MANAGEMENT'S DISCUSSION AND ANALYSIS AND CONSOLIDATED FINANCIAL STATEMENTS

FOR THE YEARS ENDED DECEMBER 31, 2020 AND DECEMBER 31, 2019

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MANAGEMENT'S DISCUSSION AND ANALYSIS

For the years ended December 31, 2020 and December 31, 2019

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, 2020 and December 31, 2019. 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 10, 2021.

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

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

Certain financial measures referred to in this MD&A such as "cash flow", "operating netback", "adjusted working capital", "net debt", "adjusted EBITDA", "senior debt", "total debt" and "total capitalization" are non-GAAP financial measures. See "Non-GAAP Financial Measures" for information regarding these terms.

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

In particular, forward-looking statements included in this MD&A include, but are not limited to, statements with respect to: the size of, and future net revenues and cash flow from, crude oil, condensate, NGL (natural gas liquids) and natural gas reserves; future prospects; the focus of and timing of capital expenditures; expectations regarding the ability to raise capital and to continually add to reserves through acquisitions and development; access to debt and equity markets; projections of market prices and costs; the performance characteristics of the Company's crude oil, condensate, NGL and natural gas properties; crude oil, condensate, NGL and natural gas production levels and product mix; the payment of dividends and the timing and amount thereof; Tourmaline's future operating and financial results; capital investment programs; supply and demand for crude oil, condensate, NGL and natural gas; future royalty rates; drilling, development and completion plans and the results therefrom; future land expiries; dispositions and joint venture arrangements; amount of operating, transportation and general and administrative expenses; treatment under governmental regulatory regimes and tax and environmental laws and regulations; and estimated tax pool balances. In addition, statements relating to "reserves" are deemed to be forward-looking statements, as they involve the implied assessment, based on certain estimates and assumptions, that the reserves described can be profitably produced in the future.

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

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

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

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

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

OPERATING ENVIRONMENT AND THE COVID-19 PANDEMIC

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

During this period of economic uncertainty, the Company is committed to maintaining its strong balance sheet and financial liquidity. At December 31, 2020, the Company had $220.2 million in cash held in one of its subsidiaries and $1.0 billion in unutilized borrowing capacity on its credit facilities, all of which are covenant based and not directly tied to changes in the Company's oil and gas reserves, insulating the Company's borrowing capacity against large swings in commodity price forecasts used to calculate reserve values. At December 31, 2020, the Company was in compliance with all of its covenants under its credit facilities and has sufficient room under those covenants to allow for further deterioration of commodity prices or an increase in future borrowings to navigate through these uncertain times, if required. The Company believes it has sufficient liquidity through cash flow to execute its 2021 capital budget and continues to monitor and adjust as necessary.

The Company has increased its monitoring of receivables due from oil and natural gas marketers and from joint asset partners to manage credit risk. The Company historically has not experienced any collection issues with oil and natural gas marketers as a significant portion of these receivables are with creditworthy purchasers. To protect against credit losses from joint-asset partners, the Company has the ability to withhold production in the event of non-payment and the ability to obtain the partners' share of capital expenditures in advance of a project. The Company believes that its receivables at December 31, 2020 are substantially collectible.

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

See "Business Risks and Uncertainties" in this MD&A for additional information regarding certain risks relating to the COVID-19 pandemic which Tourmaline and its business and operations are subject to.

PRODUCTION

	Three Months Ended December 31,			Years Ended December 31,		
	2020	**2019**	**Change**	**2020**	**2019**	**Change**
Natural gas *(mcf/d)*	**1,592,010**	1,439,746	11%	**1,476,613**	1,413,160	4%
Crude oil *(bbl/d)*	**8,416**	9,067	(7)%	**8,308**	7,670	8%
Condensate (*bbl/d*)	**20,697**	18,765	10%	**19,743**	17,267	14%
NGL *(bbl/d)*	**41,877**	32,054	31%	**36,445**	30,401	20%
Oil equivalent *(boe/d)*	**336,325**	299,844	12%	**310,598**	290,865	7%
Production in (sold from) storage (boe/d)	**(1,663)**	(1,760)	(6)%	**603**	431	40%
Total produced volumes (boe/d)	**334,662**	298,084	12%	**311,201**	291,296	7%
Natural gas %	**79%**	81%		**79%**	81%	

Production for the three months ended December 31, 2020 increased 12% up to an average of 336,325 boe/d compared to 299,844 boe/d for the same quarter of 2019. For the year ended December 31, 2020, average production increased 7% from 290,865 boe/d in 2019 to 310,598 boe/d in 2020.

The production increase for 2020 is a result of the Company's successful exploration and production program combined with corporate and property acquisitions completed during the year. In the fourth quarter of 2020, the Company completed the corporate acquisitions of Modern Resources Inc. ("Modern") and Jupiter Resources Inc. ("Jupiter") which contributed an additional 14,755 boe/d of production in the fourth quarter, approximately 71% of which was natural gas. The significant growth in condensate and NGL production in 2020 over 2019 reflects the continued development of the Gundy area, including the commissioning of the Company's Gundy deep-cut gas processing facility in June 2019 as well as incremental NGLs acquired in the above noted acquisitions. The increase in oil production for the year ended December 31, 2020 is primarily the result of a full year of production from assets acquired in August 2019 in the Peace River High in which the Company was already a working-interest owner.

Included in the average production volumes discussed above, for the fourth quarter of 2020, was 1,663 boe/d of natural gas which was withdrawn from storage facilities and sold during the quarter. Average produced volumes for the fourth quarter of 2020 were 334,662 boe/d. At December 31, 2020, there was approximately 2.2 Bcf of natural gas in storage compared to 0.9 Bcf at December 31, 2019 resulting in an incremental 603 boe/d of natural gas injected into storage in 2020. Total average produced volumes for the year ended December 31, 2020 were 311,201 boe/d.

For the three months ended December 31, 2019, total average produced volumes were 298,084 boe/d and an incremental 1,760 boe/d of natural gas was sold from storage facilities. For the year ended December 31, 2019, there was approximately 0.9 Bcf (net) injected into storage (incremental 431 boe/d of production) resulting in total average produced volumes of 291,296 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). In 2020, the Company increased its total storage capacity to 4.0 Bcf from 2.0 Bcf in 2019.

Full-year average production guidance for 2021 is expected to be 390,000 – 410,000 boe/d, unchanged from the previously-disclosed guidance in the Company's November 4, 2020 press release.

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

	Three Months Ended December 31,			Years Ended December 31,		
(000s)	**2020**	**2019**	**Change**	**2020**	**2019**	**Change**
Natural gas						
Sales from production	**$ 469,815**	$ 371,633	26%	**$ 1,527,756**	$ 1,075,357	42%
Premium (loss) on risk management activities	**(5,352)**	(5,075)	5%	**(88,935)**	250,658	(135)%
Realized gain on financial instruments	**2,851**	447	538%	**7,458**	7,710	(3)%
	467,314	367,005	27%	**1,446,279**	1,333,725	8%
Oil						
Sales from production	**37,394**	52,460	(29)%	**127,139**	178,638	(29)%
Premium (loss) on risk management activities	**(2,439)**	971	(351)%	**(5,387)**	3,972	(236)%
Realized gain (loss) on financial instruments	**8,539**	(3,507)	343%	**73,597**	21,278	246%
	43,494	49,924	(13)%	**195,349**	203,888	(4)%
Condensate						
Sales from production	**105,834**	118,148	(10)%	**348,553**	422,119	(17)%
(Loss) on risk management activities	**(3,122)**	(570)	448%	**(11,679)**	(570)	1,949%
Realized (loss) on financial instruments	**(372)**	(855)	(56)%	**(1,062)**	(1,906)	(44)%
	102,340	116,723	(12)%	**335,812**	419,643	(20)%
NGL						
Sales from production	**75,226**	45,936	64%	**197,463**	170,081	16%
Total						
Sales from production	**688,269**	588,177	17%	**2,200,911**	1,846,195	19%
Premium (loss) on risk management activities	**(10,913)**	(4,674)	133%	**(106,001)**	254,060	(142)%
Realized gain (loss) on financial instruments	**11,018**	(3,915)	381%	**79,993**	27,082	195%
Total revenue from commodity sales and premium (loss) on risk management activities and realized gain (loss) on financial instruments	**$ 688,374**	$ 579,588	19%	**$ 2,174,903**	$ 2,127,337	2%

Total sales from production for the three months ended December 31, 2020 increased 17% to $688.3 million from $588.2 million for the same quarter of 2019. Total sales from production for the year ended December 31, 2020 increased 19% from $1,846.2 million in 2019 to $2,200.9 million in 2020. The increase for both periods can be attributed to higher AECO and Station 2 benchmark natural gas prices and increased sales volumes which were partially offset by lower oil, condensate and NGL benchmark prices.

Revenue for the year ended December 31, 2020 included a (loss) on risk management activities of $106.0 million compared to a premium of $254.1 million for the same period of the prior year. Included in the premium (loss) on risk management activities are the premiums that Tourmaline receives from selling gas to markets outside Alberta and British Columbia and the premium received on physical commodity contract prices compared to benchmark pricing. Tourmaline has significantly diversified the markets where its natural gas is sold including Malin, PG&E City Gate, Chicago, and Dawn, all of which have typically had higher natural gas prices as compared to AECO. For the year ended December 31, 2020, AECO prices on average were higher than the prices received (after transportation) at the other hubs where Tourmaline sells its natural gas, resulting in a loss on risk management activities as well as a loss on the Company's physical contracts compared to gains for the same periods of the prior year.

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

BENCHMARK OIL AND GAS PRICES:

	Three Months Ended December 31,			**Years Ended December 31,**		
	2020	**2019**	**Change**	**2020**	**2019**	**Change**
Natural gas						
NYMEX Last Day *(USD$/mcf)*	**$ 2.66**	$ 2.50	6%	**$ 2.08**	$ 2.63	(21)%
AECO 5A *(CAD$/mcf)*	**$ 2.65**	$ 2.49	6%	**$ 2.24**	$ 1.77	27%
West Coast Station 2 (*CAD$/mcf*)	**$ 2.54**	$ 1.50	69%	**$ 2.07**	$ 0.97	113%
Sumas (*USD$/mmbtu*)	**$ 3.20**	$ 3.56	(10)%	**$ 2.13**	$ 5.36	(60)%
ATP 5A Day Ahead (*CAD$/mcf*)	**$ 2.77**	$ 2.00	39%	**$ 2.18**	$ 1.73	26%
Chicago City Gate (*USD$/mmbtu*)	**$ 2.31**	$ 2.18	6%	**$ 1.88**	$ 2.41	(22)%
Ventura (*USD$/mmbtu*)	**$ 2.31**	$ 2.15	7%	**$ 1.85**	$ 2.37	(22)%
PG&E Malin (*USD$/mmbtu*)	**$ 2.87**	$ 2.68	7%	**$ 2.05**	$ 2.84	(28)%
PG&E City Gate (*USD$/mmbtu*)	**$ 3.80**	$ 3.30	15%	**$ 2.99**	$ 3.53	(15)%
Dawn (*USD$/mmbtu*)	**$ 2.25**	$ 2.24	1%	**$ 1.87**	$ 2.40	(22)%
Oil and condensate						
NYMEX WTI *(USD$/bbl)*	**$ 42.70**	$ 56.87	(25)%	**$ 39.34**	$ 57.04	(31)%
Edmonton Par *(CAD$/bbl)*	**$ 49.21**	$ 66.70	(26)%	**$ 45.06**	$ 68.81	(35)%
Edmonton Condensate (*CAD$/bbl*)	**$ 55.95**	$ 74.77	(25)%	**$ 49.71**	$ 71.42	(30)%

CURRENCY – EXCHANGE RATES:

	Three Months Ended December 31,			Years Ended December 31,		
	2020	**2019**	**Change**	**2020**	**2019**	**Change**
CAD/USD$ [1]	**$ 0.7678**	$ 0.7577	1%	**$ 0.7465**	$ 0.7537	(1)%

(1) Average rates for the period.

TOURMALINE REALIZED PRICES [1]:

	Three Months Ended December 31,			Years Ended December 31,		
	2020	**2019**	**Change**	**2020**	**2019**	**Change**
Natural gas *($/mcf)*	**$ 3.19**	$ 2.77	15%	**$ 2.68**	$ 2.59	3%
Oil *($/bbl)*	**$ 56.17**	$ 59.85	(6)%	**$ 64.24**	$ 72.83	(12)%
Condensate (*$/bbl*)	**$ 53.75**	$ 67.61	(20)%	**$ 46.47**	$ 66.58	(30)%
NGL *($/bbl)*	**$ 19.53**	$ 15.58	25%	**$ 14.80**	$ 15.33	(3)%
Oil equivalent *($/boe)*	**$ 22.25**	$ 21.01	6%	**$ 19.13**	$ 20.04	(5)%

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

The realized average natural gas price for the three months ended December 31, 2020 increased by 15% to $3.19/mcf from $2.77/mcf for the same period of the prior year. For the year ended December 31, 2020, the realized average natural gas price was $2.68/mcf, which is 3% higher than the same period of the prior year. The increase is the result of significantly higher Canadian natural gas benchmark prices, including AECO and Station 2, compared to the same periods of the prior year. For the year ended December 31, 2020, the increase in Canadian natural gas benchmark prices was partially offset by lower benchmark prices across all the US sales hubs where the Company sells its natural gas. These decreases, relative to the AECO benchmark price, created a loss on risk management activities for the year ended December 31, 2020.

Realized oil prices decreased by 6% and 12% for the three and twelve months ended December 31, 2020, respectively, compared to the same periods of the prior year. The decrease reflects the lower benchmark oil price for the periods partially offset by realized gains on financial instruments. The realized oil price for the twelve months ended December 31, 2020 also reflects a $21.4 million realized gain on financial instruments related to unwinding a portion of the Company's financial oil contracts early in 2020 to take advantage of the significant gain that had been realized.

For the three and twelve months ended December 31, 2020, the realized price of condensate was $53.75/bbl and $46.47/bbl, which is 20% and 30%, respectively, lower than the same periods of the prior year. The decrease is consistent with the decline in benchmark prices experienced during the year ended December 31, 2020.

The realized NGL price for the three months ended December 31, 2020 increased by 25% compared to the same period of the prior year primarily due to an increase in ethane prices. For the year ended December 31, 2020, the realized NGL price decreased by 3% compared to the prior year. The decrease is due to the decline in propane, butane and pentane prices but was partially offset by the increase in ethane prices.

ROYALTIES

	Three Months Ended December 31,		Years Ended December 31,	
(000s)	**2020**	**2019**	**2020**	**2019**
Natural gas	**$ 12,655**	$ 761	**$ 15,792**	$ 6,796
Oil, condensate and NGL	**15,968**	21,798	**49,731**	76,234
Total royalties	**$ 28,623**	$ 22,559	**$ 65,523**	$ 83,030
Royalties as a percentage of commodity sales	**4.2%**	3.8%	**3.0%**	4.5%

For the quarter ended December 31, 2020, the average effective royalty rate was 4.2% compared to 3.8% for the same period of the prior year, reflecting the increase in the AECO and Station 2 natural gas benchmark prices. The significant increase in benchmark prices in the fourth quarter of 2020 resulted in natural gas royalties which were higher when compared to other quarters in 2020. For the year ended December 31, 2020, the average effective royalty rate was 3.0% compared to 4.5% in the prior year. The lower rate is generally attributable to the depressed oil and condensate benchmark prices experienced during 2020 resulting in lower royalties paid for those commodities.

