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

As at March 31, 2021 and for the three months ended March 31, 2021 and 2020

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MANAGEMENT’S DISCUSSION AND ANALYSIS

This management’s discussion and analysis (“MD&A“) should be read in conjunction with Tourmaline Oil Corp.’s (“Tourmaline” or the “Company”) unaudited interim condensed consolidated financial statements and related notes as at and for the three months ended March 31, 2021 and the consolidated financial statements for the year ended December 31, 2020. The consolidated financial statements and the MD&A can be found at www.sedar.com or www.tourmalineoil.com. This MD&A is dated May 5, 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 are not prescribed by IFRS. See “Non-GAAP Financial Measures” for information regarding the following non-GAAP financial measures used in this MD&A: “cash flow”, “operating netback”, “adjusted working capital” and “net debt”.

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 has had a significantly negative impact on global economic conditions in 2020 and 2021. This has included a large decrease in oil demand which combined with other macro-economic conditions has 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 March 31, 2021, the Company had $71.6 million in cash held in one of its subsidiaries and $1.9 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 March 31, 2021, the Company was in compliance with all of its covenants under its credit facilities and has sufficient room under those covenants to allow for 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 remaining 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 March 31, 2021 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 March 31,		
	2021	**2020**	**Change**
Natural gas *(mcf/d)*	**1,917,648**	1,474,681	30%
Oil *(bbl/d)*	**10,725**	8,822	22%
Condensate (*bbl/d*)	**24,144**	19,048	27%
NGL *(bbl/d)*	**57,102**	34,699	65%
Oil equivalent *(boe/d)*	**411,579**	308,349	33%
Production in (sold from) storage (*boe/d*)	**(4,116)**	(1,700)	142%
Total produced volumes (*boe/d*)	**407,463**	306,649	33%
Natural gas %	**78%**	80%	

Production for the three months ended March 31, 2021 averaged 411,579 boe/d, a 33% increase over the average production for the same quarter of 2020 of 308,349 boe/d.

The production increase for the three months ended March 31, 2021 is a result of the Company's successful exploration and production program combined with corporate and property acquisitions completed in 2020. The Corporate acquisitions completed in 2020 including Polar Star Canadian Oil and Gas Inc. ("Polar Star"), Chinook Energy Inc. ("Chinook"), Modern Resources Inc. ("Modern") and Jupiter Resources Inc. ("Jupiter") account for approximately 76% of the increase in production compared to the first quarter of 2020. The growth in condensate and NGL production also reflects the continued development of the Gundy area. Production is expected to continue to increase in the area with construction beginning on Gundy Phase 2 which is expected to be commissioned in early 2022.

Included in the average production volumes discussed above, for the first quarter of 2021, was 4,116 boe/d of natural gas which was withdrawn from storage facilities and sold during the quarter. Average produced volumes for the first quarter of 2021 were 407,463 boe/d. For the first quarter of 2020, 1,700 boe/d of natural gas was withdrawn from storage facilities and sold resulting in average produced volumes of 306,649 boe/d. At March 31, 2021, and at March 31, 2020, the Company had completely withdrawn all its natural gas storage inventory.

The Company has storage capacity at both Dawn and PG&E Citygate. The storage capacity allows for the opportunity to inject in periods of lower commodity prices (typically summer months) and subsequently withdraw in periods of higher prices (typically winter months). The Company has total storage capacity of 4.0 Bcf.

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 December 31, 2020 financial statements.

REVENUE AND REALIZED GAINS (LOSSES)

(000s)	Three Months Ended March 31, 2021	2020 [1]	Change
Natural gas			
Sales from production	**$ 634,553**	$ 346,474	83%
Premium (loss) on risk management activities	**36,308**	(20,288)	279%
Realized gain (loss) on financial instruments	**(5,491)**	2,048	(368)%
	665,370	328,234	103%
Oil			
Sales from production	**61,637**	36,696	68%
Premium (loss) on risk management activities	**1,927**	(265)	827%
Realized gain (loss) on financial instruments	**(6,432)**	15,241	(142)%
	57,132	51,672	11%
Condensate			
Sales from production	**157,144**	106,478	48%
(Loss) on risk management activities	**(1,174)**	(3,289)	64%
Realized gain (loss) on financial instruments	**(14,522)**	5,819	(350)%
	141,448	109,008	30%
NGL			
Sales from production	**142,701**	36,001	296%
Realized (loss) on financial instruments	**(1,387)**	–	(100)%
	141,314	36,001	293%
Total			
Sales from production	**996,035**	525,649	89%
Premium (loss) on risk management activities	**37,061**	(23,842)	255%
Realized gain (loss) on financial instruments	**(27,832)**	23,108	(220)%
Total revenue from commodity sales, premium (loss) on risk management activities, and realized gain (loss) on financial instruments	**$ 1,005,264**	$ 524,915	92%

(1) Certain comparative amounts have been reclassified to conform with the current year's presentation.

Total sales from production for the three months ended March 31, 2021 increased 89% to $996.0 million from $525.6 million for the same quarter of 2020. The significant increase for the period can be attributed to an increase in all commodity prices and increased sales volumes.

Revenue for the first quarter of 2021 included a premium on risk management activities of $37.1 million compared to a loss of $23.8 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 three months ended March 31, 2021, the significant increase in natural gas prices at the US hubs and specifically Chicago (after transportation) compared to AECO resulted in a premium on risk management activities. The loss on risk management activities, for the three months ended March 31, 2020, reflects AECO prices on average being higher than the prices received (after transportation) at the other hubs where Tourmaline sold its natural gas, as well as a loss on the Company's physical commodity contracts.

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 March 31,		
	2021	**2020**	**Change**
Natural gas			
NYMEX Last Day *(USD$/mcf)*	**$ 2.69**	$ 1.95	38%
AECO 5A *(CAD$/mcf)*	**$ 3.17**	$ 2.04	55%
West Coast Station 2 (*CAD$/mcf*)	**$ 3.07**	$ 2.00	54%
Sumas (*USD$/mmbtu*)	**$ 3.51**	$ 1.86	89%
ATP 5A Day Ahead (*CAD$/mcf*)	**$ 4.56**	$ 1.73	164%
Chicago City Gate (*USD$/mmbtu*)	**$ 9.25**	$ 1.75	429%
Ventura (*USD$/mmbtu*)	**$ 12.53**	$ 1.72	628%
PG&E Malin (*USD$/mmbtu*)	**$ 3.18**	$ 1.85	72%
PG&E City Gate (*USD$/mmbtu*)	**$ 3.90**	$ 2.71	44%
Dawn (*USD$/mmbtu*)	**$ 2.96**	$ 1.76	68%
Oil and condensate			
NYMEX *(USD$/bbl)*	**$ 58.14**	$ 46.17	26%
Edmonton Par *(CAD$/bbl)*	**$ 68.98**	$ 51.89	33%
Edmonton Condensate (*CAD$/bbl*)	**$ 74.98**	$ 66.45	13%

CURRENCY – EXCHANGE RATES:

	Three Months Ended March 31,		
	2021	**2020**	**Change**
CAD$/USD$ (1)	**$ 0.7899**	$ 0.7443	6%

(1) Average rates for the period.

TOURMALINE REALIZED PRICES:

	Three Months Ended March 31,		
	2021	**2020**	**Change**
Natural gas *($/mcf)*	**$ 3.86**	$ 2.45	58%
Oil *($/bbl)*	**$ 59.19**	$ 64.36	(8)%
Condensate (*$/bbl*)	**$ 65.09**	$ 62.89	3%
NGL *($/bbl)*	**$ 27.50**	$ 11.40	141%
Oil equivalent *($/boe)*	**$ 27.14**	$ 18.71	45%

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

The realized average natural gas price for the three months ended March 31, 2021 increased by 58% to $3.86/mcf from $2.45/mcf in the same period of the prior year. The increase is the result of significantly higher natural gas benchmark prices across all the major hubs that the Company sells its natural gas compared to the same period of the prior year.

Realized oil prices decreased by 8% for the three months ended March 31, 2021 compared to the same period of the prior year. The decrease reflects a realized loss on financial instruments related to the increase in benchmark oil prices in the first quarter of 2021 compared to a realized gain on financial instruments in the first quarter of 2020. The realized oil price for the first quarter of 2020 included a $15.2 million realized gain on financial instruments primarily related to unwinding a portion of the Company's financial oil contracts early in the year to take advantage of the significant gain that had been realized.

For the three months ended March 31, 2021, the realized price of condensate was $65.09/bbl, which is 3% higher than the same period of the prior year. The increase reflects the higher benchmark prices received during the first quarter of 2021 which was partially offset by the realized loss on financial instruments.

The realized NGL price for the three months ended March 31, 2021 increased by 141% compared to the same period of the prior year. The increase reflects significantly higher benchmark prices for ethane, propane, butane and pentane prices, which correlates with the increase in natural gas, oil and condensate benchmark prices in the period.

