	–	–	7,057
Options exercised (*note 12*)	242,655	(53,413)	–	–	189,242
Dividends paid (*note 12*)	–	–	(2,653,248)	–	(2,653,248)
Income attributable to common shareholders	–	–	4,487,049	–	4,487,049
Balance at December 31, 2022	**$ 7,725,189**	**$ 288,334**	**$ 5,673,330**	**$ –**	**$13,686,853**

(000s)	**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 acquisitions (*notes 6 and 12*)	939,580	–	–	–	939,580
Issuance and sale 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	–	16,448	–	–	16,448
Capitalized share-based payments (*note 6*)	–	12,014	–	–	12,014
Options exercised (*note 12*)	219,332	(47,815)	–	–	171,517
Purchase of common shares under NCIB (*note 12*)	(4,493)	(2,052)	–	–	(6,545)
Dividends paid (*note 12*)	–	–	(457,663)	(10,892)	(468,555)
Income attributable to common shareholders	–	–	2,025,991	–	2,025,991
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 December 31, 2021	**$ 7,482,534**	**$ 284,289**	**$ 3,839,529**	**$ –**	**$11,606,352**

See accompanying notes to the consolidated financial statements.

CONSOLIDATED STATEMENTS OF CASH FLOW

(000s)	Years Ended December 31, 2022	2021
Cash provided by (used in):		
Operations:		
Net income	**$ 4,487,049**	$ 2,025,991
Items not involving cash:		
Depletion, depreciation, amortization and impairment	**1,184,516**	846,544
Accretion (*note 8*)	**21,153**	11,857
Lease interest expense (*note 7*)	**319**	349
Share-based payments (*note 17*)	**28,731**	16,448
Current tax expense (*note 14*)	**11,934**	–
Deferred tax expense (*note 14*)	**1,407,309**	494,017
Unrealized (gain) loss on financial instruments (*note 4*)	**(2,100,989)**	93,249
Unrealized foreign exchange gain	**(8,605)**	(6,441)
Other non-cash items	**985**	985
Gain on acquisitions and divestitures *(note 6)*	**(121,954)**	(250,048)
Gain on loss of control of Topaz	–	(321,189)
Non-controlling interest	–	3,417
(Income) from investment in Topaz (*note 11*)	**(34,358)**	(7,998)
Decommissioning expenditures (*note 8*)	**(32,995)**	(14,172)
Dividends received from Topaz (*note 11*)	**52,788**	36,117
Changes in non-cash operating working capital *(note 20)*	**(203,152)**	(82,009)
Total cash flow from operating activities	**4,692,731**	2,847,117
Financing:		
Issue of common shares	**189,242**	171,517
Purchase of common shares under NCIB	–	(6,545)
Issuance of Topaz common shares to NCI	–	197,336
Lease payments (*note 7*)	**(3,692)**	(4,081)
Dividends paid (*note 12*)	**(2,653,248)**	(468,555)
Decrease in cash on loss of control of Topaz	–	(177,357)
Decrease in bank debt (*note 9*)	**(254,211)**	(1,847,524)
Increase in senior unsecured notes (*note 10*)	**307**	448,035
Total cash flow used in financing activities	**(2,721,602)**	(1,687,174)
Investing:		
Property, plant and equipment (*note 6*)	**(1,676,993)**	(1,437,066)
Property acquisitions (*note 6*)	**(273,843)**	(545,861)
Proceeds from divestitures (*note 6*)	**71,489**	392,556
Corporate acquisitions *(note 6)*	**(67,770)**	–
Proceeds from sale of Topaz common shares (*note 11)*	–	103,824
Changes in non-cash investing working capital *(note 20)*	**(24,012)**	106,436
Total cash flow used in investing activities	**(1,971,129)**	(1,380,111)
Changes in cash	–	(220,168)
Cash, beginning of year	–	220,168
Cash, end of year	**$ –**	$ –

Cash is defined as cash and cash equivalents.

See accompanying notes to the consolidated financial statements.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

FOR THE YEARS ENDED DECEMBER 31, 2022 AND 2021

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

Corporate Information:

Tourmaline Oil Corp. (the "Company") was incorporated under the laws of the Province of Alberta on July 21, 2008. The Company's registered office is located at Suite 2400, 525 – 8th Avenue S.W., Calgary, Alberta, Canada T2P 1G1. The Company is engaged in the acquisition, exploration, development and production of oil and natural gas properties.

These consolidated financial statements reflect only the Company's proportionate interest in such activities and are comprised of Tourmaline Oil Corp., and its 100% owned subsidiaries Tourmaline Oil Marketing Corp and Rising Star Resources Ltd. (“Rising Star”).

On January 1, 2023, the Company's newly acquired subsidiary, Rising Star, was amalgamated with Tourmaline.

OPERATING ENVIRONMENT

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

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 Company is awaiting further guidance in 2023 from the ISSB and CSA on their final rules.

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

Sustainability Reporting

The Company publishes an annual Sustainability Report containing comprehensive information relating to ESG performance which can be found on the Company's website at https://sustainability.tourmalineoil.com/.

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

Impact of climate change and related events on amounts recorded in the 2022 financial statements

(i) Impairment

The Company has considered the impact of the evolving worldwide demand for energy and global advancement of alternative sources of energy that are not sourced from fossil fuels in its assessment of impairment on its oil and gas properties, as a possible indicator of impairment.

(ii) Reserves

The Company engages third party external reserve engineer consultants to prepare the Company's reserve report. The reserve report includes anticipated impacts from emissions related taxes, most notably the reserve report includes estimated carbon tax related to the Company's operations.

1. BASIS OF PREPARATION

(a) Statement of compliance:

These consolidated financial statements have been prepared in accordance with International Financial Reporting Standards ("IFRS") as issued by the IASB.

The consolidated financial statements were authorized for issue by the Board of Directors on March 1, 2023.

(b) Basis of measurement:

The consolidated financial statements have been prepared on the historical-cost basis except for derivative financial instruments which are measured at fair value. The methods used to measure fair values are discussed in note 3.

Operating expenses in the consolidated statements of income and comprehensive income are presented as a combination of function and nature in conformity with industry practice. Depletion, depreciation, amortization and impairment are presented in separate lines by their nature, while operating expenses and net administrative expenses are presented on a functional basis. Significant expenses are presented by their nature in the notes to the financial statements.

(c) Functional and presentation currency:

These consolidated financial statements are presented in Canadian dollars. The functional currency of the Company and its subsidiaries is Canadian dollars other than Tourmaline Oil Marketing Corp. which has a functional currency of US dollars.

(d) Use of judgements and estimates:

The timely preparation of the consolidated financial statements requires management to use judgements, estimates and assumptions. These judgements, estimates and assumptions are subject to change and could differ from actual results. The key sources of estimation uncertainty that have a significant risk of causing a material adjustment to the reported amounts of assets, liabilities, revenues, expenses and the disclosure of contingencies are discussed below.

Critical judgements in applying accounting policies:

The following are the critical judgements, apart from those involving estimations (see below), that management has made in the process of applying the Company's accounting policies and that have the most significant effect on the amounts recognized in these consolidated financial statements:

(i) Identification of cash-generating units:

The Company's assets are aggregated into cash-generating units ("CGU") for the purpose of calculating depletion and impairment. A CGU is comprised of assets that are grouped together into the smallest group of assets that generate cash inflows from continuing use that are largely independent of the cash inflows of other assets or groups of assets. By their nature, these estimates and assumptions are subject to measurement uncertainty and may impact the carrying value of the Company's assets in future periods.

(ii) Impairment (impairment reversal) of petroleum and natural gas assets:

Judgements are required to assess when internal or external indicators of impairment or impairment reversal exist, and impairment testing is required. Management considers internal and external sources of information including forecasted oil and gas commodity prices, expected production volumes, anticipated recoverable quantities of proved and probable oil and gas reserves and rates used to discount the related future cash flow estimates. Judgement is required to assess these internal and external factors when determining if the carrying amount of an asset or CGU is impaired, or in the case of a previously impaired asset or CGU, whether the carrying amount of the asset or CGU has been restored.

(iii) Exploration and evaluation assets:

The application of the Company's accounting policy for exploration and evaluation ("E&E") assets requires management to make certain judgements as to future events and circumstances as to whether economic quantities of reserves have been found in assessing economic and technical feasibility.

(iv) Lease arrangements:

The Company applies judgement when reviewing each of its contractual arrangements to determine whether the arrangement contains a lease. Contractual arrangements containing a lease are then subject to various areas of judgement including the lease term and discount rate.

(v) Embedded derivatives:

When applying IFRS 9 – Financial instruments the Company uses judgement when determining the definition of the host contract and the separate embedded derivative, as well as the assessment of whether the embedded derivative is clearly and closely related to the host contract.

(vi) Deferred taxes:

Deferred tax assets (if any) are recognized only to the extent it is considered probable that those assets will be recoverable. This involves an assessment of when those deferred tax assets are likely to reverse and a judgment as to whether or not there will be sufficient taxable profits available to offset the tax assets when they do reverse. This requires assumptions regarding future profitability and is therefore inherently uncertain. To the extent assumptions regarding future profitability change, there can be an increase or decrease in the amounts recognized in respect of deferred tax assets as well as the amounts recognized in profit or loss in the period in which the change occurs.

Key sources of estimation uncertainty:

The following are the key assumptions concerning the sources of estimation uncertainty at the end of the reporting period, that have a significant risk of causing adjustments to the carrying amounts of assets and liabilities.

(i) Reserves:

Estimates of proved and probable oil and gas reserves and the related cash flows are subject to assumptions regarding forecasted production, forecasted oil and gas commodity prices, forecasted operating costs, forecasted royalty costs and forecasted future development costs. It also requires interpretation of geological and geophysical models in order to make an assessment of the size, shape, depth and quality of reservoirs, and their anticipated recoveries. The economical, geological, and technical factors used to estimate proved and probable oil and gas reserves may change from period to period. Changes in reported proved and probable oil and gas reserves can impact the carrying values of the Company's oil and gas interests (included in property, plant and equipment), the calculation of depletion expense, the provision for decommissioning obligations, and the recognition of deferred tax assets due to changes in expected future cash flows. The Company engages independent third-party reserve evaluators to estimate the proved and probable oil and gas reserves and related cash flows at least annually.

The Company's proved and probable oil and gas reserves represent the estimated quantities of oil, natural gas and NGLs which geological, geophysical and engineering data demonstrate with a specified degree of certainty to be economically recoverable in future years from known reservoirs and which are considered commercially producible. Such proved and probable oil and gas reserves may be considered commercially producible if management has the intention of developing and producing them and such intention is based upon (i) a reasonable assessment of the future economics of such production; (ii) a reasonable expectation that there is a market for all or substantially all the expected oil and natural gas production; and (iii) evidence that the necessary production, transmission and transportation facilities are available or can be made available. Reserves may only be considered proved and probable if producibility is supported by either production or conclusive formation tests. The Company's proved and probable oil and gas reserves are determined in accordance with the standards contained in National Instrument 51-101 – Standards of Disclosure for Oil and Gas Activities and the Canadian Oil and Gas Evaluation Handbook.