Natural gas royalties of $12.7 million for the three months ended December 31, 2020, included crown royalties of $27.7 million offset by credits of $15.0 million. For the year ended December 31, 2020, natural gas royalties of $15.8 million included crown royalties of $74.1 million offset by credits of $58.3 million. Included in the credits received for the three and twelve months ended December 31, 2020 and 2019 was Gas Cost Allowance ("GCA") which is provided from the Crown, to account for expenses incurred to process and transport the Crown's portion of natural gas production. Also offsetting natural gas crown royalties are credits for the New Well Royalty Reduction Program and the Natural Gas Deep Drilling Program in Alberta, as well as the Deep Well Royalty Credit Program in British Columbia.

The Company expects its royalty rate for 2021 to be between 5-6%. The increase over the 2020 effective royalty rate is expected due to higher forecast commodity prices derived from the 2021 commodity strip prices. The royalty rate is sensitive to commodity prices, and as such, an increase in commodity prices will increase the actual rate.

COMMODITY MARKETING

	Three Months Ended December 31,			Years Ended December 31,		
(000s)	**2020**	**2019**	**Change**	**2020**	**2019**	**Change**
Marketing revenue	**$ 10,892**	$ 14,661	(26)%	**$ 49,161**	$ 36,949	33%
Marketing purchases	**(10,532)**	(12,734)	(17)%	**(47,996)**	(33,335)	44%
	$ 360	$ 1,927	(81)%	**$ 1,165**	$ 3,614	(68)%

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, 2020, marketing revenue decreased by 26% and marketing purchases decreased by 17% compared to the same period of 2019. The decrease in both marketing revenue and marketing purchases can be attributed to a decrease in third-party volume purchased and sold in the fourth quarter of 2020 compared to the prior period.

For the year ended December 31, 2020, marketing revenue and purchases increased by 33% and 44%, respectively, compared to the prior year. The increase in both marketing revenue and marketing purchases can be attributed to a significant increase in third-party volume purchased and sold in the first three quarters of the year compared to the same periods of the prior year.

OTHER INCOME

	Three Months Ended December 31,			Years Ended December 31,		
(000s)	**2020**	**2019**	**Change**	**2020**	**2019**	**Change**
Other income	**$ 13,072**	$ 8,194	60%	**$ 39,914**	$ 36,036	11%

Other income increased from $8.2 million in the fourth quarter of 2019 to $13.1 million for the same quarter of 2020. For the year ended December 31, 2020, other income increased to $39.9 million from $36.0 million in 2019. The increase in both periods is due to Tourmaline's subsidiary, Topaz Energy Corp. ("Topaz"), entering into third-party processing agreements in 2020 which did not exist in 2019 resulting in additional processing income. The increase is partially offset by a decrease in Tourmaline third-party processing income due to increased production over the period leaving less availability at the processing facilities for third party volumes.

OPERATING EXPENSES

	Three Months Ended December 31,			Years Ended December 31,		
(000s) except per-unit amounts	**2020**	**2019**	**Change**	**2020**	**2019**	**Change**
Operating expenses	**$ 100,590**	$ 84,430	19%	**$ 356,674**	$ 347,962	3%
Per boe	**$ 3.25**	$ 3.06	6%	**$ 3.14**	$ 3.28	(4)%

Operating expenses include all periodic lease and field-level expenses and exclude income recoveries from processing third-party volumes. For the fourth quarter of 2020, total operating expenses were $100.6 million compared to $84.4 million in 2019, an increase of 19% over a production base increase of 12% for the same period. Operating costs for the year ended December 31, 2020 were $356.7 million compared to $348.0 million for the same period of 2019, reflecting a 3% increase in total costs over a 7% increase in production.

On a per-boe basis, the costs increased from $3.06/boe for the fourth quarter of 2019 to $3.25/boe in the fourth quarter of 2020. The increase in per-boe costs is related to higher processing and gathering fees as the Company's production exceeded its gas processing capacity at some of the Company-owned facilities resulting in an increase in production volume processed at third-party facilities. The Gundy phase 2 expansion, when

commissioned, will help to reduce this capacity constraint and lower the processing fees in NEBC. Additionally, the production acquired through the Modern and Jupiter corporate acquisitions carried higher operating expenses per-boe which the Company expects to bring down as the assets are incorporated and operational efficiencies are realized.

For the year ended December 31, 2020, operating costs on a per-boe basis were $3.14/boe, down 4% from $3.28/boe in 2019 reflecting the benefit of a full year of lower processing and gathering fees with the commissioning of the Gundy deep-cut gas processing facility in June 2019. The decrease in per boe costs also reflects the continuous operational improvements year-over-year.

The Company's operating costs for 2021 are expected to average approximately $3.65/boe. The increase over 2020 per-boe costs takes into consideration higher third-party processing fees in NEBC until Gundy Phase 2 is commissioned, the higher operating costs associated with the volumes acquired in the 2020 corporate acquisitions as well as higher anticipated property taxes and carbon taxes. 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	**2020**	**2019**	**Change**	**2020**	**2019**	**Change**
Natural gas transportation	**$ 104,832**	$ 88,160	19%	**$ 403,868**	$ 312,642	29%
Oil and NGL transportation	**32,043**	25,635	25%	**105,652**	97,550	8%
Total transportation	**$ 136,875**	$ 113,795	20%	**$ 509,520**	$ 410,192	24%
Per boe	**$ 4.42**	$ 4.13	7%	**$ 4.48**	$ 3.86	16%

For the fourth quarter of 2020, total transportation expenses were $136.9 million compared to $113.8 million in the fourth quarter of 2019. For the year ended December 31, 2020, transportation expenses were $509.5 million, compared to $410.2 million for the same period of 2019. Both periods in 2020 reflect increased costs related to higher production volumes as well as increased volumes going to diversified sales points which carry higher transport fees.

On a per-boe basis, the transportation costs increased from $4.13/boe for the fourth quarter of 2019 to $4.42/boe in the fourth quarter of 2020. For the year ended December 31, 2020, the per-boe transportation costs increased from $3.86/boe in the prior year to $4.48/boe in 2020. The increase in per-unit costs in 2020 reflects the increased focus on diversifying markets where Tourmaline sells its natural gas. In the fourth quarter of 2019, Tourmaline added an additional 100 mmcf/d of transportation capacity to access the Malin and PG&E markets. The increased volume transported to Malin and PG&E in the current year compared to the prior year resulted in higher per-boe fuel and transportation costs.

GENERAL & ADMINISTRATIVE EXPENSES (“G&A”)

	Three Months Ended December 31,			Years Ended December 31,		
(000s) except per-unit amounts	**2020**	**2019**	**Change**	**2020**	**2019**	**Change**
G&A expenses	**$ 24,654**	$ 22,511	10%	**$ 100,196**	$ 88,005	14%
Administrative and capital recovery	**(1,316)**	(939)	40%	**(3,806)**	(6,507)	(42)%
Capitalized G&A	**(7,995)**	(7,209)	11%	**(32,497)**	(29,502)	10%
Total G&A expenses	**$ 15,343**	$ 14,363	7%	**$ 63,893**	$ 51,996	23%
Per boe	**$ 0.50**	$ 0.52	(4)%	**$ 0.56**	$ 0.49	14%

Total G&A expenses in the fourth quarter of 2020 were $15.3 million compared to $14.4 million for the same quarter of 2019. For the twelve-month period ended December 31, 2020, G&A expenses were $63.9 million compared to $52.0 million for the same period of 2019. The increase is primarily due to staff additions, additional office space, incremental administrative costs related to Topaz as well as costs related to corporate and property acquisitions along with higher third-party service provider fees and increased industry marketing initiatives. The decrease in administrative and capital recoveries for the year is related to the acquisition of assets in the Peace River High area in August 2019, which resulted in a consolidation of Tourmaline’s working interest and overall lower recoveries from partners.

G&A expenses for 2021 are expected to remain consistent and 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)	**2020**	**2019**	**2020**	**2019**
Share-based payments	**$ 4,554**	$ 5,146	**$ 17,370**	$ 24,403
Capitalized share-based payments	**(1,915)**	(2,097)	**(7,195)**	(10,581)
Total share-based payments	**$ 2,639**	$ 3,049	**$ 10,175**	$ 13,822

The Company uses the fair-value method for the determination of non-cash share-based payments expense. During the fourth quarter of 2020, 195,000 stock options were granted at a weighted-average exercise price of $17.06 per option.

The Company recognized $2.6 million and $10.2 million of share-based payments expense for the three and twelve months ended December 31, 2020 compared to $3.0 million and $13.8 million for the same periods of the prior year. Capitalized share-based payments for the three and twelve months ended December 31, 2020 were $1.9 million and $7.2 million compared to $2.1 million and $10.6 million, respectively, for the same periods of the prior year.

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

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

	Three Months Ended December 31,		Years Ended December 31,	
(000s) except per unit amounts	**2020**	**2019**	**2020**	**2019**
Total depletion, depreciation, amortization and impairment	**$ 216,484**	$ 210,362	**$ 1,138,370**	$ 853,388
Less mineral lease expiries	**(2,768)**	(8,040)	**(42,553)**	(52,835)
Less impairment expense	–	–	**(250,000)**	–
DD&A	**$ 213,716**	$ 202,322	**$ 845,817**	$ 800,553
Per boe	**$ 6.91**	$ 7.33	**$ 7.44**	$ 7.54

DD&A expense, excluding mineral lease expiries and impairment expense, was $213.7 million for the fourth quarter of 2020 compared to $202.3 million for the same period of 2019. For the twelve-month period ended December 31, 2020, DD&A expense (excluding mineral lease expiries and impairment expense) was $845.8 million compared to $800.6 million for the same period of 2019. The increase in DD&A expense in 2020 over 2019 is primarily due to higher production volumes as well as a higher depletable base.

The per-unit DD&A rate (excluding the impact of mineral lease expiries and impairment expense) of $6.91/boe and $7.44/boe for the three and twelve months ended December 31, 2020, respectively, decreased compared to the rate of $7.33/boe and $7.54/boe, respectively, for the same periods of the prior year. The decrease in both periods can be attributed to lower future development costs per well, thereby adding a higher proportion of reserves with lower associated future development costs, resulting in a lower depletion rate.

Mineral lease expiries for the three months ended December 31, 2020 were $2.8 million, compared to expiries in the same quarter of the prior year of $8.0 million. For the twelve months ended December 31, 2020, expiries were $42.6 million compared to $52.8 million for the same period of 2019. The expired leases for the twelve months ended December 31, 2020 amount to approximately 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, 2020, the Company identified indicators of impairment on all of its CGUs due to a decrease in the expected future cash flows due to a decrease in natural gas sales point diversification premiums since December 31, 2019 along with the significant commodity price volatility throughout 2020 and the continuing economic uncertainty surrounding the impact of COVID-19. The Company determined that there was no impairment or reversal of historic impairments to PP&E at December 31, 2020.

The Company has recorded an aggregate impairment charge of $250.0 million related to the Spirit River CGU for the year ended December 31, 2020 as a result of an impairment test performed at March 31, 2020. The impairment was reaffirmed at December 31, 2020. The impairment was a result of the significant decrease in the forecasted oil commodity price. The decrease in the forecasted oil commodity price resulted in a significant drop in the discounted cash flows from proved and probable oil and gas reserves in the Spirit River CGU.

FINANCE EXPENSES

	Three Months Ended December 31,			Years Ended December 31,		
(000s)	**2020**	**2019**	**Change**	**2020**	**2019**	**Change**
Interest on loans and borrowings	**$ 8,659**	$ 16,565	(48)%	**$ 41,840**	$ 61,946	(32)%
Capitalized borrowing costs	**–**	–	–%	**–**	(3,026)	(100)%
Accretion expense	**2,033**	1,558	30%	**5,423**	5,858	(7)%
Lease interest	**88**	48	83%	**289**	225	28%
Foreign exchange (gain) loss on U.S. denominated debt	**(67,301)**	(44,232)	52%	**(118,029)**	(68,926)	71%
Realized (gain) loss on cross-currency swaps	**67,301**	44,232	52%	**118,029**	68,926	71%
Realized (gain) loss on interest rate swaps	**2,498**	(241)	1,137%	**6,218**	(1,203)	617%
Transaction costs on corporate and property acquisitions	**1,492**	42	3,452%	**2,042**	42	4,762%
Total finance expenses	**$ 14,770**	$ 17,972	(18)%	**$ 55,812**	$ 63,842	(13)%

Finance expenses for the three months ended December 31, 2020 totaled $14.8 million compared to $18.0 million for the same period of 2019. The average bank debt outstanding and the average effective interest rate on the debt was $1,709.4 million and 1.69% for the three months ended December 31, 2020 compared to $1,814.9 million and 3.30% for the same period of 2019, respectively.

For the year ended December 31, 2020, finance expenses totaled $55.8 million compared to $63.8 million for the same period of 2019. The average bank debt outstanding and the average effective interest rate on the debt for the twelve months ended December 31, 2020 was $1,736.4 million and 2.09% compared to $1,692.9 million and 3.26% for the same period of 2019, respectively.

Interest expense decreased for the three and twelve months ended December 31, 2020 due to the decrease in the effective interest rate compared to the same periods of 2019. The decrease in the effective interest rate reflects a decrease in the Bank of Canada prime rate in 2020 over the same periods of 2019. In the first half of 2019, the Company recorded capitalized borrowing costs related to long-term capital projects which lowered finance expenses for the twelve months ended December 31, 2019. No borrowing costs related to long-term capital projects were capitalized for the three and twelve months ended December 31, 2020.

For the three-and-twelve-month periods ended December 31, 2020, the Company drew from the credit facility in U.S. dollars, as permitted under the credit facility which, when repaid, created a foreign exchange gain due to the strengthening of the Canadian dollar. Concurrent with the draw of U.S. dollar denominated borrowings, the Company enters into cross-currency swaps to manage the foreign currency risk resulting from holding U.S. dollar denominated borrowings. This transaction allows the Company to take advantage of the interest rate spread between CDOR and LIBOR without taking on foreign exchange risk.

DEFERRED INCOME TAXES (RECOVERY)

	Three Months Ended December 31,		Years Ended December 31,	
(000s)	2020	2019	2020	2019
Deferred income taxes (recovery)	**$ 38,679**	$ 29,426	**$ 931**	$ (21,140)

For the three months ended December 31, 2020, the provision for deferred income taxes was $38.7 million compared to $29.4 million for the same period of the prior year. The increase in deferred income taxes is primarily due to higher income before taxes in the fourth quarter of 2020 of $170.1 million (excluding gain on acquisitions and divestitures of $500.0 million) compared to the fourth quarter of 2019 of $91.2 million.

For the year ended December 31, 2020, the provision for deferred income tax was $1.0 million compared to a deferred income tax recovery of $21.1 million for the same period of 2019. The deferred income tax for the year ended December 31, 2020 reflects a net loss before taxes of $2.2 million (excluding gain on acquisitions and divestitures of $621.7 million). The deferred income tax recovery for the year ended December 31, 2019 was impacted by the Government of Alberta reducing the corporate tax rate from 12% to 8% by 2022 which was enacted as at June 30, 2019 with an effective date of July 1, 2019. The effect of the tax rate change resulted in a deferred income tax recovery of $106.2 million in 2019.

CASH FLOW FROM OPERATING ACTIVITIES, CASH FLOW AND NET EARNINGS

	Three Months Ended December 31,			Years Ended December 31,		
(000s) except per unit amounts	2020	2019	Change	2020	2019	Change
Cash flow from operating activities	**$ 326,526**	$ 287,729	13%	**$ 1,125,136**	$ 1,174,929	(4)%
Per share [1]	**$ 1.18**	$ 1.06	11%	**$ 4.14**	$ 4.32	(4)%
Cash flow [2]	**$ 396,869**	$ 335,856	18%	**$ 1,185,687**	$ 1,205,540	(2)%
Per share [1][2]	**$ 1.44**	$ 1.24	16%	**$ 4.36**	$ 4.43	(2)%
Net earnings	**$ 629,191**	$ 61,340	926%	**$ 618,311**	$ 319,740	93%
Per share [1]	**$ 2.28**	$ 0.23	891%	**$ 2.27**	$ 1.18	92%
Operating netback per boe [2]	**$ 13.65**	$ 13.00	5%	**$ 10.93**	$ 12.12	(10)%

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

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

Cash flow for the three months ended December 31, 2020 was $396.9 million or $1.44 per diluted share compared to $335.9 million or $1.24 per diluted share for the same period of 2019. The increase in cash flow in the fourth quarter of 2020, compared to the same quarter of 2019, is due to the significant improvement in the AECO and Station 2 natural gas benchmark prices as well as increased production partially offset by lower oil and condensate benchmark prices.