ROYALTIES

	Three Months Ended March 31,	
(000s)	**2021**	**2020**
Natural gas	**$ 21,947**	$ 677
Oil, condensate and NGL	**31,829**	16,252
Total royalties	**$ 53,776**	$ 16,929
Royalties as a percentage of commodity sales from production	**5.4%**	3.2%

For the quarter ended March 31, 2021, the average effective royalty rate was 5.4% compared to 3.2% for the same period of the prior year. The significant increase in benchmark commodity prices in the first quarter of 2021 resulted in higher natural gas, oil, condensate and NGL royalties compared to the prior year.

Natural gas royalties of $21.9 million, for the three months ended March 31, 2021, included crown royalties of $57.0 million offset by credits of $35.1 million. For the three months ended March 31, 2020, natural gas royalties of $0.7 million included crown royalties of $17.8 million offset by credits of $17.1 million. Included in the credits received for the three months ended March 31, 2021 and 2020 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 annual effective royalty rate of 3% is expected due to higher forecast commodity prices in 2021. The royalty rate is sensitive to commodity prices and, as such, a change in commodity prices will increase or decrease the actual rate.

COMMODITY MARKETING

	Three Months Ended March 31,		
(000s)	**2021**	**2020**	**Change**
Marketing revenue	**$ 17,383**	$ 23,127	(25)%
Marketing purchases	**(17,125)**	(21,519)	(20)%
	$ 258	$ 1,608	(84)%

The Company operates a marketing terminal in the Gordondale area of Alberta. The throughput from the marketing terminal is comprised of Tourmaline produced oil, condensate and NGL volumes as well as oil, condensate and NGL volumes purchased from third parties.

Marketing revenue and marketing purchases represent the volume sold and purchased from third parties which is recorded gross for financial statement presentation purposes. Any gains or losses on the sale of third-party product related to the price differential are recorded in marketing revenue.

For the three months ended March 31, 2021, marketing revenue decreased by 25% and marketing purchases decreased by 20% compared to the same period of 2020. The decreases in both marketing revenue and marketing purchases can be attributed to a decrease in third-party volume purchased and sold in the first quarter of 2021 compared to the same period of the prior year. This is a result of less third-party volumes available for purchase as well as Tourmaline using its own incremental proprietary volumes through the terminal leaving less room for third-party volumes.

OTHER INCOME

(000s)	2021	2020	Three Months Ended March 31, Change
Other income	**$ 13,977**	$ 8,613	62%

Other income for the three months ended March 31, 2021 was $14.0 million compared to $8.6 million for the same period of the prior year. The increase is due to Tourmaline's subsidiary, Topaz Energy Corp. ("Topaz"), entering into third-party processing agreements which did not exist in the prior period resulting in additional processing income.

OPERATING EXPENSES

(000s) except per unit amounts	2021	2020	Three Months Ended March 31, Change
Operating expenses	**$ 134,840**	$ 83,406	62%
Per boe	**$ 3.64**	$ 2.97	23%

Operating expenses include all periodic lease and field-level expenses and exclude income recoveries from processing third-party volumes. For the first quarter of 2021, total operating expenses were $134.8 million compared to $83.4 million in 2020, of which $30.3 million of the increase related to incremental third-party gathering and processing fees.

On a per-boe basis, the costs increased from $2.97/boe for the first quarter of 2020 to $3.64/boe in the first quarter of 2021. 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 Company-owned facilities resulting in an increase in production volumes 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 in Q4 2020 carried higher operating expenses per-boe which the Company expects to bring down as the assets are integrated and operational efficiencies are realized.

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

(000s) except per unit amounts	Three Months Ended March 31, 2021	2020	Change
Natural gas transportation	**$ 123,794**	$ 102,004	21%
Oil and NGL transportation	**37,305**	20,182	85%
Total transportation	**$ 161,099**	$ 122,186	32%
Per boe	**$ 4.35**	$ 4.35	-%

For the first quarter of 2021, total transportation expenses were $161.1 million compared to $122.2 million in the first quarter of 2020. Transportation in the first quarter of 2021 reflects 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, transportation costs of $4.35/boe were consistent between the first quarter of 2021 and first quarter of 2020.

GENERAL & ADMINISTRATIVE EXPENSES ("G&A")

(000s) except per unit amounts	Three Months Ended March 31, 2021	2020	Change
G&A expenses	**$ 33,506**	$ 24,808	35%
Administrative and capital recovery	**(1,159)**	(631)	84%
Capitalized G&A	**(8,959)**	(7,908)	13%
Total G&A expenses	**$ 23,388**	$ 16,269	44%
Per boe	**$ 0.63**	$ 0.58	9%

Total G&A expenses in the first quarter of 2021 were $23.4 million compared to $16.3 million for the same quarter of 2020. The increase is primarily due to staff additions, additional office space, and other costs related to corporate and property acquisitions as well as incremental administrative costs related to Topaz along with higher third-party service provider fees and increased costs related to industry marketing initiatives.

G&A expenses for 2021 are expected to average approximately $0.60/boe. Actual costs per boe can change, however, depending on a number of factors including the Company's actual production levels.

SHARE-BASED PAYMENTS

(000s) except per unit amounts	Three Months Ended March 31, 2021	2020
Share-based payments	**$ 4,462**	$ 4,124
Capitalized share-based payments	**(1,766)**	(1,692)
Total share-based payments	**$ 2,696**	$ 2,432
Per boe	**$ 0.07**	$ 0.09

The Company uses the fair-value method for the determination of non-cash share-based payments expense. During the first quarter of 2021, 322,000 stock options were granted at a weighted-average exercise price of $20.94 per option and 342,645 options were exercised, bringing $5.1 million of cash into treasury.

The Company recognized $2.7 million of share-based payments expense for the first quarter of 2021 compared to $2.4 million for the first quarter of 2020. Capitalized share-based payments for the first quarter of 2021 were $1.8 million compared to $1.7 million for the same period of the prior year.

Share-based payments are slightly higher in 2021 compared to the same period of 2020, which reflects options with a higher fair value being expensed in 2021 compared to 2020.

DEPLETION, DEPRECIATION, AMORTIZATION, AND IMPAIRMENT

(000s) except per unit amounts	Three Months Ended March 31, 2021	2020
Total depletion, depreciation, amortization and impairment	**$ 264,533**	$ 503,526
Less mineral lease expiries	**(4,205)**	(34,417)
Less impairment expense	**–**	(250,000)
Depletion, depreciation and amortization (“DD&A”)	**$ 260,328**	$ 219,109
Per boe	**$ 7.03**	$ 7.81

DD&A expense, excluding mineral lease expiries and impairment expense, was $260.3 million for the first quarter of 2021 compared to $219.1 million for the same period of 2020. The increase in DD&A expense in 2021 over 2020 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 $7.03/boe for the first quarter of 2021 decreased compared to the rate of $7.81/boe for the same period of the prior year. The decrease 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 March 31, 2021 were $4.2 million, compared to expiries in the same quarter of the prior year of $34.4 million. The expired leases for the three months ended March 31, 2021 amount to approximately 1% of Tourmaline’s total land base.

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

At March 31, 2021, the Company did not identify indicators of impairment on any of its cash-generating units ("CGUs") and therefore, an impairment test was not performed. The Company also did not identify indicators of impairment reversals as the improvements in oil prices are currently focused on short term improvements, but the Company was not able to satisfy itself that the longer term prices have strengthened enough to indicate that a reversal is warranted at this time.

The Company recorded an aggregate impairment charge of $250.0 million related to the Spirit River CGU for the three months ended March 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 March 31,	
(000s)	**2021**	**2020**	**Change**
Interest expense	**$ 8,779**	$ 15,016	(42)%
Accretion expense	**2,805**	1,036	171%
Lease interest expense	**90**	39	131%
Foreign exchange (gain) loss on U.S. denominated debt	**(18,330)**	51,025	(136)%
Realized (gain) loss on cross-currency swaps	**18,330**	(51,025)	136%
Realized (gain) loss on interest rate swaps	**2,650**	(376)	805%
Transaction costs on corporate acquisitions	**–**	200	(100)%
Total finance expenses	**$ 14,324**	$ 15,915	(10)%

Finance expenses for the three months ended March 31, 2021 totaled $14.3 million compared to $15.9 million for the same period of 2020. The average bank debt and senior unsecured notes outstanding and the average effective interest rate on the debt was $1,803.6 million and 1.65% for the three months ended March 31, 2021 compared to $1,690.5 million and 3.15% for the same period of 2020, respectively.

Interest expense decreased for the first quarter of 2021 due to the decrease in the effective interest rate compared to the same period of 2020 but was partially offset by the increase in average bank debt outstanding. The decrease in the effective interest rate reflects a decrease in the Bank of Canada prime rate in 2021 over the same period of 2020.

For the three-month period ended March 31, 2021, 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.

U.S. dollar LIBOR benchmarks will begin phasing out on December 31, 2021. The Company expects the U.S. LIBOR benchmarks to be replaced with an alternative that will apply to our U.S. dollar borrowings to be used at our option. We do not expect this change to have a material impact to the Company.