(ii) Share-based payments:

All equity-settled, share-option awards issued by the Company are recorded at fair value using the Black-Scholes option-pricing model. In assessing the fair value of equity-based compensation, estimates have to be made regarding the expected volatility in share price, option life, dividend yield, risk-free rate and estimated forfeitures at the initial grant date.

(iii) Business combinations:

In a business combination, management makes estimates of the acquisition-date fair value of assets acquired and liabilities assumed which includes assessing the estimated fair value of petroleum and natural gas properties (included in property, plant and equipment) derived from estimated recoverable quantities of proved and probable oil and gas reserves and the related cash flows being acquired.

(iv) Decommissioning obligations:

The Company estimates future remediation costs of production facilities, wells and pipelines at different stages of development and construction of assets or facilities. In most instances, removal of assets occurs many years into the future. This requires judgment regarding abandonment date, future environmental and regulatory legislation, the extent of reclamation activities, the engineering methodology for estimating cost, future removal technologies in determining the removal cost and liability-specific discount rates to determine the present value of these cash flows.

(v) Embedded Derivatives:

The Company determines the fair value of embedded derivatives, 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 and discount rates. When determining fair value estimates the Company attempts to maximize the use of observable inputs and minimize the use of unobservable inputs.

(vi) Deferred taxes:

Tax provisions are based on enacted or substantively enacted laws. Changes in those laws could affect amounts recognized in profit or loss both in the period of change, which would include any impact on cumulative provisions, and in future periods.

2. SIGNIFICANT ACCOUNTING POLICIES

The accounting policies set out below have been applied consistently to all periods presented in these consolidated financial statements and have been applied consistently by the Company and its subsidiaries.

(a) Consolidation:

The consolidated financial statements include the accounts of Tourmaline Oil Corp., Tourmaline Oil Marketing Corp. and Rising Star.

(i) Subsidiaries:

Subsidiaries are entities controlled by the Company. Control exists when the Company has the power to govern the financial and operating policies of an entity so as to obtain benefits from its activities. In assessing control, substantive potential voting rights that currently are exercisable are taken into account. The financial statements of subsidiaries are included in the consolidated financial statements from the date that control commences until the date that control ceases.

When the Company loses control over a subsidiary, it derecognizes the assets and liabilities of the subsidiary, and any related NCI and other components of equity. Any resulting gain or loss is recognized in profit or loss. Any interest retained in the former subsidiary is recognized at fair value immediately after control is lost.

(ii) Transactions eliminated on consolidation:

Intercompany balances and transactions, and any unrealized income and expenses arising from intercompany transactions, are eliminated in preparing the consolidated financial statements.

(iii) Jointly-owned assets:

Substantially all of the Company's oil and natural gas activities involve jointly-owned assets. The consolidated financial statements include the Company's share of these jointly-owned assets and a proportionate share of the relevant revenue and related costs.

(b) Foreign Currency:

(i) Foreign currency transactions:

Transactions in foreign currencies are translated into the respective entity's functional currency at the exchange rates at the dates of the transactions. Monetary assets and liabilities denominated in foreign currencies are translated into the functional currency at the exchange rate at the reporting date. Non-monetary assets that are measured in a foreign currency at historical cost are translated using the exchange rate at the date of the transaction. Translation gains and losses are included in earnings in the period in which they arise.

(ii) Foreign Operations:

In preparing the Company's consolidated financial statements, the financial statements of each entity are translated into Canadian dollars. The assets and liabilities of foreign operations are translated at the exchange rates at the reporting date. The revenues and expenses of foreign operations are translated at the exchange rates that approximate those dates of the transactions.

Foreign currency differences are recognized in other comprehensive income ("OCI") and accumulated in the translation reserve, except to the extent that the translation difference is allocated to NCI.

(c) Business Combinations:

The purchase method of accounting is used to account for acquisitions of businesses and assets that meet the definition of a business under IFRS. The cost of an acquisition is measured as the fair value of the assets given up, equity instruments issued and liabilities incurred or assumed at the date of exchange. Identifiable assets acquired and liabilities and contingent liabilities assumed in a business combination are measured initially at their acquisition date fair values. If the consideration of acquisition given up is less than the fair value of the net assets received, the difference is recognized immediately in the income statement. If the consideration of acquisition is greater than the fair value of the net assets received, the difference is recognized as goodwill on the statement of financial position. Acquisition costs incurred are expensed.

There is an option to apply a concentration test that permits a simplified assessment of whether an acquired set of activities and assets is in fact a business. The optional concentration test is met if substantially all of the fair value of the assets acquired is concentrated in a single identifiable asset or group of similar identifiable assets. An entity may make such an election separately for each transaction or other event. If the concentration test is met, the set of activities and assets is determined not to be a business and no further assessment is needed.

(d) Financial instruments:

(i) Non-derivative financial instruments:

Non-derivative financial instruments comprise cash and cash equivalents, accounts receivable, deposits, bank debt, senior unsecured notes and accounts payable and accrued liabilities. Non-derivative financial instruments are recognized initially at fair value plus, for instruments not at fair value through profit or loss, any directly attributable transaction costs. Subsequent to initial recognition, non-derivative financial instruments are measured as described below:

Cash and cash equivalents:

Cash and cash equivalents comprise cash on hand, term deposits held with banks, other short-term highly-liquid investments with original maturities of three months or less, and are measured at amortized cost.

Other:

Other non-derivative financial instruments, such as accounts receivable, deposits, bank debt, senior unsecured notes and accounts payable and accrued liabilities, are measured at amortized cost using the effective interest method, less any impairment losses. The bank debt has a floating rate of interest and therefore the carrying value approximates the fair value. The senior unsecured notes are carried at amortized cost which approximates fair value.

(ii) Derivative financial instruments:

The Company has entered into certain financial derivative contracts in order to manage the exposure to market risks from fluctuations in commodity prices, interest rates and foreign exchange rates. These instruments are not used for trading or speculative purposes. The Company has not designated its financial derivative contracts as effective accounting hedges, and thus not applied hedge accounting, even though the Company considers all commodity contracts to be economic hedges. As a result, all financial derivative contracts are classified as fair value through profit or loss and are recorded on the statement of financial position at fair value. Transaction costs are recognized in profit or loss when incurred.

The Company has accounted for its forward physical delivery sales contracts, which were entered into and continue to be held for the purpose of receipt or delivery of non-financial items in accordance with its expected purchase, sale or usage requirements as executory contracts. As such, these contracts are not considered to be derivative financial instruments and have not been recorded at fair value on the statement of financial position. Settlements on these physical sales contracts are recognized in commodity sales from production and premium (loss) on risk management activities.

Embedded derivatives are separated from the host contract and accounted for separately if the economic characteristics and risks of the host contract and the embedded derivative are not closely related, a separate instrument with the same terms as the embedded derivative would meet the definition of a derivative, and the combined instrument is not measured at fair value through earnings. Changes in the fair value of separable embedded derivatives are recognized immediately in earnings.

(iii) Share capital:

Common shares are classified as equity. Incremental costs directly attributable to the issue of common shares and share options are recognized as a deduction from equity, net of any tax effects.

(iv) Interests in equity-accounted investees:

The Company's interests in equity-accounted investees comprises its ownership interest in its associate, Topaz.

Associates are those entities in which the Company has significant influence, but not control, over the financial and operating policies. Interests in associates are accounted for using the equity method. Subsequent to initial recognition, the consolidated financial statements include the Company's share of the profit or loss and dividends paid of equity accounted investees, until the date on which significant influence ceases.

(e) Property, plant and equipment and intangible exploration assets:

(i) Recognition and measurement:

Exploration and evaluation expenditures:

Pre-license costs are recognized in the statement of operations as incurred.

Exploration and evaluation costs, including the costs of acquiring licenses and directly attributable general and administrative costs, initially are capitalized as either tangible or intangible exploration and evaluation assets according to the nature of the assets acquired. The costs are accumulated in cost centers by well, field or exploration area pending determination of technical feasibility and commercial viability.

Exploration and evaluation assets are assessed for impairment if (i) sufficient data exists to determine technical feasibility and commercial viability, and (ii) facts and circumstances suggest that the carrying amount exceeds the recoverable amount.

The technical feasibility and commercial viability of extracting a mineral resource is considered to be determinable when proven and/or probable reserves are determined to exist. A review of each exploration licence or field is carried out, at least annually, to ascertain whether proven or probable reserves have been discovered. Upon determination of proved and/or probable reserves, intangible exploration and evaluation assets attributable to those reserves are first tested for impairment and then reclassified from exploration and evaluation assets to a separate category within property, plant and equipment referred to as oil and gas interests. The cost of undeveloped land that expires or any impairment recognized during a period is charged as additional depletion and depreciation expense.

Development and production costs:

Items of property, plant and equipment, which include oil and gas interests, are measured at cost less accumulated depletion and depreciation and accumulated impairment losses. Development and production assets are grouped into CGUs for impairment testing. The Company allocated its property, plant and equipment to the following CGUs: 'Deep Basin', 'Spirit River' and 'BC Montney'. When significant parts of an item of property, plant and equipment, including oil and natural gas interests, have different useful lives, they are accounted for as separate items (major components).

Gains and losses on disposal of an item of property, plant and equipment, including oil and gas interests, are measured as the difference between the fair value of the proceeds received or given up and the carrying value of the assets disposed, and are recognized in profit or loss.

(ii) Subsequent costs:

Costs incurred subsequent to the determination of technical feasibility and commercial viability and the costs of replacing parts of property, plant and equipment are recognized as oil and gas interests only when they increase the future economic benefits embodied in the specific asset to which they relate. All other expenditures are recognized in profit or loss as incurred. Such capitalized oil and gas interests generally represent costs incurred in developing proved and/or probable reserves and bringing in or enhancing production from such reserves, and are accumulated on a field or geotechnical area basis. The carrying amount of any replaced or sold component is derecognized. The costs of the day-to-day servicing of property, plant and equipment, including oil and gas interests are recognized in profit or loss as incurred.

(iii) Depletion and depreciation:

The Company depletes its net carrying value of oil and gas interests, excluding plants and facilities, using the unit-of-production method by reference to the ratio of production in the period to the related proved and probable oil and gas reserves, taking into account estimated forecasted future development costs necessary to bring those reserves into production.