Cash flow for the year ended December 31, 2020 was $1,185.7 million or $4.36 per diluted share compared to $1,205.5 million or $4.43 per diluted share for the same period of 2019. The decrease in cash flow for the year ended December 31, 2020 reflects lower realized prices on natural gas sold to US markets and the significant decline in oil and condensate benchmark prices in 2020 partially offset by an increase in the AECO and Station 2 natural gas benchmark prices and an increase in production over the prior year.

The Company had after-tax net earnings for the three months ended December 31, 2020 of $629.2 million or $2.28 per diluted share compared to after-tax net earnings of $61.3 million or $0.23 per diluted share for the same period of 2019. The increase in after-tax net earnings reflects a gain on acquisition and divestitures of $500.0 million in the fourth quarter of 2020 and a 5% increase in the Company's operating netback per boe.

For the twelve-month period ended December 31, 2020, after-tax net income was $618.3 million or $2.27 per share compared to after-tax net earnings of $319.7 million or $1.18 per diluted share for the first twelve months of 2019. The increase in after-tax net earnings in 2020 compared to 2019 reflects the $621.7 million in gain on acquisitions and divestitures partially offset by $250.0 million in Property, Plant & Equipment ("PP&E") impairment expense taken in the first quarter of 2020.

CAPITAL EXPENDITURES

	Three Months Ended December 31,		Years Ended December 31,	
(000s)	**2020**	**2019**	**2020**	**2019**
Land and seismic	**$ 3,611**	$ 1,523	**$ 10,480**	$ 5,962
Drilling and completions	**204,381**	223,977	**673,670**	737,435
Facilities	**35,589**	41,151	**194,617**	289,667
Property acquisitions	**19,258**	51,622	**171,871**	226,657
Property dispositions	–	(6,267)	**(235)**	(8,105)
Other	**8,445**	8,383	**33,222**	35,643
Total cash capital expenditures	**$ 271,284**	$ 320,389	**$ 1,083,625**	$ 1,287,259

During the fourth quarter of 2020, the Company invested $271.3 million of cash consideration compared to $320.4 million for the same period of 2019. Expenditures on exploration and production were $243.6 million for the fourth quarter of 2020 compared to $266.7 million for the same quarter of 2019. During the twelve-month period ended December 31, 2020, the Company invested $1,083.6 million of cash consideration, net of dispositions, compared to $1,287.3 million for the same period of 2019.

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

	Year Ended December 31, 2020		Year Ended December 31, 2019	
	Gross	**Net**	**Gross**	**Net**
Drilled	**190.00**	**180.87**	219.00	210.90
Completed	**215.00**	**208.48**	203.00	194.00
Tied-in	**197.00**	**188.73**	225.00	208.23

Exploration and production capital expenditures in 2021 are forecast to be $1,075.0 million. The Company expects drilling and completions costs of approximately $780.0 million, facilities expenditures (including equipment, pipelines and tie-ins) of $280 million as well as land and seismic expenditures of $15.0 million. The capital budget is closely monitored and will continue to be adjusted as required, depending on cash flow available.

Corporate Acquisitions

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

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

On November 2, 2020, the Company acquired all of the issued and outstanding shares of Modern Resources Inc. ("Modern"). The Company issued 1.5 million common shares at a price of $17.00 per common share for share consideration of $25.5 million and cash consideration of $73.8 million for total consideration of $99.3 million, as well as the assumption of a working capital deficit. 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 resulted in an increase in PP&E of approximately $144.5 million, assumed working capital of $1.5 million, bank debt of $43.6 million, decommissioning obligations of $13.3 million, a deferred income tax asset of $72.1 million along with a gain on acquisition of $60.6 million, primarily related to the deferred income tax asset. The acquisition of Modern is part of the Company's consolidation activities in the Deep Basin and provides for an increase in developed lands, production and infrastructure including a natural gas processing plant.

On December 18, 2020, the Company acquired all of the issued and outstanding shares of Jupiter Resources Inc. ("Jupiter"). The Company issued 24.2 million common shares at a price of $17.31 per common share for share consideration of $418.9 million, as well as the assumption of a working capital deficit. Total transaction costs incurred by the Company of $0.9 million associated with this acquisition were expensed in the consolidated statement of income and comprehensive income. The acquisition resulted in an increase in PP&E of approximately $896.0 million, net debt of $203.9 million (including the assumption of $34.6 million in working capital), financial instrument liabilities of $9.4 million (net), decommissioning obligations of $30.0 million, a deferred income tax asset of $204.6 million along with a gain on acquisition of $439.0 million, primarily related to the deferred income tax asset and the acquisition date fair value of PP&E. The acquisition of Jupiter is part of the Company's consolidation activities in the Deep Basin and provides for an increase in developed lands, production and infrastructure including a working interest in two natural gas processing plants.

Acquisitions and Dispositions

2020

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

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

On December 22, 2020, Topaz acquired a royalty interest on developed and undeveloped lands in the Clearwater area of Alberta for $16.0 million, before customary closing adjustments. The acquisition resulted in an increase in PP&E of approximately $16.0 million. Topaz applied the optional IFRS 3 concentration test to this acquisition which resulted in the acquired assets being accounted for as an asset acquisition.

In total, for the twelve months ended December 31, 2020, the Company completed property acquisitions for cash consideration of $171.9 million, including the acquisitions discussed above (December 31, 2019 - $226.7 million) and $6.2 million in acquisitions involving non-cash consideration (December 31, 2019 - $8.7 million). The Company assumed $15.9 million in decommissioning liabilities as a result of these acquisitions (December 31, 2019 - $14.4 million).

The Company also completed property dispositions, for the twelve months ended December 31, 2020, for total cash consideration of $0.2 million (December 31, 2019 - $8.1 million) and non-cash consideration of $6.2 million (December 31, 2019 – nil).

2019

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

In connection with the early adoption of the amendment to IFRS 3, the Company applied the optional concentration test to the August 13, 2019 acquisition which resulted in the acquired assets being accounted for as an asset acquisition.

On October 31, 2019, the Company acquired E&E assets in the NEBC area for total cash consideration of $49.0 million. The assets acquired included land and seismic data relating to the area.

Subsequent events

On January 1, 2021, Tourmaline completed a gross overriding royalty disposition to Topaz on both the Modern and Jupiter lands for cash consideration of $130.0 million.

On January 1, 2021, the Company's subsidiaries Polar Star, Chinook, Modern and Jupiter were amalgamated into Tourmaline.

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 $1.8 billion with a maturity date of June 2024. The maturity date may, at the request of the Company and with consent of the lenders, be extended on an annual basis. The revolving credit facility includes an expansion feature ("accordion") which allows the Company, upon approval from the lenders, to increase the facility amount by up to $500.0 million by adding a new financial institution or by increasing the commitment of its existing lenders. The revolving credit facility can be drawn in either Canadian or U.S. funds and bears interest at the agent bank's prime lending rate, banker's acceptance rates or LIBOR (for U.S. borrowings), plus applicable margins.

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 to total capitalization must not exceed 0.6:1. At December 31, 2020, adjusted EBITDA for the purposes of the above-noted covenant calculations was $1,240.3 million (December 31, 2019 - $1,266.5 million), on a rolling four-quarter basis. At December 31, 2020, the ratio of adjusted EBITDA to interest expense was 27:1 and the ratio of total debt to total capitalization was 0.2:1. As at, and for the year ending, December 31, 2020, the Company is in compliance with all debt covenants.

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

The Company also has a covenant-based, unsecured, operating credit facility with a Canadian bank in the amount of $50.0 million. The operating credit facility has a maturity date of June 2021, which may, at the request of the Company and with consent of the lender, be extended on an annual basis. The covenants are the same as the revolving credit facility. At December 31, 2020, the operating credit facility was not drawn.

Additionally, the Company has a letter of credit facility payable on demand in the amount of $50.0 million with a Canadian bank. Tourmaline has outstanding letters of credit in the amount of $19.5 million at December 31, 2020 (December 31, 2019 - $11.6 million), which reduces the credit available on this facility.

Topaz, a subsidiary of Tourmaline, has a covenant-based, secured, operating credit facility with a Canadian bank. The operating credit facility is in the amount of $125.0 million with an initial maturity date of June 2022. The maturity date may, at the request of the Company and with consent of the lender, be extended on an annual basis. The operating credit facility 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, (ii) the ratio of senior debt to EBITDA must not exceed 3:1, and (iii) the ratio of total debt to EBITDA must not exceed 4:1. At December 31, 2020, the operating credit facility was not drawn.

The Company's aggregate borrowing capacity is $2.975 billion at December 31, 2020. As at, and for the quarter ending December 31, 2020, the Company is in compliance with all debt covenants.

On January 25, 2021, Tourmaline completed its inaugural issuance of senior unsecured notes for gross proceeds of $250.0 million. The notes have a due date of January 25, 2028 and bear interest at a fixed rate of 2.077% per annum, payable semi-annually on the 25th day of January and July each year, commencing on July 25, 2021.

Working capital and net debt

As at December 31, 2020, the Company had adjusted working capital of $157.3 million, after adjusting for the fair value of short term financial instrument liabilities, short term lease liabilities, short term decommissioning obligations and unrealized foreign exchange in working capital (the unadjusted working capital was $111.7 million) (December 31, 2019 – working capital deficiency of $136.7 million and $153.0 million, respectively). Included in the adjusted working capital balance was $220.2 million of cash in Topaz. As at December 31, 2020, the Company had $949.1 million in long-term debt outstanding and $993.2 million drawn against the revolving credit facility for total bank debt of $1,942.3 million (net of debt issue costs) (December 31, 2019 - $1,619.0 million). Net debt at December 31, 2020 was $1,784.9 million, excluding the fair value of short term financial instruments, short term lease liabilities, short term decommissioning obligations and unrealized foreign exchange in working capital (deficit) (December 31, 2019 - $1,755.7 million).

Normal course issuer bid

On July 15, 2020, the Company renewed its normal course issuer bid ("NCIB") with the Toronto Stock Exchange. The NCIB allows the Company to purchase up to 13,538,778 common shares, representing 5% of its common shares outstanding at June 30, 2020, over a period of twelve months commencing on July 20, 2020. Under the NCIB, common shares may be repurchased at prevailing market prices and any common shares that are purchased under the NCIB will be cancelled upon their purchase by the Company. For the twelve months ended December 31, 2020, the Company purchased 221,600 common shares for cancellation at an average price of $9.71 per share. Since the commencement of the COVID-19 pandemic, the Company has chosen to stop repurchasing shares while focusing on liquidity through this volatile commodity price and macro economic environment.

Non-controlling interest and common control transactions

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

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

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

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

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

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

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

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

On October 26, 2020, Topaz completed its initial public offering for net consideration of $202.1 million (net of share issue costs of $15.4 million) which resulted in the issuance of 16.7 million common shares at $13.00 per common share representing 15.2% of the common shares outstanding. In addition to the initial public offering, Tourmaline completed a secondary offering by selling 1.0 million Topaz common shares at $13.00 per common share, for net consideration of $12.4 million (net of $0.6 million in commission expense).

On November 9, 2020, Topaz announced that in addition to the initial public offering, the over-allotment option granted to the underwriters had been exercised in full resulting in an additional 2.5 million common shares issued at $13.00 per common share for net consideration of $31.0 million (net of share issue costs of $1.6 million).

The initial public offering, secondary offering and over-allotment option resulted in Tourmaline reducing its ownership interest from 63.5% to 51.7% and increasing the non-controlling interest to 48.3% at December 31, 2020.

The combined net proceeds from the October 26, 2020 and November 9, 2020 Topaz initial public offering and over-allotment option, as well as the Tourmaline secondary offering, reduced Tourmaline's net debt by $245.5 million.

Dividends

During the three and twelve months ended December 31, 2020, the Company paid a cash dividend of $0.14 and $0.50 per common share totalling $38.1 million and $135.6 million, respectively, compared to $0.12 and $0.46 per common share totalling $32.5 million and $125.0 million for the same periods of the prior year. Additionally, during the three and twelve months ended December 31, 2020, Topaz paid a cash dividend of $0.20 and $0.80 per common share totalling $22.5 million and $73.1 million of which $11.6 million and $47.1 million was paid to Tourmaline and the remainder was paid to outside investors. For the year ended December 31, 2019, Topaz did not pay a dividend.

Capital management

For 2021, management intends to continue to diligently monitor the capital budget based on expected cash flow and, as such, management believes the Company has sufficient resources to fund its 2021 exploration and development program. Management is dedicated to keeping a strong statement of financial position, which has proven to be very important, especially in times of volatile commodity prices. Management's approach to capital management is further described in note 4(d) of the annual consolidated financial statements.

SHARES AND STOCK OPTIONS OUTSTANDING

As at March 10, 2021, the Company has 296,845,125 common shares outstanding and 18,242,102 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]	$ 3,034	$ 4,329	$ 4,018	$ 2,511	$ 13,892
Firm transportation agreements	594,474	1,164,300	1,006,145	2,986,136	5,751,055
Processing commitments [2]	64,500	107,779	101,936	335,405	609,620
Capital commitments [3]	–	6,750	–	–	6,750
Credit facility [4]	–	–	1,062,507	–	1,062,507
Term debt [5]	18,721	37,443	958,322	–	1,014,486
	$ 680,729	$ 1,320,601	$ 3,132,928	$ 3,324,052	$ 8,458,310

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

(2) Includes processing commitments and power commitments.

(3) Includes drilling commitments.

(4) Includes interest expense at an annual rate of 1.93% being the rate applicable to outstanding debt on the credit facility at December 31, 2020 and interest paid at the maturity of the facility.

(5) Includes interest expense at an annual rate of 1.97% being the fixed rate on the term debt at December 31, 2020 with interest payments made monthly as the term debt is fully drawn.

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, 2020.

As at December 31, 2020, 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 2020 are summarized in note 4 of the Company's consolidated financial statements for the year ended December 31, 2020.

The following table provides a summary of the unrealized gains and losses on financial instruments for the year ended December 31, 2020:

	Three Months Ended December 31,		Years Ended December 31,	
(000s)	**2020**	**2019**	**2020**	**2019**
Unrealized (loss) on financial instruments	**$ (8,303)**	$ (31,112)	**$ (38,010)**	$ (40,715)

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. Physical contracts in place at December 31, 2020 have been summarized in note 4 of the Company's consolidated financial statements for the year ended December 31, 2020.

Financial derivative and physical delivery contracts entered into subsequent to December 31, 2020 are detailed in note 4 of the Company's consolidated financial statements for the year ended December 31, 2020.

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, 2020.

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, 2020, the Company's DC&P and ICFR are effective.

There were no changes in the Company's DC&P or ICFR during the period beginning on October 1, 2020 and ending December 31, 2020 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.