DEFERRED INCOME TAXES (RECOVERY)

	Three Months Ended March 31,		
(000s)	**2021**	**2020**	**Change**
Deferred income taxes (recovery)	**$ 79,675**	$ (20,510)	488%

For the three months ended March 31, 2021, the provision for deferred income taxes was $79.7 million compared to a deferred income tax recovery of $20.5 million for the same period of the prior year. The deferred income tax expense is primarily due to income before taxes in the first quarter of 2021 of $330.1 million compared to the first quarter of 2020 which had a loss before taxes of $56.6 million.

CASH FLOW FROM OPERATING ACTIVITIES, CASH FLOW AND NET EARNINGS (LOSS)

	Three Months Ended March 31,		
(000s) except per unit amounts	**2021**	**2020**	**Change**
Cash flow from operating activities	**$ 750,129**	$ 341,958	119%
Per share (1)	**$ 2.51**	$ 1.26	99%
Cash flow (2)	**$ 629,325**	$ 283,718	122%
Per share (1)(2)	**$ 2.11**	$ 1.05	101%
Net earnings (loss)	**$ 247,837**	$ (35,812)	792%
Per share (1)	**$ 0.83**	$ (0.13)	738%
Operating netback per boe (2)	**$ 17.70**	$ 10.79	64%

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

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

Cash flow for the three months ended March 31, 2021 was $629.3 million or $2.11 per diluted share compared to $283.7 million or $1.05 per diluted share for the same period of 2020. The increase in cash flow in the first quarter of 2021, compared to the same quarter of 2020, is due to the significant improvement in the benchmark prices for all commodities as well as increased production volume.

The Company had after-tax net earnings for the three months ended March 31, 2021 of $247.8 million or $0.83 per diluted share compared to after-tax net loss of $35.8 million or $0.13 per share for the same period of 2020. The increase in after-tax net earnings reflects a 64% increase in the Company's operating netback per boe combined with the increase in production volume in the first quarter of 2021. The after-tax net loss for the three months ended March 31, 2020, reflects the $250.0 million in Property, Plant & Equipment ("PP&E") impairment expense taken.

CAPITAL EXPENDITURES

	Three Months Ended March 31,	
(000s)	**2021**	**2020**
Land and seismic	**$ 8,398**	$ 3,277
Drilling and completions	**281,732**	210,659
Facilities	**95,552**	92,249
Property acquisitions	**26,294**	3,020
Property dispositions	**(596)**	(235)
Other	**10,726**	8,644
Total cash capital expenditures	**$ 422,106**	$ 317,614

During the first quarter of 2021, the Company invested $422.1 million of cash consideration compared to $317.6 million for the same period of 2020. Expenditures on exploration and production were $385.7 million for the first quarter of 2021 compared to $306.2 million for the same quarter of 2020.

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

	Three Months Ended March 31, 2021		Three Months Ended March 31, 2020	
	Gross	**Net**	**Gross**	**Net**
Drilled	**70**	**67.75**	42	39.70
Completed	**66**	**66.00**	68	67.15
Tied-in	**75**	**72.23**	65	64.15

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.

Acquisitions and Dispositions

On January 24, 2021, Topaz acquired a 49.5% working interest in certain water infrastructure assets for cash consideration of $12.0 million, before customary closing adjustments. The acquisition resulted in an increase in PP&E of approximately $14.0 million and the assumption of $2.0 million in decommissioning liabilities. 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 March 5, 2021, Topaz acquired a royalty interest on developed and undeveloped lands in the Clearwater area of Alberta for $13.7 million, before customary closing adjustments. The acquisition resulted in an increase in PP&E of approximately $13.7 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 three months ended March 31, 2021, the Company completed property acquisitions for cash consideration of $26.3 million, including the acquisitions discussed above (December 31, 2020 - $171.9 million) and nil in acquisitions involving non-cash consideration (December 31, 2020 - $6.2 million). The Company assumed $2.0 million in decommissioning liabilities as a result of these acquisitions (December 31, 2020 - $15.9 million).

The Company also completed property dispositions, for the twelve months ended December 31, 2020, for total cash consideration of $0.6 million (December 31, 2019 - $8.1 million) and non-cash consideration of nil (December 31, 2020 – $6.2 million).

LIQUIDITY AND CAPITAL RESOURCES

Bank debt

The Company has a covenant-based, unsecured, five-year extendible revolving credit facility in place with a syndicate of banks, in the amount of $1.8 billion. In March 2021, the Company extended the maturity date of the revolving credit facility to June 2026. With the exception of the change in maturity date, the revolving credit facility was renewed under the same terms and conditions as those described in note 9 of the Company's consolidated financial statements for the year ended December 31, 2020. 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.

The Company has a $950.0 million term loan with a syndicate of banks. In March 2021, the Company extended the maturity date of the term loan to June 2026. With the exception of the change in maturity date, the term loan was renewed under the same terms and conditions as those described in note 9 of the Company's consolidated financial statements for the year ended December 31, 2020. 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. 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. In March 2021, the Company extended the maturity date of the operating credit facility to June 2023. With the exception of the change in maturity date, the term loan was renewed under the same terms and conditions as those described in note 9 of the Company's consolidated financial statements for the year ended December 31, 2020. The maturity date may, at the request of the Company and with consent of the lender, be extended on an annual basis. The covenants are the same as the revolving credit facility. At March 31, 2021, 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 $21.1 million at March 31, 2021 (December 31, 2020 - $19.5 million), which reduces the credit available on this facility.

Topaz, a subsidiary of Tourmaline, has a covenant-based, secured, operating credit facility with a syndicate of Canadian banks. In February 2021, Topaz increased the operating credit facility to $300.0 million and extended the maturity date to February 2024. With the exception of the changes in amount and maturity date, the operating credit facility was renewed under the same terms and conditions as those described in note 9 of the Company's consolidated financial statements for the year ended December 31, 2020. The maturity date may, at the request of the Company and with consent of the lender, be extended on an annual basis.

Senior unsecured notes

On January 25, 2021, the Company issued $250.0 million of senior unsecured notes (the "notes"). The notes bear interest at a fixed rate of 2.077%, payable semi-annually commencing on July 25, 2021, with a due date of January 25, 2028 and rank equally with all other present unsecured and subordinated debt of the Company.

The Company's aggregate borrowing capacity is $3.4 billion at March 31, 2021, including the notes. As at, and for the quarter ending March 31, 2021, the Company is in compliance with all debt covenants.

Working capital and net debt

As at March 31, 2021, the Company had an adjusted working capital deficiency of $165.2 million, after adjusting for the fair value of financial instruments, short term lease liabilities, short term decommissioning obligations and unrealized foreign exchange in working capital (the unadjusted working capital deficiency was $249.6 million) (December 31, 2020 – working capital $157.3 million and $111.7 million, respectively). As at March 31, 2021, the Company had $948.4 million in long-term debt outstanding, $269.4 million drawn against the revolving credit facility and $248.8 million of notes outstanding for total bank debt and notes of $1,466.6 million (net of debt issue costs) (December 31, 2020 - $1,942.3 million). Net debt at March 31, 2021 was $1,631.9 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, 2020 - $1,784.9 million).

Normal course issuer bid

On July 15, 2020, the Company renewed its normal course issuer bid ("NCIB") with the Toronto Stock Exchange ("TSX"). 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 three months ended March 31, 2021, the Company did not purchase any common shares for cancellation. Since the economic impacts of the COVID-19 pandemic began, the Company has chosen to stop repurchasing shares while choosing to focus on liquidity through this volatile commodity price and macro economic environment.

Non-controlling interest and common control transactions

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.

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. 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 $130.0 million in exchange for cash to Tourmaline of $130.0 million.

On February 24, 2021, 158,334 stock options were exercised for Topaz common shares for cash consideration of $1.6 million resulting in Tourmaline's ownership interest being reduced from 51.7% to 51.6% at March 31, 2021.

Dividends

During the three months ended March 31, 2021, the Company paid a cash dividend of $0.16 per common share totalling $47.5 million, compared to $0.12 per common share totalling $27.2 million for the same period of the prior year. Additionally, during the three months ended March 31, 2021, Topaz paid a cash dividend of $0.20 per common share totalling $22.5 million, compared to $0.20 per common share totalling $16.0 million for the same period of the prior year. The Topaz dividends paid include $11.6 million which was paid to Tourmaline and the remainder was paid to outside investors compared to $11.8 million in the prior year.

Capital management

For the remainder of 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 May 5, 2021, the Company has 297,020,055 common shares and 18,021,623 stock options outstanding.