The Company engages an independent third-party reserve evaluator to estimate the proved and probable oil and gas reserves at least annually. Proved and probable oil and gas reserves represent the estimated quantities of crude oil, condensate, natural gas and natural gas liquids which geological, geophysical and engineering data demonstrate with a specified degree of certainty to be recoverable in future years from known reservoirs and which are considered commercially producible. For interim consolidated financial statements, internal estimates of changes in reserves and forecasted future development costs are used for determining depletion for the period.

For other assets, depreciation is recognized in profit or loss on a straight-line basis over the estimated useful lives of each part of an item of property, plant and equipment. Undeveloped land is not depreciated.

The estimated useful lives for depreciable assets are as follows:

Plants and facilities	30 years
Office equipment	25% declining balance
Furniture and fixtures	25% declining balance

Depreciation methods, useful lives and residual values are reviewed at each reporting date.

(f) Impairment:

(i) Financial assets:

A financial asset is assessed at each reporting date to determine whether there is any objective evidence that it is impaired. A financial asset is considered to be impaired if objective evidence indicates that one or more events have had a negative effect on the estimated future cash flows of that asset.

An impairment loss in respect of a financial asset measured at amortized cost is calculated as the difference between its carrying amount and the present value of the estimated future cash flows discounted at the original effective interest rate.

Individually significant financial assets are tested for impairment on an individual basis. The remaining financial assets are assessed collectively in groups that share similar credit risk characteristics.

All impairment losses are recognized in profit or loss.

An impairment loss is reversed if the reversal can be related objectively to an event occurring after the impairment loss was recognized. For financial assets measured at amortized cost, the reversal is recognized in profit or loss.

(ii) Non-financial assets:

The carrying amounts of the Company's non-financial assets, other than E&E assets and deferred tax assets, are reviewed at each reporting date to determine whether there is any indication of impairment or reversal of impairment. If any such indication exists, then the asset's or CGUs recoverable amount is estimated. For goodwill and other intangible assets that have indefinite lives, or that are not yet available for use, an impairment test is completed each year. E&E assets are assessed for impairment when they are reclassified to property, plant and equipment, as oil and natural gas interests, and also if facts and circumstances suggest that the carrying amount exceeds the recoverable amount.

For the purpose of impairment testing, assets are grouped into CGUs. The estimated recoverable amount of an asset or a CGU is the greater of its value in use or its fair value less costs to sell.

In assessing the value in use, proved and probable oil and gas reserves, and the related cash flows, are discounted to their present value using a pre-tax discount rate that reflects current market assessment of the time value of money. Fair value is determined as the amount that would be obtained from the sale of the asset in an arm's length transaction between knowledgeable and willing parties. The forecasted oil and gas commodity prices used in the impairment test are based on period-end forecasted oil and gas commodity prices estimated by the Company's independent third-party reserve evaluators.

The goodwill acquired in an acquisition, for the purpose of impairment testing, is allocated to the CGUs that are expected to benefit from the synergies of the combination. E&E assets are allocated to the related CGUs when they are assessed for impairment, both at the time of triggering facts and circumstances as well as upon their eventual reclassification to property, plant and equipment.

An impairment loss is recognized if the carrying amount of an asset or its CGU exceeds its estimated recoverable amount. Impairment losses are recognized in profit or loss. Impairment losses recognized in respect of CGUs are allocated first to reduce the carrying amount of any goodwill allocated to the units and then to reduce the carrying amounts of the assets in the unit (group of units) on a pro-rata basis. Impairment losses recognized in prior years are assessed at each reporting date for any indications that the loss has decreased or no longer exists. An impairment loss is reversed if there has been a change in the estimates used to determine the estimated recoverable amount. An impairment loss is reversed only to the extent that the asset's carrying amount does not exceed the carrying amount that would have been determined, net of depletion and depreciation or amortization, if no impairment loss had been recognized.

(g) Provisions:

A provision is recognized if, as a result of a past event, the Company has a present legal or constructive obligation that can be estimated reliably, and it is probable that an outflow of economic benefits will be required to settle the obligation. Provisions are determined by discounting the expected future cash flows at a pre-tax "risk-free" rate that reflects current market assessments of the time value of money. Provisions are not recognized for future operating losses.

(i) Decommissioning obligations:

The Company recognizes the decommissioning obligations for the future costs associated with removal, site restoration and decommissioning costs. The Company's decommissioning obligation is recorded in the period in which it is incurred, discounted to its present value using the risk-free interest rate and the corresponding amount recognized by increasing the carrying amount of petroleum and natural gas assets. The asset recorded is depleted on a unit-of-production basis over the life of the reserves. The liability amount is increased each reporting period due to the passage of time and the amount of accretion is charged to earnings in the period. Revisions to the estimated timing of cash flows or to the original estimated undiscounted cost could also result in an increase or decrease to the obligation. Actual costs incurred upon settlement of the decommissioning obligation are charged against the obligation to the extent of the liability recorded.

(ii) Onerous contracts:

A provision for onerous contracts is recognized when the expected benefits to be derived by the Company from a contract are lower than the unavoidable cost of meeting its obligations under the contract. The provision is measured at the present value of the lower of the expected cost of terminating the contract and the expected net cost of continuing with the contract. Before a provision is established, the Company recognizes any impairment loss on associated assets.

(h) Revenue recognition:

Revenue from the sale of crude oil, condensate, natural gas and natural gas liquids is recorded when control of the product is transferred to the buyer based on the consideration specified in the contracts with customers. This usually occurs when the product is physically transferred at the delivery point agreed upon in the contract and legal title to the product passes to the customer. The Company evaluates its arrangements with third parties and partners to determine if the Company acts as the principal or as an agent. In making this evaluation, the Company considers if it obtains control of the product delivered or services provided, which is indicated by the Company having the primary responsibility for the delivery of the product or rendering of the service, having the ability to establish prices or having inventory risk. If the Company acts in the capacity of an agent rather than as a principal in a transaction, then the revenue is recognized on a net-basis, only reflecting the fee, if any, realized by the Company from the transaction.

Tariffs and tolls charged to other entities for use of pipelines and facilities owned by the Company are recognized as revenue as they accrue in accordance with the terms of the service or tariff and tolling agreements.

Royalty income is recognized as it accrues in accordance with the terms of the overriding royalty agreements.

(i) Finance income and expenses:

Interest income and expense is recognized as it accrues in profit or loss, using the effective-interest method.

(j) Income taxes:

Income tax expense comprises current and deferred tax. Income tax expense is recognized in profit or loss except to the extent that it relates to items recognized directly in equity, in which case it is recognized in equity.

Current tax is the expected tax payable on the taxable income for the year, using tax rates enacted or substantively enacted at the reporting date, and any adjustment to tax payable in respect of previous years.

Deferred tax is recognized on the temporary differences between the carrying amounts of assets and liabilities for financial reporting purposes and the amounts used for taxation purposes. Deferred tax is not recognized on the initial recognition of assets or liabilities in a transaction that is not a business combination. In addition, deferred tax is not recognized for taxable temporary differences arising on the initial recognition of goodwill. Deferred tax is measured at the tax rates that are expected to be applied to temporary differences when they reverse, based on the laws that have been enacted or substantively enacted by the reporting date. Deferred-tax assets and liabilities are offset if there is a legally enforceable right to offset, and they relate to income taxes levied by the same tax authority on the same taxable entity, or on different tax entities, but they intend to settle current tax liabilities and assets on a net basis or their tax assets and liabilities will be realized simultaneously.

A deferred-tax asset is recognized to the extent that it is probable that future taxable profits will be available against which the temporary difference can be utilized. Deferred-tax assets are reviewed at each reporting date and are reduced to the extent that it is no longer probable that the related tax benefit will be realized.

(k) Share-based payments:

The Company applies the fair-value method for valuing share option grants. Under this method, compensation cost attributable to all share options granted are measured at fair value at the grant date and expensed over the vesting period with a corresponding increase to contributed surplus. A forfeiture rate is estimated on the grant date and is adjusted to reflect the actual number of options that vest. Upon the exercise of the share options, consideration received, together with the amount previously recognized in contributed surplus, is recorded as an increase to share capital.

The fair-value method is also used for valuing restricted share units ("RSU") granted. Under this method, compensation cost attributable to all share units granted are measured at fair value at the grant date and expensed over the vesting period with a corresponding increase to contributed surplus. A forfeiture rate is estimated on the grant date and is adjusted to reflect the actual number of units that vest. At the time the restricted units vest, the Company will purchase common shares on the open market to be distributed to the RSU holder and is recorded as a decrease to contributed surplus.

(l) Per-share information:

Basic per-share information is computed by dividing net income attributable to shareholders by the weighted average number of common shares outstanding for the period. The treasury-stock method is used to determine the diluted per share amounts, whereby any proceeds from the share options, warrants or other dilutive instruments are assumed to be used to purchase common shares at the average market price during the period. The weighted average number of shares outstanding is then adjusted by the net change.

(m) Leased assets:

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

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

The right-of-use asset is subsequently depreciated using the straight-line method from the commencement date to the earlier of the end of the useful life of the right-of-use asset or the end of the lease term. The estimated useful lives of right-of-use assets are determined on the same basis as those of property, plant, and equipment. In addition, the right-of-use asset is periodically reduced by impairment losses, if any, and adjusted for certain re-measurements of the lease liability.

The lease liability is initially measured at the present value of the minimum lease payments that are not yet paid at the commencement date, discounted using the interest rate implicit in the lease or, if that rate cannot be readily determined, the Company's incremental borrowing rate for that asset. Generally, the Company uses its incremental borrowing rate as the discount rate. The lease liability is subsequently increased by the interest cost on the lease liability and decreased by lease payments made. It is remeasured when there is a change in future lease payments arising from a change in an index or rate, a change in estimate of the amount expected to be payable under a residual value guarantee, changes in the assessment of whether a purchase or extension option is reasonably certain to be exercised or a termination option is reasonably certain not to be exercised.

The Company has elected not to recognize right-of-use assets and lease liabilities for short-term leased assets that have a lease term of 12 months or less and leases of low-value assets defined as less than $5,000 USD or less. The Company recognizes the lease payments associated with these leases as an expense on a straight-line basis over the lease term.

(n) Borrowing costs:

Borrowing costs incurred for the acquisition, construction, or production of qualifying assets are capitalized during the period of time that is required to complete and prepare the asset for its intended use or sale. Assets are considered to be qualifying assets when this period of time is substantial. The capitalization rate, used to determine the amount of borrowing costs to be capitalized, is the weighted average interest rate applicable to the Company's outstanding borrowings during the period. All other borrowing costs are charged to profit or loss using the effective interest method.

(o) Common control transactions:

Business combinations involving entities under common control are outside the scope of IFRS 3 - *Business Combinations*. Since IFRS provides no guidance on the accounting for these types of transactions, the Company is required to develop an accounting policy. The most common methods utilized are the fair value method, or the book value method. A business combination involving entities under common control is a business combination in which all of the combining entities are ultimately controlled by the same party, both before and after the business combination, and control is not transitory. Management determined the book value method to be the most appropriate method.