BUSINESS RISKS AND UNCERTAINTIES

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

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

In addition, pandemics, epidemics or outbreaks of an infectious disease in Canada or worldwide, including COVID-19, Middle East Respiratory Syndrome, Severe Acute Respiratory Syndrome, H1N1 influenza virus, avian flu or any other similar illnesses could have an adverse impact on the Company's results, business, financial condition or liquidity. On March 11, 2020, the World Health Organization declared the outbreak of a strain of novel coronavirus disease, COVID-19, a global pandemic. The COVID-19 pandemic has negatively impacted the Canadian, U.S., and global economies; disrupted Canadian, U.S., and global supply chains; disrupted financial markets; contributed to a decrease in interest rates; resulted in ratings downgrades, credit deterioration and defaults in many industries; forced the closure of many businesses, led to loss of revenues, increased unemployment and bankruptcies; and necessitated the imposition of quarantines, physical distancing, business closures, travel restrictions, and sheltering-in-place requirements in Canada, the U.S., and other countries. If the pandemic is prolonged, including through subsequent waves, or if additional variants of COVID-19 emerge which are more transmissible or cause more severe disease, or if other diseases emerge with similar effects, the adverse impact on the economy could worsen. Moreover, it remains uncertain how the macroeconomic

environment, and societal and business norms will be impacted following this COVID-19 pandemic. Unexpected developments in financial markets, regulatory environments, or consumer behaviour may also have adverse impacts on the Company's results, business, financial condition or liquidity, for a substantial period of time.

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 as a result of: the shut-down of facilities or the delay or suspension of work on major capital projects due to workforce disruption or labour shortages caused by workers becoming infected with COVID-19, or government or health authority mandated restrictions on travel by workers or closure of facilities or worksites; suppliers and third-party vendors experiencing similar workforce disruption or being ordered to cease operations; reduced cash flows resulting in less funds from operations being available to fund capital expenditure budgets; reduced commodity prices resulting in a reduction in the volumes and value of reserves; crude oil storage constraints resulting in the curtailment or shutting in of production; counterparties being unable to fulfill their contractual obligations on a timely basis or at all; the inability to deliver products to customers or otherwise get products to market caused by border restrictions, road or port closures or pipeline shut-ins, including as a result of pipeline companies suffering workforce disruptions or otherwise being unable to continue to operate; and the ability to obtain additional capital including, but not limited to, debt and equity financing being adversely impacted as a result of unpredictable financial markets, commodity prices and/or a change in market fundamentals.

The COVID-19 pandemic has also created additional operational risks for the Company, including the need to provide enhanced safety measures for its employees and contractors; comply with rapidly changing regulatory guidance; address the risk of, attempted fraudulent activity and cybersecurity threat behaviour; and protect the integrity and functionality of the Company's systems, networks, and data as a larger number of employees work remotely. The Company is also exposed to human capital risks due to issues related to health and safety matters, and other environmental stressors as a result of measures implemented in response to the COVID-19 pandemic, as well as the potential for a proportion of the Company's employees, including key executives, to be unable to work effectively, because of illness, quarantines, sheltering-in-place arrangements, government actions or other restrictions in connection with the pandemic.

The extent to which the COVID-19 pandemic continues to impact the Company's results, business, financial condition or liquidity will depend on future developments in Canada, the U.S. and globally, including the development and widespread availability of efficient and accurate testing options, and effective treatment options or vaccines. Despite the approval of certain vaccines by the regulatory bodies in Canada and the U.S., the ongoing evolution of the development and distribution of an effective vaccine also continues to raise uncertainty.

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 FINANCIAL MEASURES

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

Cash Flow

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

	Three Months Ended December 31,		Years Ended December 31,	
(000s)	**2020**	**2019**	**2020**	**2019**
Cash flow from operating activities (per GAAP)	**$ 326,526**	$ 287,729	**$ 1,125,136**	$ 1,174,929
Change in non-cash working capital	**70,343**	48,127	**60,551**	30,611
Cash flow	**$ 396,869**	$ 335,856	**$ 1,185,687**	$ 1,205,540

Operating Netback

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

	Three Months Ended December 31,		Years Ended December 31,	
($/boe)	**2020**	**2019**	**2020**	**2019**
Revenue, excluding processing income	**$ 22.25**	$ 21.01	**$ 19.13**	$ 20.04
Royalties	**(0.93)**	(0.82)	**(0.58)**	(0.78)
Transportation costs	**(4.42)**	(4.13)	**(4.48)**	(3.86)
Operating expenses	**(3.25)**	(3.06)	**(3.14)**	(3.28)
Operating netback	**$ 13.65**	$ 13.00	**$ 10.93**	$ 12.12

Adjusted Working Capital

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

	As at December 31,	
(000s)	**2020**	**2019**
Working capital (deficit)	**$ 111,744**	$ (152,987)
Fair value of financial instruments – short-term liability	**36,115**	10,885
Lease liabilities – short-term	**3,412**	2,724
Decommissioning obligations – short-term	**4,618**	–
Unrealized foreign exchange in working capital – liability	**1,450**	2,703
Adjusted working capital (deficit)	**$ 157,339**	$ (136,675)

Net Debt

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

	As at December 31,	
(000s)	**2020**	**2019**
Bank debt	**$(1,942,259)**	$(1,619,009)
Adjusted working capital (deficit)	**157,339**	(136,675)
Net debt	**$(1,784,920)**	$(1,755,684)

SELECTED QUARTERLY INFORMATION

				2020				2019
($000s, unless otherwise noted)	**Q4**	**Q3**	**Q2**	**Q1**	**Q4**	**Q3**	**Q2**	**Q1**
PRODUCTION								
Natural gas *(mcf)*	**146,464,921**	130,086,424	129,693,070	134,195,958	132,456,603	129,027,017	124,790,550	129,529,098
Oil, condensate and NGL *(bbls)*	**6,531,062**	5,753,450	5,627,083	5,693,802	5,509,543	5,136,598	4,731,375	4,820,850
Oil equivalent *(boe)*	**30,941,882**	27,434,520	27,242,595	28,059,795	27,585,644	26,641,101	25,529,800	26,409,060
Natural gas *(mcf/d)*	**1,592,010**	1,413,983	1,425,199	1,474,681	1,439,746	1,402,468	1,371,325	1,439,212
Oil, condensate and NGL *(bbls/d)*	**70,990**	62,538	61,836	62,569	59,886	55,833	51,993	53,565
Oil equivalent *(boe/d)*	**336,325**	298,202	299,369	308,349	299,844	289,578	280,547	293,434
FINANCIAL								
Total revenue from commodity sales and premium (loss) on risk management activities and realized gain (loss) on financial instruments	**688,374**	518,061	443,553	524,915	579,588	440,089	443,359	664,301
Cash flow from operating activities	**326,526**	290,795	165,857	341,958	287,729	205,798	298,282	383,120
Per diluted share	**1.18**	1.07	0.61	1.26	1.06	0.76	1.10	1.41
Cash flow [(1)]	**396,869**	279,923	225,177	283,718	335,856	223,984	226,458	419,242
Per diluted share	**1.44**	1.03	0.83	1.05	1.24	0.82	0.83	1.54
Net earnings (loss)	**629,191**	4,826	20,106	(35,812)	61,340	15,750	154,940	87,710
Per basic share	**2.28**	0.02	0.07	(0.13)	0.23	0.06	0.57	0.32
Per diluted share	**2.28**	0.02	0.07	(0.13)	0.23	0.06	0.57	0.32
Total assets	**12,790,200**	11,246,517	11,239,383	11,106,254	11,180,610	11,043,666	10,836,576	10,924,480
Working capital (deficit)	**111,744**	(170,489)	112,170	(165,667)	(152,987)	(149,467)	(159,480)	(272,500)
Adjusted working capital (deficit) [(1)]	**157,339**	(153,625)	82,382	(268,397)	(136,675)	(151,884)	(160,101)	(245,285)
Cash capital expenditures	**271,284**	354,695	140,032	317,614	320,389	384,307	198,179	384,384
Dividends paid	**48,991**	39,306	36,663	36,666	32,525	32,620	32,646	27,204
Total outstanding shares *(000s)*	**296,572**	270,803	270,776	270,776	270,997	271,827	272,050	272,050
PER UNIT								
Natural gas *($/mcf)*	**3.19**	2.60	2.41	2.45	2.77	1.89	2.07	3.59
Oil and NGL *($/bbl)*	**33.85**	31.31	23.24	34.54	38.59	38.24	39.08	41.43
Revenue *($/boe)*	**22.25**	18.89	16.28	18.71	21.01	16.52	17.37	25.15
Operating netback *($/boe)* [(1)]	**13.65**	10.76	8.20	10.79	13.00	9.10	9.60	16.65

(1) See Non-GAAP Financial Measures.

SELECTED ANNUAL INFORMATION

($000s unless otherwise noted)	**2020**	**2019**	**2018**
PRODUCTION			
Natural gas *(mcf)*	**540,440,373**	515,803,268	476,334,125
Oil, condensate and NGL *(bbls)*	**23,605,398**	20,198,369	17,352,100
Oil equivalent *(boe)*	**113,678,794**	106,165,580	96,741,121
Natural gas *(mcf/d)*	**1,476,613**	1,413,160	1,305,025
Oil, condensate and NGL *(bbls/d)*	**64,496**	55,338	47,540
Oil equivalent *(boe/d)*	**310,598**	290,865	265,044
FINANCIAL			
Total revenue from commodity sales and premium (loss) on risk management activities and realized gain (loss) on financial instruments	**2,174,903**	2,127,337	2,106,209
Cash flow from operating activities	**1,125,136**	1,174,929	1,269,491
Per diluted share	**4.14**	4.32	4.67
Cash flow [1]	**1,185,687**	1,205,540	1,303,462
Per diluted share	**4.36**	4.43	4.80
Net earnings attributable to shareholders of the Company	**618,311**	319,740	401,418
Per basic share	**2.27**	1.18	1.48
Per diluted share	**2.27**	1.18	1.48
Total assets	**12,790,200**	11,180,610	10,732,457
Working capital (deficit)	**111,744**	(152,987)	(228,403)
Adjusted working capital (deficit) [1]	**157,339**	(136,675)	(243,910)
Cash capital expenditures (net)	**1,083,625**	1,287,259	1,214,437
Dividends paid	**161,626**	124,995	100,580
Basic outstanding shares *(000s)*	**296,572**	270,997	272,043
PER UNIT			
Natural gas *($/mcf)*	**2.68**	2.59	2.73
Oil and NGL *($/bbl)*	**30.87**	39.29	46.47
Revenue *($/boe)*	**19.13**	20.04	21.77
Operating netback *($/boe)*	**10.93**	12.12	14.12

(1) See Non-GAAP Financial Measures.

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

On an annual basis, the Company has had continued production growth over the last two years. The Company's average annual production has increased from 265,044 boe per day in 2018 to 290,865 per day in 2019 and 310,598 boe per day in 2020. The production growth can be attributed primarily to the Company's exploration and development activities, as well as from acquisitions of producing properties.

The Company's cash flow was $1,303.5 million in 2018, $1,205.5 million in 2019 and $1,185.7 million in 2020. The decrease in cash flow from 2018 to 2019 reflects the decrease in commodity prices over the period which was partially offset by increasing production volumes. Cash flow was relatively consistent between 2019 and 2020 primarily due to an increase in production and improved AECO and Station 2 natural gas prices which were offset by lower realized oil and liquids prices as well as lower prices realized at the US hubs where the Company sells a portion of its natural gas. 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 gas prices.

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

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. The Board of Directors has approved the consolidated financial statements.

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

March 10, 2021

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, 2020 and 2019
- 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 flows 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, 2020 and 2019, and its consolidated financial performance and its consolidated cash flows for the years then ended in accordance with International Financial Reporting Standards ("IFRS").

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, 2020. 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 recoverable amount of the Deep Basin, Northeast BC, and Spirit River cash generating units

Description of the matter

We draw attention to note 1, note 2 and note 6 to the financial statements. The Company identified indicators of impairment at December 31, 2020 for its Deep Basin, Northeast BC, and Spirit River CGUs and performed an impairment test to estimate the recoverable value of each CGU. The Company has recorded an aggregate impairment charge of $250.0 million related to the Spirit River cash generating unit ("CGU") for the year ended December 31, 2020.

The estimated recoverable amount of each CGU involves significant estimates, including:

- The estimate of proved and probable oil and gas reserves and the related cash flows
- The discount rates.

The estimate of proved and probable oil and gas reserves and the related cash flows requires the expertise of independent third-party reserve evaluators and 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 recoverable amount of the Deep Basin, Northeast BC, and Spirit River CGUs as a key audit matter. Significant auditor judgment 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 and the discount rates.

How the matter was addressed in the audit

The following are the primary procedures we performed to address this key audit matter:
With respect to the estimate of proved and probable oil and gas reserves and the related cash flows:

- We evaluated the competence, capabilities and objectivity of the independent third-party reserve evaluators engaged by the Company
- We compared forecasted oil and gas commodity prices to those published by other independent third-party reserve evaluators
- We compared the 2020 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 and the related cash flows 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 2020 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.

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 to market and other external data
- Assessing the reasonableness of the Company's estimate of the recoverable amount of each CGU by comparing the Company's estimate to market metrics and other external data.

Evaluation of the acquisition-date fair value of property, plant and equipment of Jupiter Resources Inc.
Description of the matter

We draw attention to note 1, note 2, note 3 and note 6 to the financial statements. The Company acquired all of the issued and outstanding shares of Jupiter Resources Inc. for a total purchase price of $418.9 million. In connection with the transaction, the Company recorded property, plant and equipment ("PP&E") with an acquisition-date fair value of $896.0 million.
The estimated acquisition-date fair value of the PP&E involves significant estimates, including:

- The estimate of proved and probable oil and gas reserves and the related cash flows
- The discount rates.

The estimate of proved and probable oil and gas reserves and the related cash flows requires the expertise of independent third-party reserve evaluators and 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 evaluation of the acquisition-date fair value of PP&E of Jupiter Resources Inc. as a key audit matter. Significant auditor judgment 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 and the discount rates.

How the matter was addressed in the audit

The following are the primary procedures we performed to address this key audit matter:
With respect to the estimate of proved and probable oil and gas reserves and the related cash flows:

- We evaluated the competence, capabilities and objectivity of the independent third-party reserve evaluators engaged by the Company
- We compared forecasted oil and gas commodity prices to those published by other independent third-party reserve evaluators
- We evaluated the appropriateness of forecasted production and forecasted operating costs, royalty costs and future development cost assumptions by comparing to historical 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.

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 to market and other external data
- Assessing the reasonableness of the Company's estimate of the acquisition-date fair value of PP&E by comparing the Company's estimate to market metrics and other external data.

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, 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.
- Obtain sufficient appropriate audit evidence regarding the financial information of the entities or business activities within the group Company to express an opinion on the financial statements. We are responsible for the direction, supervision and performance of the group audit. We remain solely responsible for our audit opinion.
- 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 Timothy Arthur Richards.

(signed) "KPMG LLP"
Chartered Professional Accountants

Calgary, Canada

March 10, 2021

CONSOLIDATED FINANCIAL STATEMENTS

CONSOLIDATED STATEMENTS OF FINANCIAL POSITION

		As at December 31,
(000s)	**2020**	**2019**
Assets		
Current assets:		
Cash and cash equivalents	**$ 220,168**	$ –
Accounts receivable	**363,640**	259,863
Prepaid expenses and deposits	**22,591**	13,102
Fair value of financial instruments *(notes 3 and 4)*	**23,074**	12,128
Total current assets	**629,473**	285,093
Long-term asset	**4,758**	4,819
Fair value of financial instruments (*notes 3 and 4*)	**2,385**	3,021
Exploration and evaluation assets *(note 5)*	**509,533**	621,656
Property, plant and equipment *(note 6)*	**11,632,033**	10,255,190
Right-of-use asset (*note 7*)	**12,018**	10,831
Total Assets	**$12,790,200**	$11,180,610
Liabilities and Shareholders' Equity		
Current liabilities:		
Accounts payable and accrued liabilities	**$ 450,510**	$ 412,343
Lease liabilities (*note 7*)	**3,412**	2,724
Fair value of financial instruments *(notes 3 and 4)*	**59,189**	23,013
Decommissioning obligations *(note 8)*	**4,618**	–
Total current liabilities	**517,729**	438,080
Bank debt *(note 9)*	**1,942,259**	1,619,009
Fair value of financial instruments *(notes 3 and 4)*	**48,361**	25,571
Lease liabilities (*note 7*)	**8,763**	8,155
Decommissioning obligations *(note 8)*	**590,814**	321,863
Deferred taxes *(note 13)*	**405,736**	801,343
Shareholders' equity:		
Share capital *(note 11)*	**6,328,115**	5,886,977
Non-controlling interest *(note 10)*	**467,443**	181,571
Contributed surplus	**307,152**	287,410
Retained earnings	**2,173,828**	1,610,631
Total shareholders' equity	**9,276,538**	7,966,589
Total Liabilities and Shareholders' Equity	**$12,790,200**	$11,180,610

Commitments (note 20).