COMMITMENTS AND CONTRACTUAL OBLIGATIONS

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

PAYMENTS DUE BY YEAR

(000s)	**1 Year**	**2-3 Years**	**4-5 Years**	**>5 Years**	**Total**
Operating commitments (1)	$ 2,999	$ 4,483	$ 4,317	$ 2,156	$ 13,955
Firm transportation agreements	616,359	1,204,151	1,022,708	3,030,392	5,873,610
Processing commitments (2)	63,944	104,666	102,026	324,247	594,883
Capital commitments (3)	2,250	–	–	–	2,250
Credit facility (4)	–	–	–	302,958	302,958
Term debt (5)	18,369	36,739	36,739	953,573	1,045,420
Senior unsecured notes (6)	5,193	10,385	10,385	259,443	285,406
	$ 709,114	$ 1,360,424	$ 1,176,175	$4,872,769	$ 8,118,482

(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 1.89% being the rate applicable to outstanding debt on the credit facility at March 31, 2021.

(5) Includes interest expense at an annual rate of 1.93% being the fixed rate on the term debt at March 31, 2021.

(6) Includes interest expense at an annual rate of 2.08% being the fixed rate on the notes.

OFF-BALANCE SHEET ARRANGEMENTS

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

FINANCIAL RISK MANAGEMENT

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

The Company's risk management policies are established to identify and analyze the risks faced by the Company, to set appropriate risk limits and controls, and to monitor risks and adherence to market conditions and the Company's activities. The Company's financial risks are discussed in note 4 of the Company's audited consolidated financial statements for the year ended December 31, 2020.

As at March 31, 2021, the Company has entered into certain financial derivative contracts in order to manage commodity price, interest rate risk and foreign exchange risk. These instruments are not used for trading or speculative purposes. The Company has not designated its financial derivative contracts as effective accounting hedges, even though the Company considers all commodity contracts to be effective economic hedges. Such financial derivative contracts are recorded on the consolidated statement of financial position at fair value, with changes in the fair value being recognized as an unrealized gain (loss) on the consolidated statement of income (loss) and comprehensive income (loss). The contracts that the Company has in place at March 31, 2021 are summarized and disclosed in note 3 of the Company's unaudited interim condensed consolidated financial statements for the three months ended March 31, 2021 and 2020.

The Company has entered into physical delivery sales contracts to manage commodity risk. These contracts are considered normal sales contracts and are not recorded at fair value in the consolidated financial statements. Physical contracts in place at March 31, 2021 have been summarized and disclosed in note 3 of the Company's unaudited interim condensed consolidated financial statements for the three months ended March 31, 2021 and 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 interim condensed 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. The Company's Chief Executive Officer and Chief Financial Officer have designed, or caused to be designed under their supervision, internal controls over financial reporting ("ICFR"), as defined by National Instrument 52-109, to provide reasonable assurance regarding the reliability of the Company's financial reporting and the preparation of financial statements for external purposes in accordance with IFRS.

There were no changes in the Company's DC&P or ICFR during the period beginning on January 1, 2021 and ending on March 31, 2021 that have materially affected, or are reasonably likely to materially affect, the Company's ICFR. It should be noted that a control system, including the Company's disclosure and internal controls and procedures, no matter how well conceived can provide only reasonable, but not absolute assurance that the objectives of the control system will be met and it should not be expected that the disclosure and internal controls and procedures will prevent all errors or fraud.

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

BUSINESS RISKS AND UNCERTAINTIES

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

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, 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” and “net debt” 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.

Cash Flow

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

	Three Months Ended March 31,	
(000s)	**2021**	**2020**
Cash flow from operating activities (per GAAP)	**$ 750,129**	$ 341,958
Change in non-cash working capital	**(120,804)**	(58,240)
Cash flow	**$ 629,325**	$ 283,718

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 March 31,	
($/boe)	**2021**	**2020**
Revenue, excluding processing income	**$ 27.14**	$ 18.71
Royalties	**(1.45)**	(0.60)
Transportation costs	**(4.35)**	(4.35)
Operating expenses	**(3.64)**	(2.97)
Operating netback	**$ 17.70**	$ 10.79

Adjusted Working Capital

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

(000s)	**As at March 31, 2021**	**As at December 31, 2020**
Working capital (deficit)	**$ (249,592)**	$ 111,744
Fair value of financial instruments – short-term liability	**73,302**	36,115
Lease liabilities – short-term	**2,409**	3,412
Decommissioning obligations – short-term	**6,679**	4,618
Unrealized foreign exchange in working capital - liability	**1,966**	1,450
Adjusted working capital (deficit)	**$ (165,236)**	$ 157,339

Net Debt

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

(000s)	**As at March 31, 2021**	**As at December 31, 2020**
Bank debt	**$(1,217,824)**	$(1,942,259)
Senior unsecured notes	**(248,802)**	–
Adjusted working capital (deficit)	**(165,236)**	157,339
Net debt	**$(1,631,862)**	$(1,784,920)

SELECTED QUARTERLY INFORMATION

	2021				2020			2019
($000s, unless otherwise noted)	**Q1**	**Q4**	**Q3**	**Q2**	**Q1**	**Q4**	**Q3**	**Q2**
PRODUCTION								
Natural gas *(mcf)*	**172,588,310**	146,464,921	130,086,424	129,693,070	134,195,958	132,456,603	129,027,017	124,790,550
Oil, condensate and NGL *(bbls)*	**8,277,417**	6,531,062	5,753,450	5,627,083	5,693,802	5,509,543	5,136,598	4,731,375
Oil equivalent *(boe)*	**37,042,135**	30,941,882	27,434,520	27,242,595	28,059,795	27,585,644	26,641,101	25,529,800
Natural gas *(mcf/d)*	**1,917,648**	1,592,010	1,413,983	1,425,199	1,474,681	1,439,746	1,402,468	1,371,325
Oil, condensate and NGL *(bbls/d)*	**91,971**	70,990	62,538	61,836	62,569	59,886	55,833	51,993
Oil equivalent *(boe/d)*	**411,579**	336,325	298,202	299,369	308,349	299,844	289,578	280,547
FINANCIAL								
Total revenue from commodity sales and premium (loss) on risk management activities and realized gain (loss) on financial instruments	**1,005,264**	688,374	518,061	443,553	524,915	579,588	440,089	443,359
Cash flow from operating activities	**750,129**	326,526	290,795	165,857	341,958	287,729	205,798	298,282
Per diluted share	**2.51**	1.18	1.07	0.61	1.26	1.06	0.76	1.10
Cash flow [(1)]	**629,325**	396,869	279,923	225,177	283,718	335,856	223,984	226,458
Per diluted share	**2.11**	1.44	1.03	0.83	1.05	1.24	0.82	0.83
Net earnings (loss)	**247,837**	629,191	4,826	20,106	(35,812)	61,340	15,750	154,940
Per basic share	**0.84**	2.28	0.02	0.07	(0.13)	0.23	0.06	0.57
Per diluted share	**0.83**	2.28	0.02	0.07	(0.13)	0.23	0.06	0.57
Total assets	**12,728,515**	12,790,200	11,246,517	11,239,383	11,106,254	11,180,610	11,043,666	10,836,576
Working capital (deficit)	**(249,592)**	111,744	(170,489)	112,170	(165,667)	(152,987)	(149,467)	(159,480)
Adjusted working capital (deficit) [(1)]	**(165,236)**	157,339	(153,625)	82,382	(268,397)	(136,675)	(151,884)	(160,101)
Cash capital expenditures	**422,106**	271,284	354,695	140,032	317,614	320,389	384,307	198,179
Dividends paid	**58,395**	48,991	39,306	36,663	36,666	32,525	32,620	32,646
Total outstanding shares *(000s)*	**296,914**	296,572	270,803	270,776	270,776	270,997	271,827	272,050
PER UNIT								
Natural *gas ($/mcf)*	**3.86**	3.19	2.60	2.41	2.45	2.77	1.89	2.07
Oil and NGL *($/bbl)*	**41.06**	33.85	31.31	23.24	34.54	38.59	38.24	39.08
Revenue *($/boe)*	**27.14**	22.25	18.89	16.28	18.71	21.01	16.52	17.37
Operating netback *($/boe)* [(1)]	**17.70**	13.65	10.76	8.20	10.79	13.00	9.10	9.60

(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 290,865 boe per day in 2019 to 310,598 per day in 2020 and 411,579 boe per day in the first three months of 2021. The production growth can be attributed primarily to the Company's exploration and development activities, and from acquisitions of producing properties.

The Company's cash flow was $1,205.5 million in 2019, $1,185.7 million in 2020 and forecast 2021 cash flow is $2,205.4 million. 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.