(p) Government grants:

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

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.

(i) Property, plant and equipment and intangible exploration assets:

The acquisition date fair value of property, plant and equipment recognized in a business combination, is based on fair value. The fair value of property, plant and equipment is the estimated amount for which property, plant and equipment could be exchanged on the acquisition date between a willing buyer and a willing seller in an arm's-length transaction after proper marketing wherein the parties had each acted knowledgeably, prudently and without compulsion. The estimated acquisition-date fair value of the property, plant and equipment involves estimates including the estimate of proved and probable oil and gas reserves, the related cash flows and the discount rates. The risk-adjusted discount rate is specific to the asset with reference to general market conditions.

The fair value of other items of property, plant and equipment is based on the quoted market prices for similar items.

(ii) Cash and cash equivalents, accounts receivable, deposits, accounts payable and accrued liabilities, and bank debt and senior unsecured notes:

The fair value of cash and cash equivalents, accounts receivable, deposits, and accounts payable and accrued liabilities is estimated as the present value of future cash flow, discounted at the market rate of interest at the reporting date. At December 31, 2022 and December 31, 2021, the fair value of these balances approximated their carrying value due to their short term to maturity. Bank debt bears interest at a floating market rate with applicable variable margins, and accordingly the fair market value approximates the carrying amount. The fair value of the senior unsecured notes is determined based on the market prices.

(iii) Derivatives:

The fair value of financial commodity price risk management contracts is determined by discounting the difference between the contracted prices and published forward price curves as at the statement of financial position date, using the remaining contracted oil and natural gas volumes and a risk-free interest rate (based on published government rates). The fair value of options and costless collars is based on option models that use published information with respect to volatility, prices and interest rates.

The Company determines the fair value of embedded derivatives, 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 and discount rates. When determining fair value estimates the Company attempts to maximize the use of observable inputs and minimize the use of unobservable inputs.

(iv) Share based payments:

The fair value of share options is measured using a Black-Scholes option-pricing model. Measurement inputs include share price on measurement date, exercise price of the instrument, expected volatility (based on weighted average historic volatility), expected forfeitures, weighted average expected life of the instruments (based on historical experience and general option holder behaviour), expected dividends, and the risk-free interest rate (based on government bonds).

The fair value of RSUs is measured using the share price at the date of the grant.

(v) Measurement:

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 following tables provide fair value measurement information for financial assets and liabilities as of December 31, 2022 and December 31, 2021. The carrying value of cash and cash equivalents, accounts receivable, deposits, accounts payable and accrued liabilities included in the consolidated statement of financial position approximate fair value due to the short-term nature of those instruments. These assets and liabilities are not included in the following tables.

	As at December 31, 2022	
(000s)	**Carrying Amount**	**Fair Value**
Financial assets:		
Commodity price and foreign exchange rate risk contracts [(1)]	**$ 234,959**	**$ 234,959**
Natural gas embedded derivatives [(2)]	**2,045,323**	**2,045,323**
Financial liabilities:		
Bank debt	**170,767**	**170,767**
Senior unsecured notes	**448,342**	**394,280**
Commodity price and foreign exchange rate risk contracts [(1)]	**$ 503,799**	**$ 503,799**

(1) Commodity price, interest rate and foreign exchange rate risk contracts are fair valued using Level 2 information.
(2) Natural gas embedded derivatives are fair valued using Level 3 information.

	As at December 31, 2021	
(000s)	**Carrying Amount**	**Fair Value**
Financial assets:		
Commodity price and foreign exchange rate risk contracts [(1)]	$ 19,590	$ 19,590
Financial liabilities:		
Bank debt	421,539	421,539
Senior unsecured notes	448,035	448,035
Commodity price and foreign exchange rate risk contracts [(1)]	$ 344,096	$ 344,096

(1) Commodity price and foreign exchange rate risk contracts are fair valued using Level 2 information.

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.

(a) Credit risk:

Credit risk is the risk of financial loss to the Company if a customer or counterparty to a financial instrument fails to meet its contractual obligations and arises principally from the Company's receivables from jointly-owned assets and oil and natural gas marketers. As at December 31, 2022, Tourmaline's receivables consisted of $1.0 billion from oil and natural gas marketers and financial institutions (December 31, 2021 - $0.6 billion), $40.3 million from partners in jointly-owned assets (December 31, 2021 - $56.9 million), and $23.1 million from provincial governments (December 31, 2021 - $13.0 million).

Receivables from oil and natural gas marketers are normally collected on the 25th day of the month following production. The Company sells a significant portion of its oil and gas to a limited number of counterparties. In 2022, Tourmaline had one counterparty (2021 – one) that individually accounted for more than ten percent of annual revenues. The Company's policy to mitigate credit risk associated with these balances is to establish marketing relationships with creditworthy purchasers. Tourmaline historically has not experienced any collection issues with its oil and natural gas marketers. Receivables from partners are typically collected within one to three months of the bill being issued to the partner. The Company attempts to mitigate the risk from receivables with partners by obtaining partner approval of significant capital expenditures prior to the expenditure. The receivables, however, are from participants in the oil and natural gas sector, and collection of the outstanding balances are dependent on industry factors such as commodity price fluctuations, escalating costs and the risk of unsuccessful drilling. In addition, further risk exists with joint asset partners as disagreements occasionally arise that increase the potential for non-collection. To further mitigate collection risk, the Company has the ability to obtain the partners' share of capital expenditures in advance of a project. The Company does not typically obtain collateral from oil and natural gas marketers or joint asset partners; however, the Company does have the ability to withhold production from partners in the event of non-payment.

The Company monitors the age of, and investigates issues behind, its receivables that have been past due for over 90 days. At December 31, 2022, the Company has $3.2 million (December 31, 2021 - $7.6 million) over 90 days. The Company is satisfied that these amounts are substantially collectible.

The carrying amount of cash and cash equivalents, accounts receivable, deposits and commodity price risk management contracts represents the maximum credit exposure. The Company has not recorded an expected credit loss as at December 31, 2022 (December 31, 2021 - nil) nor was it required to write-off any receivables during the year ended December 31, 2022 (December 31, 2021 – nil).

(b) Liquidity risk:

Liquidity risk is the risk that the Company will not be able to meet its financial obligations as they come due. The Company's approach to managing liquidity is to ensure that it will have sufficient liquidity to meet its liabilities when due, under both normal and stressed conditions without incurring unacceptable losses or risking harm to the Company's reputation. Liquidity risk is mitigated by cash on hand, when available, and access to credit facilities.

The Company's accounts payable and accrued liabilities balance at December 31, 2022 is $1.0 billion (December 31, 2021 - $0.8 billion). It is the Company's policy to pay suppliers within 45-75 days. These terms are consistent with industry practice. As at December 31, 2022, substantially all of the account payable balances were less than 90 days.

The Company prepares annual capital expenditure budgets, which are regularly monitored and updated as considered necessary. Further, the Company utilizes authorizations for expenditures on both operated and non-operated projects to further manage capital expenditures. The Company also attempts to match its payment cycle with collection of oil and natural gas revenues on the 25th of each month.

The following are the contractual maturities of financial liabilities, including estimated interest payments, at December 31, 2022:

(000s)	Carrying Amount	Contractual Cash Flow	Less Than One Year	One to Two Years	Two to Five Years	More Than Five Years
Non-derivative financial liabilities:						
Accounts payable and accrued liabilities	$ 1,012,542	$ 1,012,542	$ 1,012,542	$ –	$ –	$ –
Bank debt [1]	170,767	170,767	–	–	170,767	–
Senior unsecured notes [2]	448,342	508,044	10,378	10,378	31,136	456,152
Derivative financial liabilities:						
Financial commodity contracts	379,373	379,373	280,686	80,112	18,575	–
Financial foreign currency contracts	124,426	124,426	97,337	27,089	–	–
	$ 2,135,450	**$ 2,195,152**	**$ 1,400,943**	**$ 117,579**	**$ 220,478**	**$ 456,152**

(1) Includes interest expense at 5.93% being the rate applicable to outstanding debt on the credit facility at December 31, 2022 and interest paid at the maturity of the facility.

(2) Includes interest expense at 2.31% being the average rate applicable on the senior unsecured notes at December 31, 2022 with interest payments made semi-annually.

(c) Market risk:

Market risk is the risk that changes in market conditions, such as commodity prices, interest rates and foreign exchange rates will affect the Company's net income or value of financial instruments. The objective of market risk management is to manage and curtail market risk exposure within acceptable limits, while maximizing the Company's returns.

The Company utilizes both financial derivatives and physical delivery sales contracts to manage market risks. All such transactions are conducted in accordance with the risk management policy that has been approved by the Board of Directors.

Currency risk is the risk that cash flows will fluctuate as a result of changes in the exchange rate between the US and Canadian dollar. The Company is exposed to currency risk as a result of its sales point diversification strategy whereby the Company sells to US markets and receives US dollars. The Company mitigates this risk by entering into foreign currency swaps in order to protect itself from large movements in the US to Canadian dollar exchange rate. Changes in the US to Canadian dollar exchange rate could also influence future oil and natural gas prices which could impact the value of certain derivative contracts. For the currency swaps in place at December 31, 2022 a $0.01 change in the US to Canadian dollar exchange rate, assuming all other variables remained constant, would increase or decrease shareholders' equity and net income by $6.9million (December 31, 2021 - $0.3 million).

Interest rate risk is the risk that future cash flows will fluctuate as a result of changes in market interest rates. The Company is exposed to interest rate risk to the extent that changes in market interest rates will impact the Company's bank debt which is subject to a floating interest rate. Assuming all other variables remain constant, an increase or decrease of 1% in market interest rates for the year ended December 31, 2022 would have decreased or increased shareholders' equity and net income by $6.1 million (December 31, 2021 - $12.4 million). The realized loss on the interest rate swap has been included in finance expenses on the consolidated statement of income and comprehensive income.

Commodity price risk is the risk that the fair value or future cash flow will fluctuate as a result of changes in commodity prices. Commodity prices for oil and natural gas are based upon the US dollar and as a result the price received by Canadian producers is affected by the Canadian to US dollar exchange rate. The commodity prices are also impacted by world economic events that dictate the levels of supply and demand. As at December 31, 2022, the Company has entered into certain financial derivative and physical delivery sales contracts in order to manage commodity 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. As a result, all such financial commodity 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 Company has not offset any financial assets and liabilities, in the consolidated statements of financial position.