Subsequent events (notes 4 and 22).

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

(000s) except per-share amounts	Years Ended December 31, 2020	2019
Commodity sales from production (*note 12*)	**$ 2,200,911**	$ 1,846,195
Premium (loss) on risk management activities (*note 12*)	**(106,001)**	254,060
Marketing revenue (*note 12*)	**49,161**	36,949
Royalties	**(65,523)**	(83,030)
Other income *(note 16)*	**39,914**	36,036
Realized gain on financial instruments	**79,993**	27,082
Unrealized (loss) on financial instruments *(note 4)*	**(38,010)**	(40,715)
	2,160,445	2,076,577
Expenses:		
Operating	**356,674**	347,962
Transportation	**509,520**	410,192
Marketing purchases	**47,996**	33,335
General and administration	**63,893**	51,996
Share-based payments *(note 15)*	**10,175**	13,822
Depletion, depreciation, amortization and impairment *(notes 5, 6 and 7)*	**1,138,370**	853,388
Realized foreign exchange (gain) loss	**(21,246)**	8,105
Unrealized foreign exchange loss	**1,450**	2,703
(Gain) on acquisitions and divestitures	**(621,683)**	(7,656)
Total expenses	**1,485,149**	1,713,847
Income from operations	**675,296**	362,730
Finance expenses *(note 17)*	**55,812**	63,842
Income before taxes	**619,484**	298,888
Deferred tax expense (recovery) *(note 13)*	**931**	(21,140)
Net income and comprehensive income before non-controlling interest	**618,553**	320,028
Net income and comprehensive income attributable to:		
Shareholders of the Company	**618,311**	319,740
Non-controlling interest *(note 10)*	**242**	288
	$ 618,553	$ 320,028
Net income per share attributable to common shareholders *(note 14)*		
Basic	**$ 2.27**	$ 1.18
Diluted	**$ 2.27**	$ 1.18

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, 2019	$ 5,886,977	$ 287,410	$ 1,610,631	$ 181,571	$ 7,966,589
Issue of common shares on corporate acquisitions (*notes 6 and 11*)	444,402	–	–	–	444,402
Issuance and sale of Topaz common shares to NCI (*note 10*)	–	–	89,345	319,075	408,420
Share issue costs, net of tax on issuance of Topaz common shares (*note 10*)	–	–	(8,821)	(7,457)	(16,278)
Share-based payments	–	10,175	–	–	10,175
Capitalized share-based payments (*note 6*)	–	7,195	–	–	7,195
Options exercised (*note 11*)	1,550	(289)	–	–	1,261
Purchase of common shares under NCIB (*note 11*)	(4,814)	2,661	–	–	(2,153)
Dividends paid (*note 11*)	–	–	(135,638)	(25,988)	(161,626)
Income attributable to common shareholders	–	–	618,311	–	618,311
Income attributable to non-controlling interest	–	–	–	242	242
Balance at December 31, 2020	**$ 6,328,115**	**$ 307,152**	**$ 2,173,828**	**$ 467,443**	**$ 9,276,538**

(000s)	Share Capital	Contributed Surplus	Retained Earnings	Non-Controlling Interest	Total Equity
Balance at December 31, 2018	$ 5,909,664	$ 253,055	$ 1,380,593	$ 28,068	$ 7,571,380
Purchase of Exshaw common shares *(note 10)*	–	–	12,940	(27,940)	(15,000)
Sale of Topaz common shares (*note 10*)	–	–	26,048	182,457	208,505
Share issue costs, net of tax on sale of Topaz common shares (*note 10*)	–	–	(3,695)	(1,302)	(4,997)
Share-based payments	–	13,822	–	–	13,822
Capitalized share-based payments (*note 6*)	–	10,581	–	–	10,581
Purchase of common shares under NCIB (*note 11*)	(22,875)	9,992	–	–	(12,883)
Options exercised (*note 11*)	188	(40)	–	–	148
Dividends paid (*note 11*)	–	–	(124,995)	–	(124,995)
Income attributable to common shareholders	–	–	319,740	–	319,740
Income attributable to non-controlling interest	–	–	–	288	288
Balance at December 31, 2019	$ 5,886,977	$ 287,410	$ 1,610,631	$ 181,571	$ 7,966,589

See accompanying notes to the consolidated financial statements.

CONSOLIDATED STATEMENTS OF CASH FLOWS

(000s)	Years Ended December 31, 2020	2019
Cash provided by (used in):		
Operations:		
Net income attributable to shareholders of the Company	**$ 618,311**	$ 319,740
Items not involving cash:		
Depletion, depreciation, amortization and impairment	**1,138,370**	853,388
Accretion on decommissioning obligations (*note 8*)	**5,423**	5,858
Lease interest expense (*note 7*)	**289**	225
Share-based payments (*note 15*)	**10,175**	13,822
Deferred taxes (recovery) (*note 13*)	**931**	(21,140)
Unrealized loss on financial instruments (*note 4*)	**38,010**	40,715
Unrealized foreign exchange loss	**1,450**	2,703
Other non-cash items	**738**	848
(Gain) on acquisitions and divestitures *(note 6)*	**(621,683)**	(7,656)
Non-controlling interest (*note 10*)	**242**	288
Decommissioning expenditures (*note 8*)	**(6,569)**	(3,251)
Changes in non-cash operating working capital *(note 19)*	**(60,551)**	(30,611)
Total cash flow from operating activities	**1,125,136**	1,174,929
Financing:		
Issue of common shares	**1,261**	148
Share issue costs	**(21,145)**	–
Purchase of Exshaw common shares (*note 10*)	**–**	(15,000)
Sale of Topaz common shares (*note 10*)	**408,420**	202,002
Purchase of common shares (*note 11*)	**(2,153)**	(12,883)
Lease payments (*note 7*)	**(3,398)**	(5,095)
Dividends paid (*note 11*)	**(161,626)**	(124,995)
Increase in bank debt	**35,944**	142,910
Total cash flow from financing activities	**257,303**	187,087
Investing:		
Exploration and evaluation (*note 5*)	**(6,633)**	(53,772)
Property, plant and equipment (*note 6*)	**(905,356)**	(1,014,935)
Property acquisitions (*note 6*)	**(171,871)**	(226,657)
Proceeds from divestitures (*note 6*)	**235**	8,105
Corporate acquisitions *(note 6)*	**(100,822)**	–
Changes in non-cash investing working capital *(note 19)*	**22,176**	(74,757)
Total cash flow used in investing activities	**(1,162,271)**	(1,362,016)
Changes in cash	**220,168**	–
Cash, beginning of year	**–**	–
Cash, end of year	**$ 220,168**	$ –

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, 2020 AND 2019

(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., Tourmaline Oil Marketing Corp, Polar Star Canadian Oil and Gas Inc. ("Polar Star"), Chinook Energy Inc., including its 100% owned subsidiaries Storm Ventures International (BVI) Limited and 1542991 Alberta Ltd. ("Chinook"), Modern Resources Inc. ("Modern"), Jupiter Resources Inc. ("Jupiter"), and Topaz Energy Corp. ("Topaz") of which the Company owns 51.7% (note 10).

OPERATING ENVIRONMENT AND THE COVID-19 PANDEMIC

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

During this period of economic uncertainty, the Company is committed to maintaining its strong statement of financial position and financial liquidity. At December 31, 2020, the Company had $220.2 million in cash held in one of its subsidiaries and $1.0 billion in unutilized borrowing capacity on its credit facilities, all of which are covenant based and not directly tied to changes in the Company's oil and gas reserves, insulating the Company's borrowing capacity against large swings in commodity price forecasts used to calculate reserve values. At December 31, 2020, the Company was in compliance with all of its covenants under its credit facilities and has sufficient room under those covenants to allow for further deterioration of commodity prices or an increase in future borrowings to navigate through these uncertain times, if required. The Company believes it has sufficient liquidity through cash flow to execute its 2021 capital budget and continues to monitor and adjust as necessary.

The Company has increased its monitoring of receivables due from oil and natural gas marketers and from joint asset partners to manage credit risk. The Company historically has not experienced any collection issues with oil and natural gas marketers as a significant portion of these receivables are with creditworthy purchasers. To protect against credit losses from joint-asset partners, the Company has the ability to withhold production in the event of non-payment and the ability to obtain the partners' share of capital expenditures in advance of a project. The Company believes that its receivables at December 31, 2020 are substantially collectible.

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

Due to the uncertainty surrounding the magnitude, duration and potential outcomes of the COVID-19 pandemic, the Company is unable at this time to predict its long-term impact on its operations, liquidity, financial condition and results, but the impact may be material.

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 International Accounting Standards Board ("IASB").

The consolidated financial statements were authorized for issue by the Board of Directors on March 10, 2021.

(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 and amortization 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 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) 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:

Estimation of reported recoverable quantities of proved and probable oil and gas reserves and the related cash flows requires estimation and are subject to assumptions regarding forecasted production profile, 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 natural gas properties and equipment (included in property, plant and equipment), the calculation of depletion and depreciation, the provision for decommissioning obligations, and the recognition of deferred tax assets due to changes in expected future cash flows. The estimated recoverable quantities of proved and probable oil and gas reserves and the related cash flows from the Company's oil and natural gas interests are evaluated by independent third-party reserve evaluators 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-based 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) 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, Polar Star, Chinook, Modern, Jupiter, and Topaz of which the Company owns 51.7% (note 10).

(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.

(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, 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, 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.

(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 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.

(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 tangible assets referred to as oil and natural 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 development and production assets, 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', 'BC Montney' and 'Topaz'. 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 natural 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 natural 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 natural 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 are recognized in profit or loss as incurred.

(iii) Depletion and depreciation:

The net carrying value of development or production assets is depleted using the unit-of-production method by reference to the ratio of:

- Production in the year over all developed oil and gas reserves, for the Topaz CGU, without taking into account estimated future development costs.
- Production in the year over the related proved and probable oil and gas reserves, for all other CGUs, taking into account estimated future development costs necessary to bring those reserves into production. Future development costs are estimated taking into account the level of development required to produce the reserves.

Proved and probable oil and gas reserves are estimated annually by independent third-party reserve evaluators and 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 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, the estimated future cash flows from proved and probable oil and gas reserves 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) Deferred 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.

(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. This policy is applied to new and existing contracts as at or after January 1, 2019.

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 market values. The market 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 market value of oil and natural gas interests (included in property, plant and equipment) is derived from estimated proved and probable oil and gas reserves and the related cash flows prepared by independent third-party reserve evaluators. The risk-adjusted discount rate is specific to the asset with reference to general market conditions.

The market 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, bank debt, accounts payable and accrued liabilities:

The fair value of cash and cash equivalents, accounts receivable, deposits, bank debt, 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, 2020 and December 31, 2019, the fair value of these balances approximated their carrying value due to their short term to maturity. The bank debt has a floating rate of interest and therefore the carrying value approximates the fair value.

(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.

(iv) Share options:

The fair value of employee 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), 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).

(v) Measurement:

Tourmaline classifies the fair value of these transactions 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 based on observable market data.

The following tables provide fair value measurement information for financial assets and liabilities as of December 31, 2020 and December 31, 2019. 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, 2020	
(000s)	**Carrying Amount**	**Fair Value**
Financial assets:		
Commodity price and foreign exchange rate risk contracts [1]	**$ 25,459**	**$ 25,459**
Financial liabilities:		
Bank debt	**$ 1,942,259**	**$ 1,942,259**
Commodity price, interest rate and foreign exchange rate risk contracts [1]	**$ 107,550**	**$107,550**

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

	As at December 31, 2019	
(000s)	**Carrying Amount**	**Fair Value**
Financial Assets:		
Interest rate risk contracts [1]	$ 15,149	$ 15,149
Financial Liabilities:		
Bank debt	$ 1,619,009	$ 1,619,009
Commodity price and interest rate risk contracts [1]	48,584	48,584

(1) Commodity price, interest rate 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, 2020, Tourmaline's receivables consisted of $327.4 million from oil and natural gas marketers and financial institutions (December 31, 2019 - $224.1 million), $27.9 million from partners in jointly-owned assets (December 31, 2019 - $26.4 million), and $8.3 million from provincial governments (December 31, 2019 - $9.4 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 2020, Tourmaline had one counterparty (2019 – three) 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, 2020, the Company has $3.4 million (December 31, 2019 - $4.2 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, 2020 (December 31, 2019 - nil) nor was it required to write-off any receivables during the year ended December 31, 2020 (December 31, 2019 – 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, 2020 is $450.5 million (December 31, 2019 - $412.3 million). It is the Company's policy to pay suppliers within 45-75 days. These terms are consistent with industry practice. As at December 31, 2020, 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, 2020:

(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:						
Trade and other payables	$ 450,510	$ 450,510	$ 450,510	$ –	$ –	$ –
Revolving credit facility [1]	993,165	1,062,507	–	–	1,062,507	–
Term debt [2]	949,094	1,014,486	18,721	18,721	977,044	–
Derivative financial liabilities:						
Financial commodity contracts	78,023	78,023	49,506	12,710	15,807	–
Financial interest rate swaps	29,146	29,146	9,436	9,082	10,575	53
Financial foreign currency contracts	381	381	246	135	–	–
	$ 2,500,319	**$ 2,635,053**	**$ 528,419**	**$ 40,648**	**$ 2,065,933**	**$ 53**

(1) Includes interest expense at 1.93% being the rate applicable to outstanding debt on the credit facility at December 31, 2020 and interest paid at the maturity of the facility.

(2) Includes interest expense at 1.97% being the rate applicable to outstanding debt on the term loan at December 31, 2020 with interest payments made monthly as the term loan is fully drawn.

(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, 2020 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 $0.1 million (December 31, 2019 - $0.9 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, 2020 would have decreased or increased shareholders' equity and net income by $13.0 million (December 31, 2019 - $12.7 million). The unrealized loss on the interest rate swap has been included on the consolidated statement of financial position with changes in the fair value included in the unrealized gain or loss on financial instruments on the consolidated statement of income and comprehensive income. 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, 2020, 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, 2020 [1]:

		2021	2022	2023	2024	Fair Value *(000s)*
Gas						
NYMEX swaps	*mmbtu/d*	132,592	30,833	–	–	$ 11,052
	USD$/mmbtu	$ 2.79	2.73			
AECO swaps [2][4]	mmbtu/d	65,864	–	–	–	$ (6,058)
	CAD$/mmbtu	$ 2.12				
AECO basis swaps	mmbtu/d	1,449	–	–	–	$ (618)
	USD$/mmbtu	$ (1.48)				
AECO financial collars	mmbtu/d	46,742	–	–	–	$ (423)
	CAD$/mmbtu	$2.52-3.05				
Basis differentials – other	mmbtu/d	37,500	37,500	37,500	37,500	$ (34,392)
	USD$/mmbtu	$ 0.29	$ 0.29	$ 0.29	$ 0.28	
Call options (writer) [3]	*mmbtu/d*	29,932	55,000	–	–	$ (4,236)
	USD$/mmbtu	$ 3.42	$ 3.50			
Oil						
Financial swaps	*bbls/d*	9,114	–	–	–	$ (17,428)
	USD$/bbl	$ 44.11				
Financial swaps	*bbls/d*	1,500	100	–	–	$ (503)
	CAD$/bbl	$ 60.09	$ 66.90			
Financial collars	*bbls/d*	752	–	–	–	$ (1,005)
	USD$/bbl	$ 37.65 - 50.00				
Financial swaption	*bbls/d*	252	–	–	–	$ (348)
	USD$/bbl	$ 51.60				
Total fair value						$ (53,959)

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

(2) A portion of these deals have been entered into by Topaz.