INTERIM CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

CONSOLIDATED STATEMENTS OF FINANCIAL POSITION

(000s) (unaudited)	**March 31, 2021**	December 31, 2020
Assets		
Current assets:		
Cash and cash equivalents	**$ 71,582**	$ 220,168
Accounts receivable	**378,100**	363,640
Prepaid expenses and deposits	**18,917**	22,591
Fair value of financial instruments *(note 3)*	**15,516**	23,074
Total current assets	**484,115**	629,473
Long-term asset	**4,512**	4,758
Fair value of financial instruments *(note 3)*	**4,851**	2,385
Exploration and evaluation assets *(note 4)*	**489,449**	509,533
Property, plant and equipment *(note 5)*	**11,734,534**	11,632,033
Right-of-use asset (*note 6*)	**11,054**	12,018
Total Assets	**$12,728,515**	$ 12,790,200
Liabilities and Shareholders' Equity		
Current liabilities:		
Accounts payable and accrued liabilities	**$ 635,801**	$ 450,510
Lease liabilities (*note 6*)	**2,409**	3,412
Fair value of financial instruments *(note 3)*	**88,818**	59,189
Decommissioning obligations *(note 7)*	**6,679**	4,618
Total current liabilities	**733,707**	517,729
Bank debt *(note 8)*	**1,217,824**	1,942,259
Senior unsecured notes (*note 9*)	**248,802**	–
Lease liabilities (*note 6)*	**8,839**	8,763
Fair value of financial instruments *(note 3)*	**45,894**	48,361
Decommissioning obligations *(note 7)*	**508,342**	590,814
Deferred taxes	**485,411**	405,736
Shareholders' equity:		
Share capital *(note 11)*	**6,334,435**	6,328,115
Non-controlling interest *(note 10)*	**460,638**	467,443
Contributed surplus	**310,379**	307,152
Retained earnings	**2,374,244**	2,173,828
Total shareholders' equity	**9,479,696**	9,276,538
Total Liabilities and Shareholders' Equity	**$12,728,515**	$ 12,790,200

Commitments (note 14).

Subsequent events (note 3).

See accompanying notes to the interim condensed consolidated financial statements.

CONSOLIDATED STATEMENTS OF INCOME (LOSS) AND COMPREHENSIVE INCOME (LOSS)

		Three Months Ended March 31,		
(000s) except per-share amounts (unaudited)		**2021**		**2020**
Revenue:				
Commodity sales from production (*note 15*)	**$**	**996,035**	$	525,649
Premium (loss) on risk management activities (*note 15*)		**37,061**		(23,842)
Marketing revenue (*note 15*)		**17,383**		23,127
Royalties		**(53,776)**		(16,929)
Other income		**13,977**		8,613
Realized gain (loss) on financial instruments		**(27,832)**		23,108
Unrealized gain (loss) on financial instruments *(note 3)*		**(32,254)**		129,912
Total revenue		**950,594**		669,638
Expenses:				
Operating		**134,840**		83,406
Transportation		**161,099**		122,186
Marketing purchases		**17,125**		21,519
General and administration		**23,388**		16,269
Share-based payments		**2,696**		2,432
Depletion, depreciation, amortization and impairment (*notes 4, 5 and 6*)		**264,533**		503,526
Realized foreign exchange (gain) loss		**525**		(3,391)
Unrealized foreign exchange (gain) loss		**1,966**		(1,376)
(Gain) on acquisitions and divestitures		**–**		(34,204)
Total expenses		**606,172**		710,367
Income (loss) from operations		**344,422**		(40,729)
Finance expenses		**14,324**		15,915
Income (loss) before taxes		**330,098**		(56,644)
Deferred tax expense (recovery)		**79,675**		(20,510)
Net income (loss) and comprehensive income (loss) before non-controlling interest		**250,423**		(36,134)
Net income (loss) and comprehensive income (loss) attributable to:				
Shareholders of the Company		**247,837**		(35,812)
Non-controlling interest *(note 10)*		**2,586**		(322)
	$	**250,423**	$	(36,134)
Net income (loss) per share attributable to common shareholders *(note 12)*				
Basic	**$**	**0.84**	$	(0.13)
Diluted	**$**	**0.83**	$	(0.13)

See accompanying notes to the interim condensed consolidated financial statements.

CONSOLIDATED STATEMENTS OF CHANGES IN EQUITY

(000s) (unaudited)	**Share Capital**	**Contributed Surplus**	**Retained Earnings**	**Non-Controlling Interest**	**Total Equity**
Balance at December 31, 2020	$ 6,328,115	$ 307,152	$ 2,173,828	$ 467,443	$ 9,276,538
Issue of Topaz common shares to NCI (*note 10*)			82	1,501	1,583
Share-based payments	–	2,696	–	–	2,696
Capitalized share-based payments	–	1,766	–	–	1,766
Options exercised (*note 11*)	6,320	(1,235)	–	–	5,085
Dividends paid (*note 11*)	–	–	(47,503)	(10,892)	(58,395)
Income attributable to common shareholders	–	–	247,837	–	247,837
Income attributable to non-controlling interest	–	–	–	2,586	2,586
Balance at March 31, 2021	**$ 6,334,435**	**$ 310,379**	**$ 2,374,244**	**$ 460,638**	**$ 9,479,696**

(000s) (unaudited)	**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
Share-based payments	–	2,432	–	–	2,432
Capitalized share-based payments	–	1,692	–	–	1,692
Purchase of common shares under NCIB (*note 11*)	(4,814)	2,661	–	–	(2,153)
Dividends paid (*note 11*)	–	–	(32,519)	(4,147)	(36,666)
(Loss) attributable to common shareholders	–	–	(35,812)	–	(35,812)
(Loss) attributable to non-controlling interest	–	–	–	(322)	(322)
Balance at March 31, 2020	$ 5,882,163	$ 294,195	$1,542,300	$ 177,102	$ 7,895,760

See accompanying notes to the interim condensed consolidated financial statements.

CONSOLIDATED STATEMENTS OF CASH FLOW

(000s) (unaudited)	Three Months Ended March 31, **2021**	**2020**
Cash provided by (used in):		
Operations:		
Net income (loss)	**$ 247,837**	$ (35,812)
Items not involving cash:		
Depletion, depreciation, amortization and impairment	**264,533**	503,526
Accretion (*note 7*)	**2,805**	1,036
Lease interest expense (*note 6*)	**90**	39
Share-based payments (*note 13*)	**2,696**	2,432
Deferred tax expense (recovery)	**79,675**	(20,510)
Unrealized (gain) loss on financial instruments (*note 3*)	**32,254**	(129,912)
(Gain) on acquisitions and divestitures (*note 5*)	**–**	(34,204)
Amortization on long-term asset	**246**	186
Non-controlling interest (*note 10*)	**2,586**	(322)
Unrealized foreign exchange (gain) loss	**1,966**	(1,376)
Decommissioning expenditures (*note 7*)	**(5,363)**	(1,365)
Changes in non-cash operating working capital	**120,804**	58,240
Total cash flow from operating activities	**750,129**	341,958
Financing:		
Issue of common shares	**5,085**	–
Purchase of common shares under NCIB (*note 11*)	**–**	(2,153)
Issuance of Topaz common shares to NCI	**1,583**	–
Lease payments (*note 6*)	**(984)**	(1,296)
Dividends paid (*note 11*)	**(58,395)**	(36,666)
(Decrease) in bank debt	**(724,435)**	(48,636)
Increase in senior unsecured notes	**248,802**	–
Total cash flow used in financing activities	**(528,344)**	(88,751)
Investing:		
Exploration and evaluation (*note 4*)	–	(2,284)
Property, plant and equipment (*note 5*)	**(396,408)**	(312,545)
Property acquisitions (*note 5*)	**(26,294)**	(3,020)
Proceeds from divestitures (*note 5*)	**596**	235
Corporate acquisitions (*note 5*)	–	(11,970)
Changes in non-cash investing working capital	**51,735**	76,377
Total cash flow used in investing activities	**(370,371)**	(253,207)
Changes in cash	**(148,586)**	–
Cash, beginning of period	**220,168**	–
Cash, end of period	**$ 71,582**	$ –

Cash is defined as cash and cash equivalents.

See accompanying notes to the interim condensed consolidated financial statements.

NOTES TO THE INTERIM CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

AS AT MARCH 31, 2021 AND FOR THE THREE MONTHS ENDED MARCH 31, 2021 AND 2020

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

Corporate Information:

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

These unaudited interim condensed consolidated financial statements reflect only the Company's proportionate interest in such activities. The unaudited interim condensed consolidated financial statements were authorized for issue by the Board of Directors on May 5, 2021.

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

1. BASIS OF PREPARATION

These unaudited interim condensed consolidated financial statements have been prepared in accordance with International Accounting Standard 34, "Interim Financial Reporting". These unaudited interim condensed consolidated financial statements do not include all of the information and disclosure required in the annual financial statements and should be read in conjunction with the Company's consolidated financial statements for the year ended December 31, 2020.

These unaudited interim condensed consolidated financial statements are presented in Canadian dollars and include the accounts of Tourmaline Oil Corp., and Tourmaline Oil Corp.'s 51.6% owned subsidiary Topaz Energy Corp. ("Topaz") (note 10), which have a functional currency of Canadian dollars. Tourmaline Oil Corp. also includes its 100% owned subsidiary Tourmaline Oil Marketing Corp., which has a functional currency of US dollars.

On January 1, 2021, the Company's subsidiaries Polar Star Canadian Oil and Gas Inc. ("Polar Star"), Chinook Energy Inc. ("Chinook"), Modern Resources Inc. ("Modern"), and Jupiter Resources Inc. ("Jupiter") were amalgamated into Tourmaline.