The Company has the following financial commodity derivative contracts in place as at December 31, 2022 [(1)]:

		2023	**2024**	**2025**	**2026**	**2027**	**Fair Value *(000s)***
Gas							
AECO swaps [(2)]	*mmbtu/d*	44,262	18,917	–	–	–	$ (33,289)
	CAD$/mmbtu	$ 2.27	$ 2.26				
NYMEX swaps	*mmbtu/d*	198,329	80,000	60,000	60,000	20,000	$ (111,156)
	USD$/mmbtu	$ 3.35	$ 3.94	$ 4.14	$ 4.14	$ 4.36	
International swaps	*mmbtu/d*	26,685	11,694	5,000	–	–	$ 188,261
	USD$/mmbtu	$ 34.20	$ 27.13	$ 30.00			
Basis differentials - other	*mmbtu/d*	37,500	27,500	–	–	–	$ (125,057)
	USD$/mmbtu	$ 0.29	$ 0.28				
AECO financial collars	*mmbtu/d*	16,087	3,535	–	–	–	$ (12,711)
	CAD$/mmbtu	$2.27-2.73	$2.41-2.85				
Call options (writer) [(3)]	*mmbtu/d*	34,932	20,000	10,000	10,000	–	$ (13,394)
	USD$/mmbtu	$ 8.43	$ 8.00	$ 9.00	$ 9.00		

		2023	2024	2025	2026	2027	Fair Value *(000s)*
Oil							
Financial swaps	*bbls/d*	7,240	1,500	–	–	–	$ (6,713)
	USD$/bbl	$ 76.76	$ 77.32				
Financial swaps	*bbls/d*	650	249	–	–	–	$ (13,197)
	CAD$/bbl	$ 64.09	$ 63.95				
Financial collars	*bbls/d*	400	–	–	–	–	$ (5,348)
	CAD$/bbl	$ 58.25-70.24					
WTI call options	*bbls/d*	2,581	–	–	–	–	$ (21,417)
	USD$/bbl	$ 68.67					
Propane financial swaps [(4)]	*bbls/d*	3,412	–	–	–	–	$ 6,483
	USD$/bbl	$ 39.31					
Total fair value							$ (147,538)

(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's financial commodity contracts are sensitive to fluctuations in commodity prices. For the commodity contracts in place at December 31, 2022, if the future strip prices for oil were US $1.00 per bbl higher and prices for natural gas were US $0.10 per mcf higher, with all other variables held constant, the unrealized gain would decrease by $39.1 million, directly impacting pre-tax earnings (December 31, 2021 - $44.7 million increase in the unrealized loss). An equal and opposite impact would have occurred if oil prices were US $1.00 per bbl lower and gas prices were US $0.10 per mcf lower.

The Company has entered into the following financial commodity derivative contracts subsequent to December 31, 2022:

Type of Contract	Quantity	Time Period	Contract Price
NYMEX call option	2,500 mmbtu/d	January 2028 – December 2030	$10.00 USD/mmbtu
Financial swaps – propane	1,915 bbls/d	January 2023 – December 2023	$32.86 USD/bbl

The Company has the following financial foreign currency derivative contracts in place at December 31, 2022:

		2023	2024	Fair Value *(000s)*
Collar	*$USD(000s) Monthly*	$ 108,000	$ 62,000	$ (75,504)
	$CAD/$USD	$ 1.268 – $ 1.385	$ 1.279 – $ 1.411	
Average rate forward	*$USD(000s) Monthly*	$ 58,000	$ 17,000	$ (45,798)
	$CAD/$USD	$ 1.302	$ 1.301	
Total fair value				$ (121,302)

The Company has not entered into any foreign currency derivative contracts subsequent to December 31, 2022.

In November 2021, the Company unwound its portfolio of interest rate swaps which resulted in a realized loss of $4.9 million included in finance expense on the consolidated statements of income and comprehensive income.

In July 2021, the Company entered into a 15-year natural gas supply agreement ("JKM 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 JKM natural gas supply 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 JKM natural gas supply agreement contained an embedded derivative as a result of the pricing spread between forecasted JKM and NYMEX prices. The Company defined the host contract as a natural gas sales contract with an underlying natural gas price of NYMEX.

The Company will have unrealized gains (losses) on the JKM natural gas supply agreement embedded derivative based on the movements in the forecasted JKM and NYMEX prices. The Company will not have realized gains (losses) on the natural gas embedded derivative until the Company begins delivering natural gas, commencing in January 2023. For the twelve months ended December 31, 2022, the JKM natural gas supply agreement embedded derivative resulted in an unrealized gain of $2.0 billion as a result of the strengthening of the forecast JKM price relative to the forecast NYMEX price. At December 31, 2022, the Company recorded a level 3 fair value of the JKM natural gas supply agreement embedded derivative of $2.0 billion.

The following table includes quantitative information for the unobservable inputs for the Level 3 natural gas embedded derivative as at December 31, 2022:

	Fair value asset (millions)	Valuation Approach	Significant unobservable input	Range of significant unobservable inputs/weighted average
Natural gas embedded derivative	$2,024.2	Market approach incorporating present value techniques	JKM index pricing spread relative to NYMEX	167% - 610% / 329%

The Level 3 fair value measurements of the JKM natural gas supply agreement embedded derivative could be materially impacted by a change in the discount rate and significant movements in natural gas prices. At December 31, 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 JKM natural gas supply agreement embedded derivative:

(000s)	Discount rate		JKM Price	
	1% Increase	1% decrease	5% Increase	5% decrease
Fair value – increase (decrease)	$ (28,182)	$ 29,350	$ 200,139	$ (200,139)

The following table is a summary of the fair value of financial instruments as at December 31, 2022:

(000s)	**Financial derivative contracts**	**Foreign currency derivative contracts**	**Natural gas embedded derivatives [1]**	**Total**
Current asset	$ 161,737	$ 900	$ 924,672	$ 1,087,309
Long-term asset	70,098	2,224	1,120,651	1,192,973
Current liability	(280,686)	(97,337)	–	(378,023)
Long-term liability	(98,687)	(27,089)	–	(125,776)
Total fair value of financial instruments	**$ (147,538)**	**$ (121,302)**	**$ 2,045,323**	**$ 1,776,483**

(1) Includes the JKM natural gas supply agreement embedded derivative and a natural gas to power supply agreement embedded derivative.

The following table provides a summary of the unrealized gains and losses on financial instruments for the years ended December 31, 2022 and 2021:

	Years Ended December 31,	
(000s)	**2022**	**2021**
Unrealized gain (loss) on financial instruments – commodity contracts	**$ 163,640**	$ (108,053)
Unrealized gain on financial instruments – interest rate swaps	**–**	29,146
Unrealized (loss) on financial instruments – foreign currency	**(107,974)**	(14,342)
Unrealized gain on financial instruments – natural gas embedded derivatives [1]	**2,045,323**	–
Total unrealized gain (loss) on financial instruments	**$ 2,100,989**	$ (93,249)

(1) Includes the JKM natural gas supply agreement embedded derivative and a natural gas to power supply agreement embedded derivative.

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

The Company has the following physical commodity sale contracts in place at December 31, 2022 [(1)(6)]:

		2023	2024	2025	2026	2027
Gas						
Fixed price [2]	*mmbtu/d*	513,016	233,458	189,563	52,130	18,956
	CAD$/mmbtu	$ 4.98	$ 4.38	$ 4.43	$ 4.38	$ 4.22
Basis differentials – AECO [3]	*mmbtu/d*	203,247	120,833	81,726	63,452	–
	USD$/mmbtu	$ (0.74)	$ (0.69)	$ (0.67)	$ (0.63)	
Basis differentials – Dawn	*mmbtu/d*	20,000	16,667	10,000	10,000	8,329
	USD$/mmbtu	$ (0.08)	$ (0.06)	$ (0.04)	$ (0.04)	$ (0.04)
Basis differentials – Hunt [4]	*mmbtu/d*	16,658	–	–	–	–
	USD$/mmbtu	$ (0.50)				
Basis differentials – Other [5]	*mmbtu/d*	77,514	62,500	35,000	–	–
	USD$/mmbtu	$ 0.69	$ (0.09)	$ (0.24)		

(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 Kingsgate.

(3) A portion of these basis deals have a cap on NYMEX, 43.3 mmcf/d at USD$4.49/mcf from 2023-2024.

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

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

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

The Company has entered into the following physical commodity contracts subsequent to December 31, 2022:

Type of Contract	Quantity	Time Period	Contract Price
Fixed price – Gas	15,000 GJ/d	February 2023	$20.83 CAD/GJ
Fixed price – Gas	10,000 GJ/d	February 2023 – October 2023	$6.75 CAD/GJ
Basis differentials	2,500 mmbtu/d	January 2028 – December 2030	$(0.37) USD/mmbtu

(d) 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 December 31, 2022, the Company's ratio of net debt to annualized cash flow was 0.09 to 1.00 (December 31, 2021 – 0.25 to 1.00).

	As at December 31,	
(000s)	**2022**	**2021**
Net debt:		
Working capital (deficit)	**$ 809,449**	$ (361,034)
Fair value of financial instruments – short-term liability (asset)	**(709,286)**	240,970
Lease liabilities – short-term	**3,109**	2,997
Decommissioning obligations – short-term	**30,000**	20,103
Unrealized foreign exchange in working capital – (asset) liability	**(8,605)**	(6,441)
Adjusted working capital	**$ 124,667**	$ (103,405)
Bank debt	**(170,767)**	(421,539)
Senior unsecured notes	**(448,342)**	(448,035)
Net debt	**$ (494,442)**	$ (972,979)
Annualized cash flow:		
Cash flow from operating activities for Q4	**$ 1,115,399**	$ 1,058,460
Current tax expense for Q4	**(7,599)**	–
Change in non-cash working capital	**294,847**	(90,224)
Cash flow for Q4	**$ 1,402,647**	$ 968,236
Annualized cash flow (based on most recent quarter annualized)	**$ 5,610,588**	$ 3,872,944
Net debt to annualized cash flow	**0.09**	0.25

During the year ended December 31, 2022, the Company increased its quarterly dividend from $0.18 per share to $0.25 per share and paid special dividends of $1.25, $1.50, $2.00 and $2.25 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 (*note 11*)	(32,476)
As at December 31, 2021	$ 369,882
Transfers to property, plant and equipment *(note 6)*	(46,234)
Divestitures	(2,068)
Expired mineral leases	(32,530)
As at December 31, 2022	**$ 289,050**

E&E assets consist of the Company's exploration projects which are pending the determination of proven and/or probable reserves. Additions represent the Company's share of costs on E&E assets during the year. Expired mineral lease expenses have been included in the "Depletion, Depreciation, Amortization and Impairment" line item on the consolidated statements of income and comprehensive income.