(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) These deals are a combination of AECO 5A and 7A underlying commodity price.

The Company has entered into the following financial commodity derivative contracts subsequent to December 31, 2020:

Type of Contract	Quantity	Time Period	Contract Price
Nymex swap	20,000 mmbtu/d	March 2021	USD $3.08/mmbtu
Nymex swap	20,000 mmbtu/d	March 2021 – December 2021	USD $2.89/mmbtu
Nymex swap	35,000 mmbtu/d	April 2021 – October 2021	USD $2.84/mmbtu
Nymex swap	10,000 mmbtu/d	April 2021 – June 2021	USD $2.67/mmbtu
Nymex swap	10,000 mmbtu/d	July 2021 – October 2021	USD $2.90/mmbtu
Nymex swap	30,000 mmbtu/d	January 2022 – December 2022	USD $2.71/mmbtu
AECO swap[(1)]	2,500 GJ/d	March 2021 – March 2022	CAD $2.74/GJ
AECO swap[(1)]	2,500 GJ/d	February 2021 – December 2021	CAD $2.75/GJ
AECO swap[(1)]	5,000 GJ/d	March 2021 – October 2021	CAD $2.69/GJ
Oil collar	1,000 bbls/d	March 2021 – December 2021	$50.00-59.55 US/bbl
NYMEX oil swap	1,000 bbls/d	January 2022 – December 2022	$52.16 US/bbl
NYMEX oil swap	1,000 bbls/d	March 2021 – December 2022	$55.00 US/bbl
Propane financial swap[(2)]	2,578 bbls/d	January 2021 – December 2021	$34.75 US/bbl

(1) These deals have been entered into by Topaz.

(2) These propane financial swaps include OPIS Conway, Argus FEI and Baltic LPG Freight financial swap transactions.

The Company has entered into the following interest rate swaps at an annual average interest rate as detailed below:

	2021	2022	2023	2024	2025	2026	2027	Fair Value *(000s)*
Effective interest rate [(1)]	1.81%	1.87%	1.99%	2.02%	1.42%	1.10%	1.10%	
Notional amount swapped (000s)	$ 752,986	$ 705,570	$ 533,802	$ 224,733	$ 50,067	$ 25,000	$ 6,319	$ (29,146)

(1) Canadian dealer offer rate, excluding stamping and stand-by fees.

The Company has not entered into any interest rate swaps subsequent to December 31, 2020.

The Company has the following financial foreign currency derivative contracts in place at December 31, 2020:

		2021	2022	Fair Value *(000s)*
Costless collar[(1)]	*$USD(000s) Monthly*	$ 8,000	$ 3,000	$ 905
	$CAD/$USD	$ 1.268 – $ 1.362	$ 1.250 – $ 1.373	
Average rate forward	*$USD(000s) Monthly*	$ 1,000	–	$ 109
	$CAD/$USD	$ 1.285		
Total fair value				$ 1,014

(1) A portion of these financial collars have a European call writer option at year end that if called would result in an average rate forward for the following year in the following amounts, $4.0 million/month at $1.345 for 2021 and at $1.373 for 2022.

In 2020, the Company unwound and monetized certain foreign currency derivative contracts for $26.1 million which is included in realized foreign exchange (gain) loss on the consolidated statements of income and comprehensive income.

The Company has entered into the following financial foreign currency derivative contracts subsequent to December 31, 2020:

Type of Contract	Monthly Notional ($000)	Time Period	Contract Price
Variable rate collar [1]	$ 2,000	January – December 2021	$1.2500 – $1.3450
Variable rate collar [2]	$ 1,000	February – December 2021	$1.2500 – $1.3430
Puts	$ 2,000	March – December 2021	$1.2500

(1) These financial collars have a European call writer option at December 31, 2021 that if called would result in an average rate forward of $2.0 million/month at $1.328 for 2022.

(2) These financial collars have a European call writer option at December 31, 2021 that if called would result in an average rate forward of $1.0 million/month at $1.343 for 2022.

The following table provides a summary of the unrealized gains and losses on financial instruments for the years ended December 31, 2020 and 2019:

	Years Ended December 31,	
(000s)	**2020**	**2019**
Unrealized (loss) on financial instruments – commodity contracts	**$ (4,392)**	$ (52,698)
Unrealized (loss) on financial instruments – interest rate swaps	**(31,888)**	(8,994)
Unrealized gain (loss) on financial instruments – foreign currency	**(1,730)**	20,977
Total unrealized (loss) on financial instruments	**$ (38,010)**	$ (40,715)

The Company's financial commodity contracts are sensitive to fluctuations in commodity prices. For the commodity contracts in place at December 31, 2020, 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 loss would increase by $30.0 million, directly impacting pre-tax earnings (December 31, 2019 - $26.2 million reduction in the unrealized gain). 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.

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, 2020 (1)(5):

		2021	2022	2023	2024	2025
Gas						
Fixed price (2)	*mcf/d*	304,063	49,981	2,068	1,243	–
	CAD$/mcf	$ 2.70	$ 3.06	$ 3.18	$ 3.18	
Basis differentials - AECO (3)	*mmbtu/d*	166,527	147,500	129,164	70,833	–
	USD$/mmbtu	$ (0.71)	$ (0.71)	$ (0.76)	$ (0.72)	
Basis differentials - Dawn	*mmbtu/d*	11,164	15,000	10,000	–	–
	USD$/mmbtu	$ (0.12)	$ (0.09)	$ (0.09)		
Basis differentials – Stn 2	*mcf/d*	32,984	20,000	16,658	–	–
	CAD$/mcf	$ (0.10)	$ 0.25	$ 0.24		
Basis differentials – Other (4)	*mcf/d*	46,534	45,000	47,514	62,500	–
	CAD$/mcf	$ 0.24	$ 0.22	$ 0.16	$ (0.09)	
Oil						
Basis differentials - Condensate	*bbls/d*	2,586	–	–	–	–
	USD$/bbl	$ (1.83)				
Oil basis differentials	*bbls/d*	948	–	–	–	–
	USD$/bbl	$ (5.30)				

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

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

(3) A portion of these basis deals have a cap on NYMEX, 56.2 mmcf/d at USD$4.44/mcf from 2021-2022 and 43.3 mmcf/d at USD$4.49/mcf from 2023-2024.

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

(5) Tourmaline also has entered into deals to sell 20,000 mmbtu/d priced off Chicago GDD less transportation costs that extend into 2030; 5,000 mmbtu/d priced off Chicago GDD less transportation costs that extends to 2023; 30,000 mmbtu/d priced off Chicago GDD less transportation costs 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, 2020:

Type of Contract	Quantity	Time Period	Contract Price
Fixed Price – Gas	10,000 GJ/d	February 2021	CAD $2.97/GJ
Fixed Price – Gas	15,000 mmbtu/d	February 2021	US $3.58/mmbtu
Fixed Price – Gas	88,500 GJ/d	March 2021	CAD $3.08/GJ
Fixed Price – Gas	41,000 GJ/d	April 2021	CAD $2.81/GJ
Fixed Price – Gas	5,000 GJ/d	November 2021 – October 2022	CAD $2.52/GJ
Basis differential – NYMEX	70,000 mmbtu/d	April – October 2021	US $(0.72)/mmbtu
Basis differential – NYMEX	45,000 mmbtu/d	January – December 2022	US $(0.66)/mmbtu
Basis differential – NYMEX	20,000 mmbtu/d	March 2021	US $0.08/mmbtu
Basis differential – NYMEX	10,000 mmbtu/d	April 2021	US $(0.01)/mmbtu
Basis differential – AECO	10,000 GJ/d	November 2021 – March 2022	CAD $0.05/GJ
Condensate differentials	1,554 bbls/d	February – December 2021	US $(1.10)/bbl
Condensate differentials	1,037 bbls/d	April – June 2021	US $(0.25)/bbl
Condensate differentials	3,078 bbls/d	July – December 2021	US $(1.50)/bbl
Oil differentials	1,030 bbls/d	April – December 2021	US $(4.75)/bbl
Oil differentials	1,539 bbls/d	July – December 2021	US $(5.37)/bbl

(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 and working capital. In order to maintain or adjust the capital structure, the Company may from time to time issue 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 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.

The Company monitors this ratio and endeavours to maintain it at, or below, 2.0 to 1.0 in a normalized commodity price environment. This ratio may increase at certain times as a result of acquisitions or low commodity prices. As shown below, as at December 31, 2020, the Company's ratio of net debt to annualized cash flow was 1.12 to 1.00 (December 31, 2019 - 1.31 to 1.00).

	As at December 31,	
(000s)	**2020**	**2019**
Net debt:		
Bank debt	**$(1,942,259)**	$(1,619,009)
Working capital (deficit)	**111,744**	(152,987)
Fair value of financial instruments – short-term (asset) liability	**36,115**	10,885
Lease liabilities – short-term	**3,412**	2,724
Decommissioning obligations – short-term	**4,618**	–
Unrealized foreign exchange in working capital – (asset) liability	**1,450**	2,703
Net debt	**$(1,784,920)**	$(1,755,684)
Annualized cash flow:		
Cash flow from operating activities for Q4	**$ 326,526**	$ 287,729
Change in non-cash working capital	**70,343**	48,127
Cash flow for Q4	**$ 396,869**	$ 335,856
Annualized cash flow (based on most recent quarter annualized)	**$ 1,587,476**	$ 1,343,424
Net debt to annualized cash flow	**1.12**	1.31

There have been no changes in the Company's approach to capital management since December 31, 2019.

5. EXPLORATION AND EVALUATION ASSETS

(000s)	
As at January 1, 2019	$ 595,667
Capital expenditures	53,772
Transfers to property, plant and equipment *(note 6)*	(36,854)
Acquisitions	64,066
Divestitures	(2,160)
Expired mineral leases	(52,835)
As at December 31, 2019	$ 621,656
Capital expenditures	6,633
Transfers to property, plant and equipment *(note 6)*	(90,912)
Acquisitions	20,949
Divestitures	(6,240)
Expired mineral leases	(42,553)
As at December 31, 2020	**$ 509,533**

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, 2020 and 2019, 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, 2019	$13,842,667
Capital expenditures	1,025,517
Transfers from exploration and evaluation *(note 5)*	36,854
Change in decommissioning liabilities *(note 8)*	2,123
Acquisitions	185,718
Divestitures	(7,136)
As at December 31, 2019	$15,085,743
Capital expenditures	912,551
Transfers from exploration and evaluation *(note 5)*	90,912
Change in decommissioning liabilities *(note 8)*	208,134
Corporate acquisitions	1,085,062
Acquisitions	173,013
Divestitures	(230)
As at December 31, 2020	**$17,555,185**

Accumulated Depletion, Depreciation and Amortization

(000s)	
As at January 1, 2019	$ 4,034,918
Depletion, depreciation and amortization	795,635
As at December 31, 2019	$ 4,830,553
Depletion, depreciation and amortization	842,599
Impairment expense	250,000
As at December 31, 2020	**$ 5,923,152**

Net Book Value

(000s)	
As at December 31, 2019	$10,255,190
As at December 31, 2020	**$11,632,033**

Future development costs for the year ended December 31, 2020 of $8,787.2 million (December 31, 2019 - $7,404.4 million) were included in the depletion calculation.

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

A total of $32.5 million in G&A expenditures have been capitalized and included in PP&E assets at December 31, 2020 (December 31, 2019 - $29.5 million). Also included in PP&E are non-cash share-based payments of $7.2 million at December 31, 2020 (December 31, 2019 - $10.6 million). At December 31, 2020, there were no capitalized borrowing costs on specified projects included in PP&E (December 31, 2019 – $3.0 million).

Impairment Assessment

In accordance with IFRS, an impairment test is performed on a CGU if the Company identifies an indicator of impairment or reversal of impairment. At December 31, 2020, the Company identified indicators of impairment on all of its CGUs due to a decrease in the expected future cash flows due to a decrease in natural gas sales point diversification premiums since December 31, 2019 along with the significant commodity price volatility throughout 2020 and the continuing economic uncertainty surrounding the impact of COVID-19.

An impairment is recognized if the carrying value of a CGU exceeds the estimated recoverable amount for that CGU. The Company determines the recoverable amount by using the greater of fair value less cost to sell and value-in-use. At December 31, 2020, the Company used value-in-use, derived from the estimate of proved and probable oil and gas reserves and the related cash flows estimated by the Company’s independent third-party reserve evaluators discounting reserves at pre-tax rates ranging between 10-11%.

The following forecasted oil and gas commodity prices were used in determining whether an impairment to the carrying value of the CGUs existed at December 31, 2020:

Year	WTI Oil (USD$/bbl)(1)	Foreign Exchange Rate(1)	Edmonton Light Crude Oil (Cdn$/bbl)(1)	AECO Gas (Cdn$/mmbtu)(1)
2021	47.17	0.7683	55.76	2.78
2022	50.17	0.7650	59.89	2.70
2023	53.17	0.7633	63.48	2.61
2024	54.97	0.7633	65.76	2.65
2025	56.07	0.7633	67.13	2.70
2026	57.19	0.7633	68.53	2.76
2027	58.34	0.7633	69.95	2.81
2028	59.50	0.7633	71.40	2.87
2029	60.69	0.7633	72.88	2.92
2030	61.91	0.7633	74.34	2.98
Thereafter	+2.0%/yr	0.7633	+2.0%/yr	+2.0%/yr

(1) Source: 3 Consultants' average, GLJ Petroleum Consultants, McDaniel & Associates Consultants, and Sproule Associates price forecasts, effective January 1, 2021.

The Company determined that there was no impairment or reversal of impairment to PP&E at December 31, 2020.

The Company has recorded an aggregate impairment charge of $250.0 million related to the Spirit River CGU for the year ended December 31, 2020 as a result of an impairment test performed at March 31, 2020. The impairment was reaffirmed at December 31, 2020. The impairment was a result of the material decrease in the forecasted oil and gas commodity prices. The decrease in the forecasted oil and gas commodity prices resulted in a significant drop in the discounted cash flows from proved and probable oil and gas reserves in the Spirit River CGU. There were no impairments recorded in the Company's other CGUs.

The estimated recoverable amount and resulting impairment expense, if any, of the Company's CGUs is sensitive to changes in discount rates and forward price curves over the life of the reserves. The external reserve evaluators also assess many other financial assumptions regarding royalty rates, operating costs and future development costs along with several other non-financial assumptions that affect reserve volumes. Management considered these assumptions for the impairment test at December 31, 2020; however, it should be noted that all estimates are subject to uncertainty.

For the year ended December 31, 2020, a change in the discount rate or a change in cash flows from proved and probable oil and gas reserves would have the following impact on impairment in the Spirit River CGU:

(000s)	Discount rate		Cash flows	
	1% Increase	1% decrease	5% Increase	5% decrease
Impairment – increase (reversal)	$ 49,310	$ (39,059)	$ (128,446)	$ 207,554

For the year ended December 31, 2019, the Company identified indicators of impairment on its Deep Basin, Spirit River and BC Montney CGUs due to the decrease in natural gas sales point diversification premiums since December 31, 2018 and the royalty burden placed on the Company's reserves by the creation of Topaz and performed impairment tests accordingly. There were no indicators of impairment on the Topaz CGU at December 31, 2019. The Company determined that there was no impairment to PP&E at December 31, 2019.

Corporate Acquisitions

Polar Star Canadian Oil and Gas Inc.