The accounting policies and significant accounting judgments, estimates, and assumptions used in these unaudited interim condensed consolidated financial statements are consistent with those described in Notes 1 and 2 of the Company's consolidated financial statements for the year ended December 31, 2020.

OPERATING ENVIRONMENT AND THE COVID-19 PANDEMIC

The COVID-19 pandemic has had a negative impact on global economic conditions in 2020 and 2021. 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.

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 March 31, 2021 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.

Capital management:

During this period of economic uncertainty, the Company is committed to maintaining its strong statement of financial position and financial liquidity. At March 31, 2021, the Company had $71.6 million in cash held in one of its subsidiaries and $1.9 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 March 31, 2021, the Company was in compliance with all of its covenants under its credit facilities and has sufficient room under those covenants to allow for 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.

Since the economic impacts of the COVID-19 pandemic began, the Company has chosen to stop repurchasing shares through the Company's normal course issuer bid, while choosing to focus on liquidity through this volatile commodity price and macro economic environment.

2. DETERMINATION OF FAIR VALUE

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

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

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

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

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

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

3. FINANCIAL RISK MANAGEMENT

The Board of Directors has overall responsibility for the establishment and oversight of the Company's risk management framework. The Board has implemented and monitors compliance with risk management policies. The Company's risk management policies are established to identify and analyze the risks faced by the Company, to set appropriate risk limits and controls, and to monitor risks and adherence to market conditions and the Company's activities. The Company's financial risks are consistent with those discussed in note 4 of the Company's consolidated financial statements for the year ended December 31, 2020.

As at March 31, 2021, the Company has entered into certain financial derivative contracts in order to manage commodity price, foreign exchange and interest rate risk. These instruments are not used for trading or speculative purposes. The Company has not designated its financial derivative contracts as effective accounting hedges, even though the Company considers all commodity and interest rate contracts to be effective economic hedges. As a result, all such contracts are recorded on the interim consolidated statement of financial position at fair value, with changes in the fair value being recognized as an unrealized gain or loss on the interim consolidated statement of income (loss) and comprehensive income (loss).

The Company has the following financial derivative contracts in place as at March 31, 2021 [1]:

		2021	2022	2023	2024	Fair Value *(000s)*
Gas						
AECO swaps [2][4]	*mmbtu/d*	93,193	–	–	–	$ (10,239)
	CAD$/mmbtu	$ 2.19	$			
NYMEX swaps	*mmbtu/d*	191,713	60.833	–	–	$ 7,336
	USD$/mmbtu	$ 2.80	$ 2.72			
AECO Basis swap	*mmbtu/d*	778	–	–	–	$ (232)
	CAD$/mmbtu	$ (1.50)				
Basis differentials – other	*mmbtu/d*	37,500	37,500	37,500	27,500	$ (37,909)
	USD$/mmbtu	$ 0.29	$ 0.29	$ 0.29	$ 0.28	
Call options (writer) [3]	*mmbtu/d*	25,000	55,000	–	–	$ (3,063)
	USD$/mmbtu	$ 3.50	$ 3.50			
Oil						
Financial swaps	*bbls/d*	11,162	3,996	–	–	$ (40,508)
	USD$/bbl	$ 47.59	$ 55.93			
Financial swaps	*bbls/d*	1,500	100	–	–	$ (6,122)
	CAD$/bbl	$ 60.09	$ 66.90			
Financial collars	*bbls/d*	2,169	248	–	–	$ (3,062)
	USD$/bbl	$ 46.32 - $ 57.60	$ 55.00 - $ 65.70			
NYMEX call options [5]	*bbls/d*	335	–	1,000	–	$ (3,318)
	USD$/bbl	$ 51.60		$ 60.00		
Propane Financial Swaps [6]	*bbls/d*	2,665	–	–	–	$ (1,324)
	USD$/bbl	$ 34.23				
Total fair value						$ (98,441)

(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 5A and 7A underlying.
(5) These are comprised of both European and Asian call options.
(6) Propane Financial Swaps include OPIS Conway, Argus FEI, and Baltic LPG Freight Financial Swap transactions.

The Company has entered into the following financial commodity derivative contracts subsequent to March 31, 2021.

Type of Contract	Quantity	Time Period	Contract Price
NYMEX swap	10,000 mmbtu/d	January – December 2022	USD $2.69/mmbtu average
NYMEX swap	5,000 mmbtu/d	January – December 2022	USD $3.69/mmbtu average
NYMEX oil swap	2,000 bbls/d	January – December 2022	USD $59.85/bbl average
NYMEX call option	1,000 bbls/d	January – December 2023	USD $60.00/bbl

The Company has entered into multiple interest rate swaps over the next six years at an annual average interest rate as detailed below:

	2021	2022	2023	2024	2025	2026	2027	Fair Value
Effective interest rate (1)	1.81%	1.87%	1.99%	2.02%	1.42%	1.10%	1.10%	
Notional amount hedged (000s)	$ 752,986	$ 705,570	$ 533,802	$ 224,733	$ 50,067	$ 25,000	$ 6,319	$ (20,423)

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

The Company has not entered into any interest rate derivative contracts subsequent to March 31, 2021.

The Company has the following financial foreign currency derivative contracts in place at March 31, 2021:

		2021	2022	Fair Value *(000s)*
Costless collar(1)	*$USD(000s) Monthly*	$ 32,700	$ 3,000	$ 3,974
	$CAD/$USD	$ 1.250 – $ 1.317	$ 1.250 – $ 1.373	
Average rate forward	*$USD(000s) Monthly*	$ 3,000	–	$ 545
	$CAD/$USD	$ 1.269		
Total fair value				$ 4,519

(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, $12.0 million/month at $1.333 for 2021 and $3.0 million/month at $1.373 for 2022.

The Company has not entered into any foreign currency derivative contracts subsequent to March 31, 2021.

The following table provides a summary of the unrealized gains (losses) on financial instruments recorded in the interim consolidated statements of income (loss) and comprehensive income (loss) for the three months ended March 31, 2021 and 2020:

	Three Months Ended March 31,	
(000s)	**2021**	**2020**
Unrealized gain (loss) on financial instruments – commodity contracts	**$ (44,482)**	$ 159,203
Unrealized gain (loss) on financial instruments – interest rate swaps	**8,723**	(31,006)
Unrealized gain on financial instruments – foreign currency	**3,505**	1,715
Total unrealized gain (loss) on financial instruments	**$ (32,254)**	$ 129,912

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

The Company has the following physical commodity contracts in place at March 31, 2021 [(1)(5)]:

		2021	2022	2023	2024	2025
Gas						
Fixed price [(2)]	*mcf/d*	342,727	53,928	2,068	1,243	–
	CAD$/mcf	$ 2.63	$ 3.02	$ 3.14	$ 3.14	
Basis differentials - AECO [(3)]	*mmbtu/d*	257,482	217,500	138,315	70,833	–
	USD$/mmbtu	$ (0.70)	$ (0.70)	$ (0.76)	$ (0.72)	
Basis differentials - Dawn	*mmbtu/d*	6,091	20,000	10,000	–	–
	USD$/mmbtu	$ (0.07)	$ (0.10)	$ (0.09)		
Basis differentials – Stn 2	*mcf/d*	31,581	22,337	16,658	–	–
	CAD$/mcf	$ (0.02)	$ 0.07	$ 0.35		
Basis differentials – Other [(4)]	*mcf/d*	45,000	45,000	47,514	62,500	–
	USD$/mcf	$ 0.22	$ 0.22	$ 0.16	$ (0.09)	
Oil						
Basis differentials [(6)]	*bbls/d*	3,089	1,034	–	–	–
	USD$/bbl	$ (5.14)	$ (4.75)			
Condensate differentials [(7)]	*bbls/d*	5,320	2,069	–	–	–
	USD$/bbl	$ (1.48)	$ (2.13)			

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

(2) These include AECO, Stn 2, Malin, and PG&E City Gate.

(3) A portion of these basis deals have a cap on NYMEX, 52.5 mmcf/d at USD$4.47/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 that extend into 2030; 5,000 mmbtu/d priced off Chicago GDD that extends to 2023; and 30,000 mmbtu/d priced of Chicago GDD that extends into 2027. Tourmaline reserves the right to periodically fix the price or lock in the basis in each market.