Impairment Assessment

At December 31, 2022 and 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

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	1,698,663
Transfers from exploration and evaluation *(note 5)*	46,234
Change in decommissioning liabilities *(note 8)*	(89,211)
Corporate acquisitions	306,837
Property acquisitions	304,160
Divestitures	(76,936)
As at December 31, 2022	**$ 21,572,150**

Accumulated Depletion, Depreciation and Amortization

(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 (*note 11*)	(783,416)
As at December 31, 2021	$ 5,918,825
Depletion, depreciation and amortization	1,148,564
Divestitures	(421)
As at December 31, 2022	**$ 7,066,968**

Net Book Value

(000s)	
As at December 31, 2021	$ 13,463,578
As at December 31, 2022	**$ 14,505,182**

Forecasted future development costs for the year ended December 31, 2022 of $13.6 billion (December 31, 2021 - $11.0 billion) were included in the depletion calculation. The Company recorded depletion expense related to its oil and gas interests of $1.1 billion for the year ended December 31, 2022 (December 31, 2021 - $1.0 billion).

Capitalization of G&A, Share-Based Payments and Borrowing costs

A total of $46.7 million in G&A expenditures have been capitalized and included in PP&E assets at December 31, 2022 (December 31, 2021 - $38.4 million). Also included in PP&E are non-cash share-based payments of $21.7 million at December 31, 2022 (December 31, 2021 - $12.0 million). At December 31, 2022, there were nil in capitalized borrowing costs on specified projects included in PP&E (December 31, 2021 – $1.1 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 December 31, 2022, the Company did not identify indicators of impairment on any of its CGUs; therefore an impairment test was not performed. The Company has no CGUs with historical impairment that have not been fully reversed.

At December 31, 2021, the Company identified 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.

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 consolidated statement of income and comprehensive income.

Results from operations for Rising Star are included in the Company's 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 consolidated statements of income and comprehensive income for the year ended December 31, 2022, are the following amounts relating to Rising Star since August 10, 2022:

(000s)	Rising Star
Commodity sales from production	$ 30,675
Net income and comprehensive income attributable to common shareholders	$ 3,959

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 year ended December 31, 2022 would have been as follows:

(000s)	As Stated	Rising star	Pro Forma Year ended December 31, 2022
Commodity sales from production	$ 8,110,837	$ 103,636	$ 8,214,473
Net income and comprehensive income attributable to common shareholders	$ 4,487,049	$ 22,624	$ 4,509,673

Black Swan Energy Ltd.

On July 15, 2021, the Company acquired all of the issued and outstanding shares of Black Swan. As consideration, the Company issued 26.0 million common shares at a price of $34.48 per common share for consideration of $896.5 million, as well as the assumption of working capital. Total transaction costs incurred by the Company of $2.8 million associated with this acquisition were expensed in the consolidated statement of income and comprehensive income. The acquisition of Black Swan is part of the Company's consolidation activities in Northeast BC and provides for an increase in developed lands, production and infrastructure including a working interest in two natural gas processing plants.

Results from operations for Black Swan are included in the Company's consolidated financial statements from the closing date of the transaction. The estimated acquisition date fair value of PP&E was derived from the estimate of proved and probable oil and gas reserves and the related cash flows prepared at December 31, 2020 by independent third-party reserve evaluators engaged by Black Swan and updated by internal reserve evaluators to the acquisition date. 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)	Black Swan
Fair value of net assets acquired:	
Working capital	$ 10,235
Property, plant and equipment	1,438,462
Right-of-use assets	1,343
Financial instruments (net)	(151,166)
Lease Liabilities	(1,343)
Decommissioning obligations	(10,333)
Bank debt	(345,983)
Deferred income tax liability	(44,735)
Total	$ 896,480
Consideration:	
Shares issued	$ 896,480

Included in the consolidated statements of income and comprehensive income for the year ended December 31, 2021 are the following amounts relating to Black Swan since July 15, 2021:

(000s)	Black Swan
Commodity sales from production	$ 289,490
Net income and comprehensive income attributable to common shareholders	$ 93,903

If the Company had acquired Black Swan on January 1, 2021, the pro-forma results of the oil and gas sales and net income and comprehensive income for the year ended December 31, 2021 would have been as follows:

(000s)	As Stated	Black Swan	Pro Forma Year ended December 31, 2021
Commodity sales from production	$ 5,053,611	$ 217,582	$ 5,271,193
Net income and comprehensive income attributable to common shareholders	$ 2,025,991	$ (36,856)	$ 1,989,135

Acquisitions of Oil and Natural Gas Properties

2022

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.

2021

On January 24, 2021, Topaz acquired a 49.5% working interest in certain water infrastructure assets for cash consideration of $12.0 million, before customary closing adjustments. The acquisition resulted in an increase in PP&E of approximately $14.0 million and the assumption of $2.0 million in decommissioning liabilities.

On March 25, 2021, Topaz acquired a royalty interest on developed and undeveloped lands in the Clearwater area of Alberta for cash consideration of $13.7 million, before customary closing adjustments. The acquisition resulted in an increase in PP&E of approximately $13.7 million.

On April 1, 2021, Tourmaline acquired infrastructure assets in NEBC for cash consideration of $54.9 million, before customary closing adjustments. The acquisition resulted in an increase in PP&E of approximately $55.2 million and decommissioning obligations of $0.3 million.

On April 1, 2021, Tourmaline acquired assets in the Doe area of NEBC for cash consideration of $30.0 million, before customary closing adjustments. The acquisition resulted in an increase in PP&E of approximately $30.4 million and decommissioning obligations of $0.4 million.

On April 15, 2021, Tourmaline acquired a 50% working interest of the assets of Saguaro Resources Ltd. in the Laprise-Conroy area of NEBC for cash consideration of $205.0 million, before customary closing adjustments. The acquisition resulted in an increase in PP&E of approximately $217.9 million and decommissioning obligations of $12.9 million.

On May 18, 2021, Topaz acquired a royalty interest on developed and undeveloped lands in the Marten Hills Clearwater area of Alberta for cash consideration of $102.0 million, before customary closing adjustments. The acquisition resulted in an increase in PP&E of approximately $102.0 million.

On May 31, 2021, Topaz acquired Reserve Royalty Commercial Trust ("Reserve Royalty") and its subsidiaries, which hold all the Reserve Royalty assets. As consideration, Topaz issued 1.8 million common shares at a price of $14.49 per common share for consideration of $26.0 million and a working capital adjustment of $1.3 million which was paid in cash. The acquisition resulted in an increase in PP&E of approximately $26.0 million.

On June 1, 2021, Topaz acquired a royalty interest on developed and undeveloped lands in the Peace River High area of Alberta for cash consideration of $32.0 million, before customary closing adjustments. The acquisition resulted in an increase in PP&E of approximately $32.0 million.

On July 15, 2021, the Company acquired assets in the Birch area of NEBC for total consideration of $85.6 million, before customary closing adjustments. The acquisition resulted in an increase in PP&E of approximately $87.9 million and decommissioning obligations of $2.3 million.

On November 30, 2021, Tourmaline acquired assets in the Deep Basin for cash consideration of $23.7 million, before customary closing adjustments. The acquisition resulted in an increase in PP&E of approximately $24.3 million and decommissioning obligations of $0.6 million.

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

Disposition of Oil and Natural Gas Properties

2022

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 year ended December 31, 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.

2021

On July 1, 2021, the Company sold a royalty interest on some of its developed and undeveloped lands in NEBC along with a working interest in the Gundy deep cut gas processing facility to Topaz for cash consideration of $245.0 million, before customary closing adjustments. The transaction resulted in a gain on disposition of $186.8 million which was recorded in the Company's consolidated statements of income and comprehensive income for the year ended December 31, 2021.

On August 1, 2021, Tourmaline sold a royalty interest on both the Black Swan and Birch lands discussed above to Topaz for cash consideration of $145.0 million, before customary closing adjustments. The transaction resulted in a gain on disposition of $57.1 million which was recorded in the consolidated statements of income and comprehensive income for the year ended December 31, 2021.

Total Acquisitions and Dispositions of Oil and Natural Gas Properties

In total, for the year ended December 31, 2022, the Company completed property acquisitions for cash consideration of $273.8 million, including the acquisitions discussed above (December 31, 2021 - $545.9 million) and $9.5 million in acquisitions for non-cash consideration (December 31, 2021 - $89.4 million). The Company assumed $20.9 million in decommissioning liabilities as a result of these acquisitions (December 31, 2021 - $27.3 million).

For the year ended December 31, 2022, the Company also completed property dispositions, including the dispositions discussed above, for total cash consideration of $71.5 million (December 31, 2021 - $392.6 million) and non-cash consideration of $9.5 million (December 31, 2021 – $21.5 million). The Company disposed of $26.3 million in decommissioning liabilities as a result of these dispositions (December 31, 2021 – $0.9 million).

7. LEASES

Right-of-use assets

(000s)	As at December 31, 2022	As at December 31, 2021
Balance, beginning of year	**$ 10,825**	$ 12,018
Additions	**1,463**	1,717
Modifications	**561**	(334)
Right-of-use assets acquired from corporate acquisitions (*note 6*)	**335**	1,343
Depreciation	**(3,422)**	(3,919)
Balance, end of year	**$ 9,762**	$ 10,825

Lease Liabilities

(000s)	As at December 31 2022	As at December 31, 2021
Balance, beginning of year	**$ 11,169**	$ 12,175
Additions	**1,463**	1,717
Modifications	**561**	(334)
Lease liabilities acquired from corporate acquisitions (*note 6*)	**335**	1,343
Lease interest expense	**319**	349
Lease payments	**(3,692)**	(4,081)
Balance, end of year	**$ 10,155**	$ 11,169
Current lease liabilities	**$ 3,109**	$ 2,997
Long-term lease liabilities	**$ 7,046**	$ 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. The total payments made for short-term and low-value leases were less than $0.1 million for the year ended December 31, 2022 which are not included in the lease liability (for the year ended December 31, 2021 – less than $0.1 million).

The Company has variable lease payments related to its office leases not included in the calculation of the Company's lease obligations. For the year ended December 31, 2022, the variable lease payments were $2.5 million and have been recognized in G&A expense in the statement of income and comprehensive income. The Company's lease liabilities are for periods of one to five years but may have extension options. The undiscounted cash flows relating to the lease liabilities included in the statement of financial position are as follows:

PAYMENTS DUE BY YEAR

(000s)	1 Year	2-3 Years	4-5 Years	>5 Years	Total
Lease payments including principal and interest	$ 3,408	$ 4,924	$ 2,497	$ –	$ 10,829

8. DECOMMISSIONING OBLIGATIONS

The Company's decommissioning obligations result from net ownership interests in oil and natural gas assets including well sites, gathering systems and processing facilities. The Company estimates the total inflated but undiscounted amount of cash flow required to settle its decommissioning obligations is approximately $1.3 billion (December 31, 2021 – $1.0 billion), with some abandonments expected to commence in 2023. A risk-free rate of 3.28% (December 31, 2021 – 1.68%) and an inflation rate of 2.09% (December 31, 2021 – 1.82%) were used to calculate the decommissioning obligations.