On February 14, 2020, the Company acquired all of the issued and outstanding shares of Polar Star for total cash consideration of $12.0 million, including working capital. The acquisition of Polar Star is part of the Company's consolidation activities in the core Northeast BC ("NEBC") area and provides for an increase in developed lands, production and includes a compressor station. Total transaction costs incurred by the Company of $0.2 million associated with this acquisition were expensed in the consolidated statement of income and comprehensive income. The acquisition resulted in a gain of $34.2 million as a result of the Company recognizing a deferred income tax asset as part of the acquisition of $33.8 million.

Results from operations for Polar 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, 2018 by independent third-party reserve evaluators and internally rolled forward to February 14, 2020. 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)	Polar Star Canadian Oil and Gas Inc.
Fair value of net assets acquired:	
Cash	$ 642
Working capital	5,598
Property, plant and equipment	8,666
Decommissioning obligations	(2,537)
Deferred income tax asset	33,805
Gain on acquisition	(34,204)
Total	$ 11,970
Consideration:	
Cash	$ 11,970

Included in the consolidated statements of income and comprehensive income for the year ended December 31, 2020 are the following amounts relating to Polar Star since February 14, 2020:

(000s)	Polar Star Canadian Oil and Gas Inc.
Oil and natural gas sales	$ 13,348
Net income and comprehensive income attributable to common shareholders	$ 830

If the Company had acquired Polar Star on January 1, 2020, the pro-forma results of the oil and gas sales and net income and comprehensive income for the year ended December 31, 2020 would have been as follows:

(000s)	As Stated	Polar Star	Pro Forma Year ended December 31, 2020
Oil and natural gas sales	$ 2,200,911	$ 2,579	$ 2,203,490
Net income and comprehensive income attributable to common shareholders	$ 618,311	$ 592	$ 618,903

Chinook Energy Inc.

On April 21, 2020, the Company acquired all of the issued and outstanding shares of Chinook for total cash consideration of $15.1 million, as well as the assumption of working capital deficit. The acquisition of Chinook is part of the Company's consolidation activities in the core NEBC area and provides for an increase in developed lands and production and infrastructure including a gas plant, compressor station and natural gas pipeline. 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 resulted in a gain of $87.8 million as a result of the Company recognizing a deferred income tax asset as part of the acquisition of $81.1 million.

Results from operations for Chinook 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, 2019 by independent third-party reserve evaluators. 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)	Chinook Energy Inc.
Fair value of net assets acquired:	
Working capital (deficit)	$ (3,472)
Property, plant and equipment	35,961
Decommissioning obligations	(4,816)
Bank debt	(5,903)
Deferred income tax asset	81,134
Gain on acquisition	(87,802)
Total	$ 15,102
Consideration:	
Cash	$ 15,102

Included in the consolidated statements of income and comprehensive income for the year ended December 31, 2020 are the following amounts relating to Chinook since April 21, 2020:

(000s)	Chinook Energy Inc.
Oil and natural gas sales	$ 12,437
Net (loss) and comprehensive (loss) attributable to common shareholders	$ (1,380)

If the Company had acquired Chinook on January 1, 2020, the pro-forma results of the oil and gas sales and net income and comprehensive income for the year ended December 31, 2020 would have been as follows:

(000s)	As Stated	Chinook	Pro Forma Year ended December 31, 2020
Oil and natural gas sales	$ 2,200,911	$ 6,146	$ 2,207,057
Net income and comprehensive income attributable to common shareholders	$ 618,311	$ (382)	$ 617,929

Modern Resources Inc.

On November 2, 2020, the Company acquired all of the issued and outstanding shares of Modern. As consideration, the Company issued 1.5 million common shares at a price of $17.00 per common share for share consideration of $25.5 million and cash consideration of $73.8 million for total consideration of $99.3 million, as well as the assumption of working capital deficit. The acquisition of Modern is part of the Company's consolidation activities in the Deep Basin and provides for an increase in developed lands, production and infrastructure including a natural gas processing plant. 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 resulted in a gain of $60.6 million as a result of the Company recognizing a deferred income tax asset as part of the acquisition of $72.1 million.

Results from operations for Modern 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 November 1, 2020 by independent third-party reserve evaluators. 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)	Modern Resources Inc.
Fair value of net assets acquired:	
Working capital (deficit)	$ 1,457
Right-of-use asset	335
Property, plant and equipment	144,469
Lease Liabilities	(335)
Financial instruments (net)	(1,259)
Decommissioning obligations	(13,329)
Bank debt	(43,575)
Deferred income tax asset	72,132
Gain on acquisition	(60,645)
Total	$ 99,250
Consideration:	
Cash	$ 73,750
Common shares issued	25,500
Total	$ 99,250

Included in the consolidated statements of income and comprehensive income for the year ended December 31, 2020 are the following amounts relating to Modern since November 2, 2020:

(000s)	Modern Resources Inc.
Oil and natural gas sales	$ 11,428
Net income and comprehensive income attributable to common shareholders	$ 2,163

If the Company had acquired Modern on January 1, 2020, the pro-forma results of the oil and gas sales and net income and comprehensive income for the year ended December 31, 2020 would have been as follows:

(000s)	As Stated	Modern	Pro Forma Year ended December 31, 2020
Oil and natural gas sales	$ 2,200,911	$ 43,890	$ 2,244,801
Net income and comprehensive income attributable to common shareholders	$ 618,311	$ 10,372	$ 628,683

Jupiter Resources Inc.

On December 18, 2020, the Company acquired all of the issued and outstanding shares of Jupiter. As consideration, the Company issued 24.2 million common shares at a price of $17.31 per common share for consideration of $418.9 million, as well as the assumption of working capital deficit. Total transaction costs incurred by the Company of $0.9 million associated with this acquisition were expensed in the consolidated statement of income and comprehensive income. The acquisition of Jupiter is part of the Company's consolidation activities in the Deep Basin and provides for an increase in developed lands, production and infrastructure including a working interest in three natural gas processing plants.

Results from operations for Jupiter 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, 2020 by independent third-party reserve evaluators. 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)	Jupiter Resources Inc.
Fair value of net assets acquired:	
Working capital	$ 34,591
Property, plant and equipment	895,966
Right-of-use assets	1,366
Long-term asset	683
Financial instruments (net)	(9,387)
Lease Liabilities	(1,366)
Decommissioning obligations	(30,049)
Bank debt	(238,470)
Deferred income tax asset	204,600
Gain on acquisition	(439,032)
Total	$ 418,902
Consideration:	
Shares issued	$ 418,902

Included in the consolidated statements of income and comprehensive income for the year ended December 31, 2020 are the following amounts relating to Jupiter since December 18, 2020:

(000s)	Jupiter Resources Inc.
Oil and natural gas sales	$ 15,851
Net income and comprehensive income attributable to common shareholders	$ 2,877

If the Company had acquired Jupiter on January 1, 2020, the pro-forma results of the oil and gas sales and net income and comprehensive income for the year ended December 31, 2020 would have been as follows:

(000s)	As Stated	Jupiter	Pro Forma Year ended December 31, 2020
Oil and natural gas sales	$ 2,200,911	$ 366,021	$ 2,566,932
Net income and comprehensive income attributable to common shareholders	$ 618,311	$ (4,541)	$ 613,770

Acquisition and Disposition of Oil and Natural Gas Properties

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

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

On December 22, 2020, Topaz acquired a royalty interest on lands in the Clearwater area of Alberta for $16.0 million, before customary closing adjustments. The acquisition resulted in an increase in PP&E of approximately $16.0 million. The Company applied the optional IFRS 3 concentration test to this acquisition which resulted in the acquired assets being accounted for as an asset acquisition.

In total, for the twelve months ended December 31, 2020, the Company completed property acquisitions for cash consideration of $171.9 million, including the acquisitions discussed above (December 31, 2019 - $226.7 million) and $6.2 million in acquisitions involving non-cash consideration (December 31, 2019 - $8.7 million). The Company assumed $15.9 million in decommissioning liabilities as a result of these acquisitions (December 31, 2019 - $14.4 million).

The Company also completed property dispositions, for the twelve months ended December 31, 2020, for total cash consideration of $0.2 million (December 31, 2019 - $8.1 million) and non-cash consideration of $6.2 million (December 31, 2019 – nil).

On August 13, 2019, the Company acquired assets in the Peace River High area for cash consideration of $175.0 million. The acquisition resulted in an increase in PP&E of approximately $180.8 million, an increase in E&E assets of $8.3 million, and the assumption of $14.1 million in decommissioning liabilities. The assets acquired were an incremental working interest to lands, production, reserves and facilities in which the Company was already a working interest owner. In connection with the early adoption of the amendment to IFRS 3, the Company applied the optional concentration test to this acquisition which resulted in the acquired assets being accounted for as an asset acquisition.

7. LEASES

Right-of-use assets

(000s)	As at December 31, 2020	As at December 31, 2019
Balance, beginning of year	**$ 10,831**	$ 12,028
Additions	**2,704**	3,721
Right-of-use assets acquired from corporate acquisitions	**1,701**	–
Depreciation	**(3,218)**	(4,918)
Balance, end of year	**$ 12,018**	$ 10,831

Lease liabilities

(000s)	As at December 31, 2020	As at December 31, 2019
Balance, beginning of period	**$ 10,879**	$ 12,028
Additions	**2,704**	3,721
Lease liabilities acquired from corporate acquisitions	**1,701**	–
Lease interest expense	**289**	225
Lease payments	**(3,398)**	(5,095)
Balance, end of period	**$ 12,175**	$ 10,879

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, 2020 which are not included in the lease liability (for the year ended December 31, 2019 – 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, 2020, the variable lease payments were $1.8 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 seven 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	$ 3,734	$ 4,185	$ 3,155	$ 1,854	$ 12,928

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 $783.4 million (December 31, 2019 – $479.5 million), with some abandonments expected to commence in 2021. A risk-free rate of 1.21% (December 31, 2019 – 1.76%) and an inflation rate of 1.49% (December 31, 2019 – 1.35%) were used to calculate the decommissioning obligations. The decommissioning obligations at December 31, 2020 have been adjusted by approximately $192.0 million reflecting the change in the risk-free and inflation rates, an increase in the expected well abandonment costs as well as the difference between the discounted fair value of obligations acquired from corporate acquisitions completed in 2020 and the discounted value using the risk-free rate.

(000s)	**As at December 31, 2020**	As at December 31, 2019
Balance, beginning of year	**$ 321,863**	$ 302,750
Obligation incurred	**16,160**	23,393
Obligation incurred on corporate acquisitions (*note 6*)	**50,731**	–
Obligation incurred on property acquisitions (*note 6*)	**15,850**	14,384
Obligation divested	**–**	(1)
Obligation settled	**(6,569)**	(3,251)
Accretion expense	**5,423**	5,858
Change in future estimated cash outlays	**191,974**	(21,270)
Balance, end of year	**$ 595,432**	$ 321,863
Current decommissioning obligations	**$ 4,618**	$ –
Long-term decommissioning obligation	**$ 590,814**	$ 321,863

9. BANK DEBT

(000s)	**As at December 31, 2020**	As at December 31, 2019
Revolving credit facility	**$ 994,948**	$ 673,963
Term debt	**949,495**	949,096
Debt issue costs	**(2,184)**	(4,050)
Bank debt	**$ 1,942,259**	$ 1,619,009

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 $1.8 billion with a maturity date of June 2024. The maturity date may, at the request of the Company and with consent of the lenders, be extended on an annual basis. The revolving credit facility includes an expansion feature ("accordion") which allows the Company, upon approval from the lenders, to increase the facility amount by up to $500.0 million by adding a new financial institution or by increasing the commitment of its existing lenders. The revolving credit facility can be drawn in either Canadian or U.S. funds and bears interest at the agent bank's prime lending rate, banker's acceptance rates or LIBOR (for U.S. borrowings), plus applicable margins.

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 to total capitalization must not exceed 0.6:1. At December 31, 2020, adjusted EBITDA for the purposes of the above-noted covenant calculations was $1,240.3 million (December 31, 2019 - $1,266.5 million), on a rolling four-quarter basis. At December 31, 2020, the ratio of adjusted EBITDA to interest expense was 27:1 and the ratio of total debt to total capitalization was 0.2:1. As at, and for the year ending, December 31, 2020, the Company is in compliance with all debt covenants.

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

The Company also has a covenant-based, unsecured, operating credit facility with a Canadian bank in the amount of $50.0 million. The operating credit facility has a maturity date of June 2021, which may, at the request of the Company and with consent of the lender, be extended on an annual basis. The covenants are the same as the revolving credit facility. At December 31, 2020, and December 31, 2019, the operating credit facility was not drawn.

Additionally, the Company has a letter of credit facility payable on demand in the amount of $50.0 million with a Canadian bank. Tourmaline has outstanding letters of credit in the amount of $19.5 million (December 31, 2019 - $11.6 million), which reduces the credit available on this facility.

Topaz, a subsidiary of Tourmaline, has a covenant-based, secured, operating credit facility with a Canadian bank. The operating credit facility is in the amount of $125.0 million with an initial maturity date of June 2022. The maturity date may, at the request of the Company and with consent of the lender, be extended on an annual basis. The operating credit facility 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, (ii) the ratio of senior debt to EBITDA must not exceed 3:1, and (iii) the ratio of total debt to EBITDA must not exceed 4:1. At December 31, 2020 and December 31, 2019, the operating credit facility was not drawn.

The Company's aggregate borrowing capacity is $2.975 billion at December 31, 2020. As at, and for the years ending December 31, 2020 and December 31, 2019, the Company is in compliance with all debt covenants.

As at December 31, 2020, the Company had $949.1 million in long-term debt outstanding and $993.2 million drawn against the revolving credit facility for total bank debt of $1,942.3 million (net of debt issue costs) (December 31, 2019 - $1,619.0 million). The effective interest rate for the twelve months ended December 31, 2020 was 2.09% (year ended December 31, 2019 – 3.26%).

10.NON-CONTROLLING INTEREST ("NCI")

Exshaw

At December 31, 2018, Tourmaline owned 90.6% of Exshaw, a private company engaged in oil and gas exploration in Canada.

In October 2019, the Company acquired the remaining 9.4% interest in Exshaw for cash consideration of $15.0 million. As a result of the Company controlling Exshaw before and after the transaction, no gains or losses or changes in carrying amounts of assets or liabilities were recognized on the change of ownership interest, instead the change in ownership interest was accounted for within equity. Subsequent to Tourmaline purchasing the remaining NCI, Exshaw transferred all of its assets and liabilities, except for approximately $48.1 million of deferred income tax assets to Tourmaline. As a result of Exshaw being a 100% owned subsidiary of the Company, the transfer of the Exshaw assets to Tourmaline was accounted for as a common control transaction whereby the book value method was applied.

A reconciliation of the non-controlling interest in Exshaw is provided below:

(000s)	**Years Ended December 31,**
	2019
Balance, beginning of year	**$ 28,068**
Share of subsidiary's net income (loss) for the year	**(128)**
Cash consideration paid to acquire NCI	**(15,000)**
Increase in equity attributable to shareholders of Tourmaline	**(12,940)**
Balance, end of year	**$ –**

Topaz

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

Prior to closing and immediately subsequent to closing the Acquisition, Topaz was a subsidiary controlled by the Company and consequently was under common control at the time of the Acquisition. Management used the book value method to determine the value of assets and liabilities acquired by Topaz. As a result of the common control transaction, Topaz recorded assets acquired in the amount of $637.0 million in exchange for cash to Tourmaline of $194.5 million and Topaz common shares of $442.5 million.

On November 14, 2019, Topaz closed a private placement financing for total cash consideration of $203.5 million (net of share issue costs of $4.9 million) which resulted in Tourmaline reducing its ownership interest from 100% to 73.9% creating a 26.1% non-controlling interest. The resulting carrying value of Topaz net assets in the consolidated financial statements which included the assets acquired from Tourmaline and the deferred income tax assets was $695.1 million.