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

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

The Company has entered into the following physical contracts subsequent to March 31, 2021:

Type of Contract	Quantity	Time Period	Contract Price
Gas Fixed Price	50,000 GJ/d	May 2021	CAD $2.63/GJ average
Gas Fixed Price	6,000 GJ/d	June 2021	CAD $2.70/GJ average
Gas Fixed Price	3,000 GJ/d	July 2021	CAD $2.68/GJ average
Basis differentials – NYMEX	25,000 mmbtu/d	May 2021	USD $(0.24)/mmbtu
Basis differentials – NYMEX	10,000 mmbtu/d	June 2021	USD $(0.51)/mmbtu
Basis differentials – NYMEX	5,000 mmbtu/d	January – December 2022	USD $1.01/mmbtu
Basis differentials – NYMEX	10,000 mmbtu/d	January 2022 – December 2023	USD $(0.667)/mmbtu
Basis differentials – NYMEX	5,000 GJ/d	January 2023 – December 2024	USD $(0.065)/mmbtu
Basis differentials – NYMEX	10,000 GJ/d	January – December 2024	USD $(0.69)/mmbtu

4. EXPLORATION AND EVALUATION ASSETS

(000s)	
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
Capital expenditures	–
Transfers to property, plant and equipment *(note 5)*	(15,403)
Acquisitions	–
Divestitures	(476)
Expired mineral leases	(4,205)
As at March 31, 2021	**$ 489,449**

Exploration and evaluation ("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 interim statements of income (loss) and comprehensive income (loss).

Impairment Assessment

In accordance with IFRS, an impairment test is performed if the Company identifies an indicator of impairment. At March 31, 2021 and December 31, 2020, the Company determined that no internal or external indicators of impairment existed on its E&E assets; therefore, an impairment test was not performed.

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

Cost

(000s)	
As at January 1, 2020	$ 15,085,743
Capital expenditures	912,551
Transfers from exploration and evaluation *(note 4)*	90,912
Change in decommissioning liabilities *(note 7)*	208,134
Corporate acquisitions	1,085,062
Acquisitions	173,013
Divestitures	(230)
As at December 31, 2020	17,555,185
Capital expenditures	398,174
Transfers from exploration and evaluation *(note 4)*	15,403
Change in decommissioning liabilities *(note 7)*	(79,807)
Property acquisitions	28,281
Divestitures	(153)
As at March 31, 2021	**$ 17,917,083**

Accumulated Depletion, Depreciation, Amortization and Impairment

(000s)	
As at January 1, 2020	$ 4,830,553
Depletion, depreciation and amortization	842,599
Impairment expense	250,000
As at December 31, 2020	5,923,152
Depletion, depreciation and amortization	259,397
As at March 31, 2021	**$ 6,182,549**

Net Book Value

(000s)	
As at December 31, 2020	$ 11,632,033
As at March 31, 2021	**$ 11,734,534**

Future development costs of $8,923.3 million were included in the depletion calculation at March 31, 2021 (December 31, 2020 – $8,787.2 million).

Capitalization of G&A and Share-Based Payments

A total of $9.0 million in G&A expenditures have been capitalized and included in PP&E for the three months ended March 31, 2021 (December 31, 2020 – $32.5 million). Also included in PP&E are non-cash share-based payments of $1.8 million (December 31, 2020 - $7.2 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 March 31, 2021, the Company did not identify indicators of impairment or reversal of impairment on any of its CGUs and therefore, an impairment or reversal of impairment test was not performed.

The Company 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.

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 performed impairment tests and determined that there was no impairment or reversal of impairment to PP&E at December 31, 2020.

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 March 31, 2020 and December 31, 2020; however, it should be noted that all estimates are subject to uncertainty.

Acquisitions and Dispositions of Oil and Natural Gas Properties

On January 24, 2021, Topaz acquired a 49.5% working interest in certain water infrastructure assets for cash consideration of $12.0 million, before customary closing adjustments. The acquisition resulted in an increase in PP&E of approximately $14.0 million and the assumption of $2.0 million in decommissioning liabilities. 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 March 5, 2021, Topaz acquired a royalty interest on developed and undeveloped lands in the Clearwater area of Alberta for cash consideration of $13.7 million, before customary closing adjustments. The acquisition resulted in an increase in PP&E of approximately $13.7 million. 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 three months ended March 31, 2021, the Company completed property acquisitions for cash consideration of $26.3 million, including the acquisitions discussed above (December 31, 2020 - $171.9 million) and nil in acquisitions involving non-cash consideration (December 31, 2020 - $6.2 million). The Company assumed $2.0 million in decommissioning liabilities as a result of these acquisitions (December 31, 2020 - $15.9 million).

The Company also completed property dispositions, for the three months ended March 31, 2021, for total cash consideration of $0.6 million (December 31, 2020 - $0.2 million) and non-cash consideration of nil (December 31, 2020 – $6.2 million).

6. LEASES

Right-of-Use Assets

(000s)	**As at March 31, 2021**	**As at December 31, 2020**
Balance, beginning of period	**$ 12,018**	$ 10,831
Additions	**301**	2,704
Modifications	**(334)**	–
Right-of-use assets acquired from corporate acquisitions	**–**	1,701
Depreciation	**(931)**	(3,218)
Balance, end of period	**$ 11,054**	$ 12,018

Lease Liabilities

(000s)	**As at March 31, 2021**	**As at December 31, 2020**
Balance, beginning of period	**$ 12,175**	$ 10,879
Additions	**301**	2,704
Modifications	**(334)**	–
Lease liabilities acquired from corporate acquisitions	**–**	1,701
Lease interest expense	**90**	289
Lease payments	**(984)**	(3,398)
Balance, end of period	**$ 11,248**	$ 12,175
Current lease liabilities	**$ 2,409**	$ 3,412
Long-term lease liabilities	**$ 8,839**	$ 8,763

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.

7. DECOMMISSIONING OBLIGATIONS

The Company's decommissioning obligations result from net ownership interests in petroleum and natural gas assets including well sites, gathering systems and processing facilities. The Company estimates the total inflated but undiscounted amount of cash flow required to settle its decommissioning obligations is approximately $831.2 million (December 31, 2020 – $783.4 million). A risk-free rate of 1.97% (December 31, 2020 – 1.21%) and an inflation rate of 1.69% (December 31, 2020 – 1.49%) were used to calculate the decommissioning obligations. The decommissioning obligations at March 31, 2021 have been adjusted by approximately $86.6 million reflecting the change in the risk-free rate and the inflation rate.

(000s)	**As at March 31, 2021**	**As at December 31, 2020**
Balance, beginning of period	**$ 595,432**	$ 321,863
Obligation incurred	**6,776**	16,160
Obligation incurred on corporate acquisitions (*note 5*)	**–**	50,731
Obligation incurred on property acquisitions (*note 5*)	**1,954**	15,850
Obligation settled	**(5,363)**	(6,569)
Accretion expense	**2,805**	5,423
Change in future estimated cash outlays	**(86,583)**	191,974
Balance, end of period	**$ 515,021**	$ 595,432
Current decommissioning obligations	**$ 6,679**	$ 4,618
Long-term decommissioning obligation	**$ 508,342**	$ 590,814

8. BANK DEBT

(000s)	**As at March 31, 2021**	**As at December 31, 2020**
Revolving credit facility	**$ 274,687**	$ 994,948
Term debt	**950,000**	949,495
Debt issue costs	**(6,863)**	(2,184)
Bank debt	**$ 1,217,824**	$ 1,942,259

The Company has a covenant-based, unsecured, five-year extendible revolving credit facility in place with a syndicate of banks, in the amount of $1.8 billion. In March 2021, the Company extended the maturity date of the revolving credit facility to June 2026. With the exception of the change in maturity date, the revolving credit facility was renewed under the same terms and conditions as those described in note 9 of the Company's consolidated financial statements for the year ended December 31, 2020. 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 March 31, 2021, adjusted EBITDA for the purposes of the above-noted covenant calculations was $1,586.7 million (December 31, 2020 - $1,240.3 million), on a rolling four-quarter basis. At March 31, 2021, the ratio of adjusted EBITDA to interest expense was 36:1 and the ratio of total debt to total capitalization was 0.1:1. As at, and for the quarter ending, March 31, 2021, the Company is in compliance with all debt covenants.

The Company has a $950.0 million term loan with a syndicate of banks. In March 2021, the Company extended the maturity date of the term loan to June 2026. With the exception of the change in maturity date, the term loan was renewed under the same terms and conditions as those described in note 9 of the Company's consolidated financial statements for the year ended December 31, 2020. 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. 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.

U.S. dollar LIBOR benchmarks will begin phasing out on December 31, 2021. The Company expects the U.S. LIBOR benchmarks to be replaced with an alternative that will apply to our U.S. dollar borrowings to be used at our option. We do not expect this change to have a material impact to the Company.

The Company also has a covenant-based, unsecured, operating credit facility with a Canadian bank in the amount of $50.0 million. In March 2021, the Company extended the maturity date of the operating credit facility to June 2023. With the exception of the change in maturity date, the term loan was renewed under the same terms and conditions as those described in note 9 of the Company's consolidated financial statements for the year ended December 31, 2020. The maturity date may, at the request of the Company and with consent of the lender, be extended on an annual basis. The covenants are the same as the revolving credit facility. At March 31, 2021, 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 $21.1 million at March 31, 2021 (December 31, 2020 - $19.5 million), which reduces the credit available on this facility.