(000s)	**As at December 31 2022**	**As at December 31, 2021**
Balance, beginning of year	**$ 648,142**	$ 595,432
Obligation incurred	**21,058**	30,703
Obligation incurred on corporate acquisitions (*note 6*)	**25,367**	10,333
Obligation incurred on property acquisitions (*note 6*)	**20,850**	27,291
Obligation divested (*note 6*)	**(26,253)**	(871)
Obligation settled	**(32,995)**	(14,172)
Accretion expense	**21,153**	11,857
Change in future estimated cash outlays	**(110,269)**	(7,757)
Loss of control of Topaz	–	(4,674)
Balance, end of year	**$ 567,053**	$ 648,142
Current decommissioning obligations	**$ 30,000**	$ 20,103
Long-term decommissioning obligation	**$ 537,053**	$ 628,039

9. BANK DEBT

(000s)	**As at December 31, 2022**	**As at December 31, 2021**
Revolving credit facility	**$ 171,515**	$ 422,763
Debt issue costs	**(748)**	(1,224)
Bank debt	**$ 170,767**	$ 421,539

U.S. dollar LIBOR benchmarks were phased out on December 31, 2021. The U.S. LIBOR benchmarks were 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.

The Company has a covenant-based, unsecured, five-year extendible revolving credit facility in place with a syndicate of banks. The revolving credit facility is in the amount of $2.55 billion with a maturity date of June 2027. The maturity date may, at the request of the Company and with consent of the lenders, be extended on an annual basis. The revolving credit facility includes an expansion feature ("accordion") which allows the Company, upon approval from the lenders, to increase the facility amount by up to $500.0 million by adding a new financial institution or by increasing the commitment of its existing lenders. The revolving credit facility can be drawn in either Canadian or U.S. funds and bears interest at the agent bank's prime lending rate, banker's acceptance rates or SOFR (for U.S. borrowings), plus applicable margins.

Under the terms of the revolving credit facility, Tourmaline is subject to the following covenants, on a rolling four-quarter basis: (i) the ratio of adjusted EBITDA to interest expense must exceed 3:1, and (ii) the ratio of total debt[1] to total capitalization[1] must not exceed 0.6:1. At December 31, 2022, adjusted EBITDA for the purposes of the above-noted covenant calculations was $5.0 billion (December 31, 2021 - $3.0 billion), on a rolling four-quarter basis. At December 31, 2022, the ratio of adjusted EBITDA to interest expense was 167:1 and the ratio of total debt to total capitalization was 0.1:1. As at, and for the year ending, December 31, 2022, the Company is in compliance with all debt covenants.

Under the Company's credit facility "adjusted EBITDA" means generally net income or loss, excluding extraordinary items, plus interest expense and income taxes and adjusted for non-cash items and gains or losses on dispositions, "senior debt" means generally total debt that is secured and ranks in priority to the loan obligations, "total debt" means generally the sum of debt plus subordinated debt, (Tourmaline currently does not have any subordinated debt), and "total capitalization" means generally the sum of the Company's shareholders' equity and all other indebtedness of the Company including bank debt, all determined on a consolidated basis in accordance with GAAP.

For the year ended December 31, 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 loss due to the weakening of the Canadian dollar. Concurrent with the draw of U.S. dollar denominated borrowings, the Company entered into cross-currency swaps to offset the foreign currency risk resulting from holding U.S. dollar denominated borrowings. This transaction allows the Company to take advantage of the interest rate spread between CDOR and SOFR without taking on any foreign exchange risk.

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

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

Tourmaline has outstanding letters of credit in the amount of $54.9 million at December 31, 2022 (December 31, 2021 - $22.5 million) of which $30.0 million is secured by the operating facility and $24.9 million is secured by the demand facility, respectively.

The Company's aggregate borrowing capacity is $3.1 billion at December 31, 2022 including the bank debt and senior unsecured notes (note 10).

As at December 31, 2022, the Company had $170.8 million drawn against the revolving credit facility and $448.3 million of senior unsecured notes for total combined bank debt and senior unsecured notes of $619.1 million (net of debt issue costs) (December 31, 2021 - $869.6 million). The effective interest rate for the twelve months ended December 31, 2022 was 2.70% (year ended December 31, 2021 – 1.71%).

10. SENIOR UNSECURED NOTES

(000s)	As at December 31, 2022	As at December 31, 2021
Senior unsecured notes	$ 450,000	$ 450,000
Debt issue costs	(1,658)	(1,965)
Senior unsecured notes	$ 448,342	$ 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 December 31, 2022, the Company owned 31.3% of the outstanding common shares of its associate Topaz. A reconciliation of the investment in Topaz is provided below:

(000s)	As at December 31, 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 on investment in Topaz	**34,358**	7,998
Dividends received from Topaz	**(52,788)**	(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	**$ 648,229**	$ 745,924

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.

The following table summarizes the financial information of Topaz, as included in its own financial statements. The information for 2021 includes the results of Topaz only for the period from June 8, 2021 to December 31, 2021. Prior to June 8, 2021, Topaz was included in the consolidated financial statements of Tourmaline as a subsidiary.

	As at, and for the period ended December 31,	
(000s)	**2022**	**2021**
Current assets	**$ 69,471**	$ 48,341
Non-current assets	**1,766,261**	1,563,411
Current liabilities	**(4,523)**	(4,591)
Non-current liabilities	**(468,915)**	(282,236)
Net assets	**1,362,294**	1,324,925
Revenue	**356,735**	134,260
Net Income	**$ 99,355**	$ 20,495

The fair value of Tourmaline's investment in Topaz is $954.0 million, using the closing price of Topaz common shares on December 31, 2022 of $21.13 per share.

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

	Year Ended December 31, 2022		Year Ended December 31, 2021	
(000s) except share amounts	**Number of Shares**	**Amount**	**Number of Shares**	**Amount**
Balance, beginning of year	**330,860,313**	**$ 7,482,534**	296,571,516	$ 6,328,115
Issued on corporate and property acquisitions (*note 6*)	–	–	25,250,000	939,580
Purchase of common shares under NCIB	–	–	(220,000)	(4,493)
For cash on exercise of stock options (*note 16*)	**7,824,396**	**189,242**	7,238,797	171,517
Contributed surplus on exercise of stock options	–	**53,413**	–	47,815
Balance, end of year	**338,684,709**	**$ 7,725,189**	330,860,313	$ 7,482,534

Normal course issuer bid

Company has a normal course issuer bid ("NCIB") in place. On July 27, 2022, the Company renewed its NCIB allowing up to 16,800,668 common shares, representing 5% of its common shares outstanding at July 19, 2022, to be purchased over a period of twelve months commencing on August 2, 2022. Under the NCIB, common shares may be repurchased at prevailing market prices and any common shares that are purchased under the NCIB will be cancelled upon their purchase by the Company. For the year ended December 31, 2022, the Company did not purchase any common shares for cancellation.

Dividends

During the year ended December 31, 2022, the Company paid quarterly cash dividends of $0.90 per common share totalling $302.7 million. For the year ended December 31, 2021, the Company paid quarterly cash dividends of $0.67 per common share totalling $210.4 million.

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.

On November 18, 2022, the company paid a special dividend of $2.25 per common share totalling $761.2 million.

13. 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, condensate, 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 sale of produced commodities are under contracts of varying terms of up to fifteen years. Revenues are typically collected on the 25th day of the month following production.

The following table presents the Company's commodity sales disaggregated by revenue source:

	Years Ended December 31,	
(000s)	**2022**	2021
Natural gas		
Sales from production	**$ 5,114,700**	$ 3,179,662
Premium on risk management activities	**508,744**	14,112
	5,623,444	3,193,774
Oil		
Sales from production	**454,206**	286,745
Premium on risk management activities	**13,772**	5,709
	467,978	292,454
Condensate		
Sales from production	**1,400,798**	855,571
(Loss) on risk management activities	**(5,407)**	(5,878)
	1,395,391	849,693
NGL		
Sales from production	**1,141,133**	731,633
Marketing revenue [(1)]	**49,702**	54,044
Total		
Commodity sales from production	**8,110,837**	5,053,611
Premium on risk management activities	**517,109**	13,963
Marketing revenue	**49,702**	54,044
Revenue from contracts with customers	**$ 8,677,648**	$ 5,121,598

(1) Marketing revenue represents the sale of commodities purchased from third parties. For the year ended December 31, 2022, the Company had marketing purchases from third parties of $43.3 million (2021 - $48.4 million).

At December 31, 2022, receivables from contracts with customers, which are included in accounts receivable, were $1.0 billion ($0.6 billion at December 31, 2021).

14. INCOME TAXES

The major components of income tax expense for the years ended December 31, 2022 and 2021 were as follows:

	Years Ended December 31,	
	2022	**2021**
Current tax expense	**$ 11,934**	$ –
Deferred tax expense	**1,407,309**	494,017
	$ 1,419,243	$ 494,017

The provisions for deferred taxes in the consolidated statements of income and comprehensive income reflect an effective tax rate which differs from the expected statutory tax rate. Differences were accounted for as follows:

(000s)	Years Ended December 31,	
	2022	**2021**
Income before taxes	**$ 5,906,292**	$2,523,425
Canadian statutory rate [(1)(2)]	**24.16%**	23.92%
Expected income taxes at statutory rates	**1,426,960**	603,603
Effect on income tax of:		
Share-based payments	**7,149**	3,931
Gain on acquisitions	**(11,895)**	–
Gain on loss of control	**-**	(76,548)
Change in unrecognized tax benefit	**-**	(36,568)
Income from equity investments	**(10,406)**	(3,562)
Non-taxable portion of capital gain	**(3,998)**	(5,930)
Effect of change in corporate tax rate [(3)]	**10,126**	6,181
Other	**1,307**	2,910
Income tax expense	**$ 1,419,243**	$ 494,017

(1) The statutory rate consists of the combined statutory tax rate for the Company and its subsidiary for the year ended December 31, 2022.

(2) The BC corporate tax rate is 12%.

(3) The Alberta corporate tax rate is 8%.