(000s)	
Carrying amount of NCI disposed	$ 181,155
Consideration paid by NCI	203,508
Increase in equity attributable to shareholders of Tourmaline	$ 22,353

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

(000s)	
Carrying amount of NCI disposed	$ 100,411
Consideration paid by NCI on issuance of Topaz common shares	125,825
Increase in equity attributable to shareholders of Tourmaline	$ 25,414

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

(000s)	
Carrying amount of NCI disposed	$ 13,092
Consideration paid by NCI on issuance of Topaz common shares	16,278
Increase in equity attributable to shareholders of Tourmaline	$ 3,186

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

On October 26, 2020, Topaz completed its initial public offering for net consideration of $202.1 million (net of share issue costs of $15.4 million) which resulted in the issuance of 16.7 million common shares at $13.00 per common share representing 15.2% of the common shares outstanding. In addition to the initial public offering Tourmaline completed a secondary offering by selling 1.0 million Topaz common shares at $13.00 per common share for net consideration of $12.4 million (net of the broker's commission of $0.6 million).

On November 9, 2020, Topaz announced that in addition to the initial public offering, the over-allotment option granted to the underwriters had been exercised in full resulting in an additional 2.5 million common shares issued at $13.00 per common share for net consideration of $31.0 million (net of share issue costs of $1.6 million).

The initial public offering, secondary offering and over-allotment option resulted in Tourmaline reducing its ownership interest from 63.5% to 51.7% and increasing the non-controlling interest to 48.3% at November 9, 2020.

(000s)	
Carrying amount of NCI disposed	$ 198,115
Consideration paid by NCI on issuance and sale of Topaz common shares	250,039
Increase in equity attributable to shareholders of Tourmaline	$ 51,924

A reconciliation of the non-controlling interest is provided below:

(000s)	**As at December 31, 2020**	As at December 31, 2019
Balance, beginning of year	**$ 181,571**	$ –
Share of subsidiary's net income for the year	**242**	416
Topaz dividends paid to NCI	**(25,988)**	–
Carrying amount of NCI disposed	**311,618**	181,155
Balance, end of year	**$ 467,443**	$ 181,571

The following table summarizes the information relating to Topaz, before any intra-company eliminations:

(000s)	**As at and for the year ended December 31, 2020**	As at and for the year ended December 31, 2019
NCI percentage	**48.3%**	26.1%
Net assets	**$ 1,005,724**	$ 697,234
Net income (loss) and comprehensive income (loss)	**3,089**	(6,113)
Net increase in cash and cash equivalents	**$ 212,048**	$ 8,144

11. 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, 2020		Year Ended December 31, 2019	
(000s) except share amounts	**Number of Shares**	**Amount**	Number of Shares	Amount
Balance, beginning of year	**270,997,159**	**$ 5,886,977**	272,042,659	$ 5,909,664
Issued on corporate acquisitions (*note 6*)	**25,700,000**	**444,402**	–	–
Purchase of common shares under NCIB	**(221,600)**	**(4,814)**	(1,053,000)	(22,875)
For cash on exercise of stock options (*note 15*)	**95,957**	**1,261**	7,500	148
Contributed surplus on exercise of stock options	–	**289**	–	40
Balance, end of year	**296,571,516**	**$ 6,328,115**	270,997,159	$ 5,886,977

Normal course issuer bid

On July 15, 2020, the Company renewed its normal course issuer bid ("NCIB") with the Toronto Stock Exchange. The NCIB allows the Company to purchase up to 13,538,778 common shares, representing 5% of its common shares outstanding at June 30, 2020, over a period of twelve months commencing on July 20, 2020. Under the NCIB, common shares may be repurchased at prevailing market prices and any common shares that are purchased under the NCIB will be cancelled upon their purchase by the Company. For the year ended December 31, 2020, the Company purchased 221,600 common shares for cancellation at an average price of $9.71 per share for a total of $2.2 million. Contributed surplus was increased by $2.6 million, representing the excess of the average carrying value of the common shares over their purchase price.

Dividends

During the year ended December 31, 2020, the Company paid cash dividends of $0.50 per common share totalling $135.6 million. For the year ended December 31, 2019, the Company paid cash dividends of $0.46 per common share totalling $125.0 million. Additionally, during the year ended December 31, 2020, Topaz paid a cash dividend $0.80 per common share totalling $73.1 million of which $47.1 million was paid to Tourmaline and the remainder was paid to outside investors. For the year ended December 31, 2019, Topaz did not pay a dividend.

12. 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 six 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:

(000s)	Years Ended December 31, 2020	2019
Natural gas		
Sales from production	**$ 1,527,756**	$ 1,075,357
Premium (loss) on risk management activities	**(88,935)**	250,658
	1,438,821	1,326,015
Oil		
Sales from production	**127,139**	178,638
Premium (loss) on risk management activities	**(5,387)**	3,972
	121,752	182,610
Condensate		
Sales from production	**348,553**	422,119
(Loss) on risk management activities	**(11,679)**	(570)
	336,874	421,549
NGL		
Sales from production	**197,463**	170,081
Marketing revenue [(1)]	**49,161**	36,949
Total		
Commodity sales from production	**2,200,911**	1,846,195
Premium (loss) on risk management activities	**(106,001)**	254,060
Marketing revenue	**49,161**	36,949
Revenue from contracts with customers	**$ 2,144,071**	$ 2,137,204

(1) Marketing revenue represents the sale of commodities purchased from third parties. For the year ended December 31, 2020, the Company had marketing purchases from third parties of $48.0 million (2019 - $33.3 million).

At December 31, 2020, receivables from contracts with customers, which are included in accounts receivable, were $301.3 million ($214.7 million at December 31, 2019).

13. DEFERRED TAXES

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,	
	2020	**2019**
Income before taxes	**$ 619,484**	$ 298,888
Canadian statutory rate [1][2]	**24.49%**	26.59%
Expected income taxes at statutory rates	**151,712**	79,474
Effect on income tax of:		
Share-based payments	**2,488**	3,682
Gain on acquisitions	**(152,250)**	–
Effect of change in corporate tax rate [3]	**(3,334)**	(106,183)
Other	**2,315**	1,887
Deferred income tax (recovery)	**$ 931**	$ (21,140)

(1) The statutory rate consists of the combined statutory tax rate for the Company and its subsidiary for the year ended December 31, 2020.

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

(3) The Alberta corporate income tax rate decreased to 10% from 11% effective January 1, 2020. The province further decreased the rate to 8% effective July 1, 2020. The weighted average rate for 2020 is 9%.

The movement in deferred tax balances during the years ended December 31, 2020 and 2019 are as follows:

(000s)	**Balance January 1, 2020**	**Recognized in Net Earnings**	**Acquired in business combination**	**Recognized in Equity/NCI**	**Balance December 31, 2020**
Deferred tax liabilities:					
Exploration and evaluation and property, plant and equipment	$ 1,237,074	$ 203,420	$ (103,547)	$ –	$ 1,336,947
Right-of-use asset	2,572	(132)	402	–	2,842
Long-term asset	1,144	(19)	–	–	1,125
Deferred tax assets:					
Decommissioning obligations	(76,437)	(52,368)	(12,005)	–	(140,810)
Lease liabilities	(2,584)	(481)	185	–	(2,880)
Risk management contracts	(7,941)	(8,952)	(2,518)	–	(19,411)
Non-capital losses	(348,744)	(144,198)	(270,556)	–	(763,498)
Share issue costs	(3,741)	3,661	(3,632)	(4,867)	(8,579)
Deferred tax liability (asset)	$ 801,343	$ 931	$ (391,671)	$ (4,867)	$ 405,736

(000s)	Balance January 1, 2019	Recognized in Net Earnings	Recognized in Liabilities	Recognized in Equity	Balance December 31, 2019
Deferred tax liabilities:					
Exploration and evaluation and property, plant and equipment	$ 1,282,361	$ (45,287)	$ –	$ –	$ 1,237,074
Risk management contracts	1,965	(9,906)	–	–	(7,941)
Right-of-use asset	–	2,572	–	–	2,572
Long-term asset	1,502	(358)	–	–	1,144
Deferred tax assets:					
Decommissioning obligations	(81,743)	5,306	–	–	(76,437)
Lease liabilities	–	(2,584)	–	–	(2,584)
Non-capital losses	(373,993)	25,249	–	–	(348,744)
Share issue costs	(6,103)	3,868	–	(1,506)	(3,741)
Deferred tax liability (asset)	$ 823,989	$ (21,140)	$ –	$ (1,506)	$ 801,343

As at December 31, 2020, the Company has estimated federal tax pools of $9.8 billion (December 31, 2019 - $7.0 billion) available for deduction against future taxable income. The Company also has $8.9 million of scientific research and development investment tax credits to apply against future taxes payable. Additionally, the Company has $3.2 billion (December 31, 2019 - $1.5 billion) of unused tax losses expiring between 2024 and 2041.

Unrecognized deferred tax assets

Deferred tax assets have not been recognized in respect of the following items because it is not probable that future taxable profits will be available against which the Company can use the benefits:

	Year Ended December 31, 2020	
	Gross amount	**Tax effect**
Deductible temporary differences (*000s*)	**$ 154,621**	**$ 36,568**

14. EARNINGS PER SHARE

Basic earnings per share was calculated as follows:

	Years Ended December 31,	
	2020	**2019**
Net income and comprehensive income attributable to shareholders of the Company for the year *(000s)*	**$ 618,311**	$ 319,740
Weighted average number of common shares – basic	**272,006,517**	271,789,486
Earnings per share – basic	**$ 2.27**	$ 1.18

Diluted earnings per share was calculated as follows:

	Years Ended December 31,	
	2020	**2019**
Net income and comprehensive income attributable to shareholders of the Company for the year *(000s)*	**$ 618,311**	$ 319,740
Weighted average number of common shares – diluted	**272,079,590**	271,878,824
Earnings per share – fully diluted	**$ 2.27**	$ 1.18

There were 15,076,443 options excluded from the weighted-average share calculation for the year ended December 31, 2020 because they were anti-dilutive (December 31, 2019 – 15,801,668).

At December 31, 2020, there were 296,571,516 basic common shares outstanding (December 31, 2019 – 270,997,159).

15. SHARE-BASED PAYMENTS

The Company has a rolling stock option plan. Under the employee stock option plan, the Company may grant options to its employees up to 25,208,578 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,			
		2020		**2019**
	Number of Options	**Weighted Average Exercise Price**	**Number of Options**	**Weighted Average Exercise Price**
Stock options outstanding, beginning of year	**19,148,068**	**$ 24.94**	20,452,467	$ 32.27
Granted	**3,924,900**	**17.03**	3,847,650	13.36
Exercised	**(95,957)**	**13.14**	(7,500)	19.74
Expired	**(4,054,834)**	**29.96**	(4,734,000)	46.74
Forfeited	**(597,466)**	**27.71**	(410,549)	30.20
Stock options outstanding, end of year	**18,324,711**	**$ 22.11**	19,148,068	$ 24.94

The weighted average trading price of the Company's common shares was $14.36 during the year ended December 31, 2020 (December 31, 2019 – $16.46).

The following table summarizes stock options outstanding and exercisable at December 31, 2020:

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 – $16.29	3,627,861	5.69	12.56	1,044,342	12.64
$16.30 – $17.84	3,629,900	6.59	17.52	55,334	17.06
$17.85 – $22.27	3,951,250	4.65	21.58	2,512,384	21.74
$22.28 – $26.63	3,556,500	3.86	25.77	3,380,304	25.88
$26.64 – $36.99	3,559,200	2.53	33.44	3,559,200	33.44
	18,324,711	4.67	22.11	10,551,564	26.09

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,	
	2020	**2019**
Fair value of options granted (weighted average)	**$ 4.42**	$ 3.09
Risk-free interest rate	**0.42%**	1.25%
Estimated hold period prior to exercise	**5.0 years**	5.0 years
Expected volatility	**40%**	36%
Forfeiture rate	**1.9%**	1.8%
Dividend per share	**$ 0.50**	$ 0.48

16. OTHER INCOME

	Years Ended December 31,	
(000s)	**2020**	**2019**
Processing income	**$ 33,825**	$ 26,332
Power income	**4,201**	3,304
Other	**1,888**	6,400
Total other income	**$ 39,914**	$ 36,036

17. FINANCE EXPENSES

(000s)	Years Ended December 31, 2020	2019
Finance expenses:		
Interest on loans and borrowings	**$ 41,840**	$ 61,946
Capitalized borrowing costs (*note 6*)	–	(3,026)
Accretion of decommissioning obligations (*note 8*)	**5,423**	5,858
Lease interest (*note 7*)	**289**	225
Foreign exchange (gain) loss on U.S. denominated debt	**(118,029)**	(68,926)
Realized (gain) loss on cross-currency swaps	**118,029**	68,926
Realized (gain) loss on interest rate swaps	**6,218**	(1,203)
Transaction costs on corporate and property acquisitions	**2,042**	42
Total finance expenses	**$ 55,812**	$ 63,842

18. 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, 2020	2019
Operating	**$ 37,433**	$ 38,452
General and administration	**41,110**	31,147
Total employee compensation costs	**$ 78,543**	$ 69,599

19. SUPPLEMENTAL CASH FLOW INFORMATION

Changes in non-cash working capital is comprised of:

(000s)	Years Ended December 31, 2020	2019
Source/(use) of cash:		
Accounts receivables	**$ (21,716)**	$ 3,210
Prepaid expenses and deposits	**920**	2,463
Accounts payable and accrued liabilities	**(17,579)**	(111,041)
	$ (38,375)	(105,368)
Related to operating activities	**$ (60,551)**	$ (30,611)
Related to investing activities	**$ 22,176**	$ (74,757)

Cash interest paid was $38.1 million for the year ended December 31, 2020 (December 31, 2019 - $55.7 million).

20. 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)	$ 3,034	$ 4,329	$ 4,018	$ 2,511	$ 13,892
Firm transportation agreements	594,474	1,164,300	1,006,145	2,986,136	5,751,055
Processing commitments (2)	64,500	107,779	101,936	335,405	609,620
Capital commitments (3)	–	6,750	–	–	6,750
Credit facility (4)	–	–	1,062,507	–	1,062,507
Term debt (5)	18,721	37,443	958,322	–	1,014,486
	$ 680,729	$ 1,320,601	$ 3,132,928	$3,324,052	$ 8,458,310

(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 1.93% being the rate applicable to outstanding debt on the credit facility at December 31, 2020 and interest paid at the maturity of the facility.

(5) Includes interest expense at 1.97% being the rate applicable to outstanding debt on the term loan at December 31, 2020 with interest payments made monthly as the term loan is fully drawn.

21. 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, 2020 and 2019.

Compensation of Key Management

	Years Ended December 31,	
(000s)	**2020**	**2019**
Short-term compensation (1)	**$ 12,001**	$ 9,262
Share-based payments (2)	**1,507**	2,246
Total compensation paid to key management	**$ 13,508**	$ 11,508

(1) Short-term compensation includes annual salaries, management bonuses and employee 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 2020 is based on a fair value ranging between $4.23 and $4.61 per option (2019 – between $2.65 and $2.83 per option).

22. SUBSEQUENT EVENTS

On January 1, 2021, the Company's subsidiaries Polar Star, Chinook, Modern and Jupiter were amalgamated into Tourmaline.

On January 1, 2021, Tourmaline completed a gross overriding royalty disposition to Topaz on both the Modern and Jupiter lands for cash consideration of $130.0 million.

On January 25, 2021, Tourmaline completed its inaugural issuance of senior unsecured notes for gross proceeds of $250.0 million. The notes have a due date of January 25, 2028 and bear interest at a fixed rate of 2.077% per annum, payable semi-annually on the 25th day of January and July each year, commencing on July 25, 2021.