Topaz, a subsidiary of Tourmaline, has a covenant-based, secured, operating credit facility with a syndicate of Canadian banks. In February 2021, Topaz increased the operating credit facility to $300.0 million and extended the maturity date to February 2024. With the exception of the changes in amount and maturity date, the operating credit facility was renewed under the same terms and conditions as those described in note 9 of the Company's consolidated financial statements for the year ended December 31, 2020. The maturity date may, at the request of the Company and with consent of the lender, be extended on an annual basis.

The Company's aggregate borrowing capacity is $3.4 billion at March 31, 2021 including the senior unsecured notes (note 9). As at, and for the quarter ending March 31, 2021, the Company is in compliance with all debt covenants.

As at March 31, 2021, the Company had $948.4 million in long-term debt outstanding and $269.4 million drawn against the revolving credit facility for total bank debt of $1,217.8 million (net of debt issue costs) (December 31, 2020 - $1,942.3 million). The effective interest rate for the three months ended March 31, 2021 was 1.65% (three months ended March 31, 2020 – 3.15%).

9. SENIOR UNSECURED NOTES

(000s)	**As at March 31, 2021**
Senior unsecured notes	**$ 250,000**
Debt issue costs	**(1,198)**
Senior unsecured notes	**$ 248,802**

On January 25, 2021, the Company issued $250.0 million of senior unsecured notes (the “notes”). The notes bear interest at a fixed rate of 2.077%, payable semi-annually, with a due date of January 25, 2028 and rank equally with all other present unsecured and subordinated debt of the Company.

10.NON-CONTROLLING INTEREST

At December 31, 2019, the Company owned 73.9% of Topaz, a royalty and infrastructure energy company.

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

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. 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 $130.0 million in exchange for cash to Tourmaline of $130.0 million.

On February 24, 2021, 158,334 stock options were exercised for Topaz common shares for cash consideration of $1.6 million resulting in Tourmaline's ownership interest being reduced from 51.7% to 51.6% at March 31, 2021.

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

(000s)	**As at March 31, 2021**	**As at December 31, 2020**
Balance, beginning of period	**$ 467,443**	$ 181,571
Share of subsidiary's net income for the period	**2,586**	242
Topaz dividends paid to NCI	**(10,892)**	(25,988)
Carrying amount of NCI disposed	**1,501**	311,618
Balance, end of period	**$ 460,638**	$ 467,443

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

	As at March 31, 2021		As at December 31, 2020	
(000s) except share amounts	**Number of Shares**	**Amount**	**Number of Shares**	**Amount**
Balance, beginning of period	**296,571,516**	**$ 6,328,115**	270,997,159	$ 5,886,977
Issued on corporate acquisitions *(note 5)*	–	–	25,700,000	444,402
Purchase of common shares under NCIB	–	–	(221,600)	(4,814)
For cash on exercise of stock options	**342,645**	**5,085**	95,957	1,261
Contributed surplus on exercise of stock options	–	**1,235**	–	289
Balance, end of period	**296,914,161**	**$ 6,334,435**	296,571,516	$ 6,328,115

Normal course issuer bid

On July 15, 2020, the Company renewed its normal course issuer bid ("NCIB") with the Toronto Stock Exchange ("TSX"). 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 three months ended March 31, 2021, the Company did not purchase any common shares for cancellation.

Dividends

During the three months ended March 31, 2021, the Company paid cash dividends of $0.16 per common share totalling $47.5 million, compared to $0.12 per common share totalling $32.5 million for the same period of the prior year. Additionally, during the three months ended March 31, 2021, Topaz paid a cash dividend of $0.20 per common share totalling $22.5 million, compared to $0.20 per common share totalling $16.0 million for the same period of the prior year. The Topaz dividends paid include $11.6 million which was paid to Tourmaline and the remainder was paid to outside investors compared to $11.8 million in the prior year.

12. EARNINGS (LOSS) PER SHARE

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

	Three Months Ended March 31,	
	2021	**2020**
Net income (loss) and comprehensive income (loss) attributable to shareholders of the Company for the period *(000s)*	**$ 247,837**	$ (35,812)
Weighted average number of common shares – basic	**296,782,462**	270,940,484
Earnings (loss) per share – basic	**$ 0.84**	$ (0.13)

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

	Three Months Ended March 31,	
	2021	**2020**
Net income (loss) and comprehensive income (loss) attributable to shareholders of the Company for the period *(000s)*	**$ 247,837**	$ (35,812)
Weighted average number of common shares – diluted	**298,394,813**	270,940,484
Earnings (loss) per share – fully diluted	**$ 0.83**	$ (0.13)

There were 10,390,232 options excluded from the weighted-average share calculations for the three-month period ended March 31, 2021 because they were anti-dilutive (three months ended March 31, 2020 – 18,978,734 options were anti-dilutive).

13. 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 25,237,703 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.

	Three Months Ended March 31,			
		2021		**2020**
	Number of Options	**Weighted Average Exercise Price**	**Number of Options**	**Weighted Average Exercise Price**
Stock options outstanding, beginning of period	**18,324,711**	**$ 22.11**	19,148,068	$ 24.94
Granted	**322,000**	**20.94**	104,000	11.70
Exercised	**(342,644)**	**14.84**	–	–
Expired	**(120,500)**	**28.39**	(86,000)	37.53
Forfeited	**(107,750)**	**28.85**	(187,334)	27.92
Stock options outstanding, end of period	**18,075,817**	**$ 22.14**	18,978,734	$ 24.78

The average trading price of the Company's common shares was $22.00 during the three months ended March 31, 2021 (three months ended March 31, 2020 – $12.06).

The following table summarizes stock options outstanding and exercisable at March 31, 2021:

Range of Exercise Price	**Number Outstanding at Period End**	**Weighted Average Remaining Contractual Life**	**Weighted Average Exercise Price**	**Number Exercisable at Period End**	**Weighted Average Exercise Price**
$9.39 - $17.38	3,627,353	5.48	$ 12.83	873,335	$ 12.79
$17.39 - $18.77	3,615,732	6.27	17.61	152,338	18.28
$18.78 - $22.27	3,795,782	4.49	21.71	2,449,742	21.81
$22.28 - $26.63	3,653,250	3.76	25.66	3,336,554	25.89
$26.64 - $36.99	3,383,700	2.35	33.63	3,383,700	33.63
	18,075,817	4.49	$ 22.14	10,195,669	$ 26.24

The fair value of options granted during the three-month period ended March 31, 2021 was estimated on the date of grant using the Black-Scholes option-pricing model with the following weighted average assumptions and resulting values:

	March 31,	
	2021	**2020**
Fair value of options granted (weighted average)	**$ 5.67**	$ 2.54
Risk-free interest rate	**0.47%**	1.2%
Estimated hold period prior to exercise	**5 years**	5 years
Expected volatility	**39%**	37%
Forfeiture rate	**1.9%**	1.9%
Dividend per share	**$ 0.53**	$ 0.48

14. COMMITMENTS

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

PAYMENTS DUE BY YEAR

(000s)	1 Year	2-3 Years	4-5 Years	>5 Years	Total
Operating commitments (1)	$ 2,999	$ 4,483	$ 4,317	$ 2,156	$ 13,955
Firm transportation agreements	616,359	1,204,151	1,022,708	3,030,392	5,873,610
Processing commitments (2)	63,944	104,666	102,026	324,247	594,883
Capital commitments (3)	2,250	–	–	–	2,250
Credit facility (4)	–	–	–	302,958	302,958
Term debt (5)	18,369	36,739	36,739	953,573	1,045,420
Senior unsecured notes (6)	5,193	10,385	10,385	259,443	285,406
	$ 709,114	$ 1,360,424	$ 1,176,175	$4,872,769	$ 8,118,482

(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 1.89% being the rate applicable to outstanding debt on the credit facility at March 31, 2021.

(5) Includes interest expense at an annual rate of 1.93% being the fixed rate on the term debt at March 31, 2021.

(6) Includes interest expense at an annual rate of 2.08% being the fixed rate on the notes.

15. REVENUE

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

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

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

	Three Months Ended March 31,	
(000s)	**2021**	**2020**
Natural gas		
Sales from production	**$ 634,553**	$ 346,474
Premium (loss) on risk management activities	**36,308**	(20,288)
	670,861	326,186
Oil		
Sales from production	**61,637**	36,696
Premium (loss) on risk management activities	**1,927**	(265)
	63,564	36,431
Condensate		
Sales from production	**157,144**	106,478
Premium (loss) on risk management activities	**(1,174)**	(3,289)
	155,970	103,189
NGL		
Sales from production	**142,701**	36,001
Marketing revenue (1)	**17,383**	23,127
Total		
Commodity sales from production	**996,035**	525,649
Premium (loss) on risk management activities	**37,061**	(23,842)
Marketing revenue	**17,383**	23,127
Revenue from contracts with customers	**$ 1,050,479**	$ 524,934

(1) Marketing revenue represents the sale of commodities purchased from third parties. For the three months ended March 31, 2021, the Company had marketing purchases from third parties of $17.1 million, (three months ended March 31, 2020 - $21.5 million).