The movement in deferred tax balances during the years ended December 31, 2022 and 2021 are as follows:

(000s)	Balance January 1, 2022	Recognized in Net Earnings	Acquired in business combination	Recognized in Equity/NCI	Balance December 31, 2022
Deferred tax liabilities:					
Exploration and evaluation and property, plant and equipment	$ 1,900,206	$ 245,862	$ 50,154	$ –	$ 2,196,222
Risk management contracts	(77,668)	506,861	–	–	429,193
Right-of-use asset	2,591	(394)	80	–	2,277
Long-term asset	903	(149)	–	–	754
Deferred tax assets:					
Decommissioning obligations	(155,127)	24,257	(6,071)	–	(136,941)
Lease liabilities	(2,674)	301	(80)	–	(2,453)
Share-based payments	–	–	–	(7,057)	(7,057)
Non-capital losses	(628,892)	628,892	–	–	–
Share issue costs	(2,064)	1,679	(14)	–	(399)
Deferred tax liability (asset)	$ 1,037,275	$1,407,309	$ 44,069	$ (7,057)	$ 2,481,596

(000s)	Balance January 1, 2021	Recognized in Net Earnings	Acquired in business combination	Recognized in Equity/NCI	Balance December 31, 2021
Deferred tax liabilities:					
Exploration and evaluation and property, plant and equipment	$ 1,336,947	$ 370,630	$ 197,832	$ (5,203)	$ 1,900,206
Right-of-use asset	2,842	(251)	–	–	2,591
Long-term asset	1,125	(222)	–	–	903
Deferred tax assets:					
Decommissioning obligations	(140,810)	(12,948)	(2,444)	1,075	(155,127)
Lease liabilities	(2,880)	206	–	–	(2,674)
Risk management contracts	(19,411)	(23,752)	(34,965)	460	(77,668)
Non-capital losses	(763,498)	157,922	(115,688)	92,372	(628,892)
Share issue costs	(8,579)	2,432	–	4,083	(2,064)
Deferred tax liability (asset)	$ 405,736	$ 494,017	$ 44,735	$ 92,787	$ 1,037,275

As at December 31, 2022, the Company has estimated federal tax pools of $5.5 billion (December 31, 2021 - $8.3 billion) available for deduction against future taxable income, including nil (December 31, 2021 - $2.6 billion) of unused tax losses.

Unrecognized deferred tax assets

At December 31, 2022, the Company had no unrecognized deferred tax assets.

Investments

The Company does not plan to dispose of investments in the foreseeable future, and therefore has measured deferred tax relating to these investments using the tax rates applicable to dividends, which are zero because such dividends are tax-exempt. As a result, no deferred tax has been recognized.

15. EARNINGS PER SHARE

Basic earnings per share was calculated as follows:

	Years Ended December 31,	
	2022	**2021**
Net income and comprehensive income attributable to shareholders of the Company for the year *(000s)*	**$ 4,487,049**	$2,025,991
Weighted average number of common shares – basic	**335,597,666**	311,966,446
Earnings per share – basic	**$ 13.37**	$ 6.49

Diluted earnings per share was calculated as follows:

	Years Ended December 31,	
	2022	**2021**
Net income and comprehensive income attributable to shareholders of the Company for the year *(000s)*	**$ 4,487,049**	$2,025,991
Weighted average number of common shares – diluted	**342,533,099**	316,788,967
Earnings per share – fully diluted	**$ 13.10**	$ 6.40

There were 3,765,675 options excluded from the weighted-average share calculation for the year ended December 31, 2022 because they were anti-dilutive (December 31, 2021 – 6,572,925).

At December 31, 2022, there were 338,684,709 basic common shares outstanding (December 31, 2021 – 330,860,313).

16. SHARE-BASED PAYMENTS

STOCK OPTION PLAN

The Company has a rolling stock option plan. Under the employee stock option plan, the Company may grant options to its employees up to 28,788,200 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.

	Years Ended December 31,			
	2022		**2021**	
	Number of Options	**Weighted Average Exercise Price**	**Number of Options**	**Weighted Average Exercise Price**
Stock options outstanding, beginning of year	**16,372,528**	**$ 24.83**	18,324,711	$ 22.12
Granted	**4,074,175**	**74.33**	5,685,325	32.35
Exercised	**(7,824,396)**	**24.19**	(7,238,797)	23.69
Expired	–	–	(262,911)	27.16
Forfeited	**(80,608)**	**40.27**	(135,800)	28.22
Stock options outstanding, end of year	**12,541,699**	**$ 41.22**	16,372,528	$ 24.83

The weighted average trading price of the Company's common shares was $66.97 during the year ended December 31, 2022 (December 31, 2021 – $32.43).

The following table summarizes stock options outstanding and exercisable at December 31, 2022:

Range of Exercise Price	**Number Outstanding at Period End**	**Weighted Average Remaining Contractual Life**	**Weighted Average Exercise Price**	**Number Exercisable at Year End**	**Weighted Average Exercise Price**
$9.39 – $17.84	3,215,246	4.28	15.88	1,943,267	15.15
$17.85 – $31.90	1,073,146	3.28	23.23	717,984	23.09
$31.91 – $32.11	3,487,963	5.43	31.96	660,848	31.96
$32.12 – $76.21	1,452,669	5.75	49.93	169,475	37.83
$76.22 – $80.06	3,312,675	6.69	77.57	–	–
	12,541,699	5.32	41.22	3,491,574	21.07

The fair value of options, granted during the year, was estimated on the date of grant using the Black-Scholes option-pricing model with the following weighted average assumptions and resulting values:

	Years Ended December 31,	
	2022	**2021**
Fair value of options granted (weighted average)	**$ 25.98**	$ 9.34
Risk-free interest rate	**3.21%**	0.88%
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**	$ 0.63

RESTRICTED SHARE UNIT ("RSU") PLAN

In the fourth quarter of 2022, the Company introduced a non-treasury based RSU plan whereby the Company granted RSUs to officers, employees, and consultants of the Company. The RSUs can be granted throughout the year and vest 1/3 on each of the first, second and third anniversaries from the date of grant. The RSUs will be settled on the vesting date in common shares purchased by an independent third-party service provider in the open market.

The following table summarizes the RSUs outstanding at December 31, 2022:

	Year Ended December 31,
	2022
RSUs outstanding, beginning of year	–
Granted	**237,328**
RSUs outstanding, end of year	**237,328**

The expense related to RSUs is calculated using the fair value method based on the Company's share price at the grant date and is recorded in share-based payments with a portion being capitalized.

17. OTHER INCOME

(000s)	Years Ended December 31, 2022	2021
Processing income	**$ 15,498**	$ 25,600
Power income	**18,880**	10,968
Other	**19,034**	9,166
Total other income	**$ 53,412**	$ 45,734

18. FINANCE EXPENSES

(000s)	Years Ended December 31, 2022	2021
Finance expenses:		
Interest on loans and borrowings	**$ 29,616**	$ 37,313
Capitalized borrowing costs (*note 6*)	–	(1,073)
Accretion of decommissioning obligations (*note 8*)	**21,153**	11,857
Lease interest (*note 7*)	**319**	349
Foreign exchange loss on U.S. denominated debt	**6,666**	25,587
Realized (gain) on cross-currency swaps	**(6,666)**	(25,587)
Realized loss on interest rate swaps	–	14,110
Transaction costs on corporate and property acquisitions	**439**	4,300
Total finance expenses	**$ 51,527**	$ 66,856

19. SUPPLEMENTAL DISCLOSURES

Tourmaline's consolidated statement of income and comprehensive income is prepared primarily by nature of the expenses, with the exception of salaries and wages which are included in both the operating and general and administrative expense line items as follows:

(000s)	Years Ended December 31, 2022	2021
Operating	**$ 57,676**	$ 49,903
General and administration	**57,133**	50,651
Total employee compensation costs	**$ 114,809**	$ 100,554

20. SUPPLEMENTAL CASH FLOW INFORMATION

Changes in non-cash working capital is comprised of:

	Years Ended December 31,	
(000s)	**2022**	**2021**
Source/(use) of cash:		
Accounts receivables	**$ (425,894)**	$ (239,997)
Prepaid expenses and deposits	**(37,218)**	(3,859)
Accounts payable and accrued liabilities	**235,948**	268,283
	$ (227,164)	$ 24,427
Related to operating activities	**$ (203,152)**	$ (82,009)
Related to investing activities	**$ (24,012)**	$ 106,436

Cash interest paid was $28.0 million for the year ended December 31, 2022 (December 31, 2021 - $32.7 million).

21. COMMITMENTS

In the normal course of business, Tourmaline 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)]	$ 3,848	$ 8,690	$ 5,773	$ 1,888	$ 20,199
Firm transportation agreements	934,888	1,723,377	1,401,022	5,169,104	9,228,391
Processing commitments [(2)]	131,827	260,604	241,773	476,057	1,110,261
Capital commitments [(3)]	68,404	–	–	–	68,404
Revolving credit facility [(4)]	–	–	269,288	–	269,288
Senior unsecured notes [(5)]	10,378	20,757	20,757	456,152	508,044
	$ 1,149,345	$ 2,013,428	$ 1,938,613	$ 6,103,201	$ 11,204,587

(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 5.93% being the rate applicable to outstanding debt on the credit facility at December 31, 2022 and interest paid at the maturity of the facility.

(5) Includes interest expense at 2.31% being the average rate applicable on the senior unsecured notes at December 31, 2022 with interest payments made semi-annually.

22. KEY MANAGEMENT PERSONNEL COMPENSATION

Key management personnel are persons who have the authority and responsibility for planning, directing and controlling the activities of the Company, directly or indirectly. Key management includes all directors and executive officers of the Company. The table below summarizes all key management personnel compensation included in the consolidated financial statements for the years ended December 31, 2022 and 2021.

Compensation of Key Management

	Years Ended December 31,	
(000s)	**2022**	**2021**
Short-term compensation [1]	**$ 15,660**	$ 14,968
Share-based payments [2]	**3,207**	2,599
Total compensation paid to key management	**$ 18,868**	$ 17,567

(1) Short-term compensation includes annual salaries, bonuses and benefits provided to key management personnel as well as directors' fees.

(2) Based on the grant date fair value of the applicable awards. The fair value of options granted is estimated at the date of grant using a Black-Scholes Option-Pricing Model. The total share-based payment of options issued in 2022 is based on a fair value ranging between $27.04 and $27.31 per option (2021 – between $9.05 and $9.19 per option).

23. 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 December 31, 2022, gross overriding royalties of $188.4 million and processing fees of $38.6 million were payable to Topaz and are included in the Company's consolidated statement of income and comprehensive income as royalties and operating expense. At December 31, 2022, $42.3 million of the Company's accounts payable balance was due to Topaz (December 31, 2021 - $36.2 million).

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. From June 8, 2021, to December 31, 2021, gross overriding royalties of $83.0 million and processing fees of $18.4 million were payable to Topaz and are included in the Company's consolidated statement of income and comprehensive income as royalties and operating expenses.

See notes 5 and 11 for further details on transactions between Tourmaline and Topaz.

24. SUBSEQUENT EVENTS

On January 12, 2023, the Company declared a special dividend of $2.00 per common share totalling $677.6 million. The special dividend was paid on February 1, 2023.