



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

As at September 30, 2021 and for the three and nine months ended September 30, 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 and nine months ended September 30, 2021 and the consolidated financial statements for the year ended December 31, 2020. The consolidated financial statements can be found at www.sedar.com or www.tourmalineoil.com. This MD&A is dated November 3, 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 any dividends (regular or special) and the timing and amount thereof; the expectation for potential share buybacks; Tourmaline's future operating and financial results; capital investment programs; supply and demand for crude oil, condensate, NGL and natural gas; future royalty rates; drilling, development and completion plans and the results therefrom; future land expiries; dispositions and joint venture arrangements; amount of operating, transportation and general and administrative expenses; treatment under governmental regulatory regimes and tax and environmental laws and regulations; and estimated tax pool

balances. In addition, statements relating to "reserves" are deemed to be forward-looking statements, as they involve the implied assessment, based on certain estimates and assumptions, that the reserves described can be profitably produced in the future.

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

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

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

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

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

OPERATING ENVIRONMENT AND THE COVID-19 PANDEMIC

The COVID-19 pandemic had a significantly negative impact on global economic conditions in 2020 which included a large decrease in oil demand which combined with other macro-economic conditions resulted in significant volatility of commodity prices as well as increased economic uncertainty. Throughout 2021, there has been an economic recovery providing for more positive outlooks on commodity prices and general market and industry conditions as COVID-19 vaccination rates continue to increase and government restrictions are slowly eased.

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.

TOPAZ ENERGY CORP. (“TOPAZ”) LOSS OF CONTROL

On June 8, 2021, Topaz, a previously controlled subsidiary of Tourmaline, completed a public offering and concurrent private placement equity financing and issued 14.3 million common shares reducing Tourmaline’s ownership interest in Topaz to 45.2%. As a controlled subsidiary the financial statements of Topaz were consolidated with Tourmaline and any intercompany balances and transactions were eliminated. Subsequent to the completion of the public offering and concurrent private placement equity financing, Tourmaline determined that, in accordance with IFRS, it no longer controlled Topaz. Accordingly, Tourmaline derecognized the assets and liabilities of Topaz and the associated non-controlling interest (“NCI”) and recorded a gain on loss of control of \$321.2 million.

Tourmaline’s remaining equity interest in Topaz was measured at fair value of \$870.5 million, using the market price of the Topaz shares on the day that Tourmaline lost control, and was included on the interim condensed consolidated financial statements as at June 30, 2021, as an investment in Topaz. Topaz is now classified as an associate which is an entity in which the Company has significant influence, but not control, over the financial and operating policies. Interests in associates are accounted for using the equity method whereby subsequent to initial recognition, the consolidated financial statements include the Company’s share of the profit or loss and dividends paid of the associate until the date on which significant influence ceases.

Subsequent to June 8, 2021, intercompany transactions between Tourmaline and Topaz will no longer be eliminated on consolidation. The Company therefore expects its royalty expense and operating expense to increase reflecting the royalty interests sold to Topaz and interests in infrastructure assets sold to Topaz on which Tourmaline incurs processing fees. The Company also expects other income to decrease as a significant portion of the other income stream was sold to Topaz on its formation along with other third-party processing agreements Topaz entered into with third parties. The Company will also be recording quarterly dividends received from Topaz as cash flow from operating activities.

PRODUCTION

	Three Months Ended September 30,			Nine Months Ended September 30,		
	2021	2020	Change	2021	2020	Change
Natural gas (<i>mcf/d</i>)	2,146,477	1,413,983	52%	1,994,091	1,437,867	39%
Oil (<i>bbl/d</i>)	9,954	7,516	32%	10,114	8,272	22%
Condensate (<i>bbl/d</i>)	29,109	19,732	48%	26,386	19,423	36%
NGL (<i>bbl/d</i>)	59,680	35,290	69%	57,451	34,620	66%
Oil equivalent (<i>boe/d</i>)	456,489	298,202	53%	426,300	301,960	41%
Production in storage (<i>boe/d</i>)	1,334	1,649	(19)%	442	1,291	(66)%
Total produced volumes (<i>boe/d</i>)	457,823	299,851	53%	426,742	303,251	41%
Natural gas %	78%	79%		78%	79%	

Production for the three months ended September 30, 2021, averaged 456,489 boe/d, a 53% increase over the average production for the same quarter of 2020 of 298,202 boe/d. For the nine months ended September 30, 2021, production increased 41% to 426,300 boe/d from 301,960 boe/d for the same period of 2020.

The production increase for the three and nine months ended September 30, 2021, is primarily a result of the corporate and property acquisitions completed since the third quarter of 2020, which account for approximately 80% of the increase in production. The remaining increase is attributable to the Company's successful exploration and production program, including the growth in condensate and NGL production which reflects the continued development of the Gundy area. Production is expected to continue to increase in the area with the construction of Gundy Phase 2 almost complete and now expected to be commissioned in December 2021.

Excluded from the average production volumes discussed above, for the third quarter of 2021, was 1,334 boe/d of natural gas which was injected into storage facilities during the quarter. Average produced volumes for the third quarter of 2021 were 457,823 boe/d. For the third quarter of 2020, 1,649 boe/d of natural gas was injected into storage facilities resulting in average produced volumes of 299,851 boe/d.

The Company has storage capacity at both Dawn and PG&E City Gate. 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 440,000 – 445,000 boe/d, unchanged from the updated guidance provided in the Company's September 22, 2021 press release.

REVENUE AND REALIZED GAINS (LOSSES)

(000s)	Three Months Ended September 30,			Nine Months Ended September 30,		
	2021	2020 ⁽¹⁾	Change	2021	2020 ⁽¹⁾	Change
Natural gas						
Sales from production	\$ 826,225	\$ 371,392	122%	\$ 2,098,495	\$ 1,057,941	98%
Premium (loss) on risk management activities	14,069	(33,877)	142%	(9,557)	(83,583)	89%
Realized gain (loss) on financial instruments	(73,930)	433	(17,174)%	(90,924)	4,607	(2,074)%
	766,364	337,948	127%	1,998,014	978,965	104%
Oil						
Sales from production	73,957	31,692	133%	201,256	89,745	124%
Premium (loss) on risk management activities	1,599	(928)	272%	5,188	(2,948)	276%
Realized gain (loss) on financial instruments	(11,224)	2,826	(497)%	(26,084)	19,384	(235)%
	64,332	33,590	92%	180,360	106,181	70%
Condensate						
Sales from production	230,699	90,655	154%	576,857	242,719	138%
(Loss) on risk management activities	(365)	(3,375)	89%	(3,267)	(8,557)	(62)%
Realized gain (loss) on financial instruments	(34,304)	7,890	(535)%	(71,721)	44,984	(259)%
	196,030	95,170	106%	501,869	279,146	80%
NGL						
Sales from production	192,322	51,353	275%	467,940	122,237	283%
Realized (loss) on financial instruments	(5,672)	–	(100)%	(8,265)	–	(100)%
	186,650	51,353	263%	459,675	122,237	276%
Total						
Sales from production	1,323,203	545,092	143%	3,344,548	1,512,642	121%
Premium (loss) on risk management activities	15,303	(38,180)	140%	(7,636)	(95,088)	92%
Realized gain (loss) on financial instruments	(125,130)	11,149	(1,222)%	(196,994)	68,975	(386)%
Total revenue from commodity sales, premium (loss) on risk management activities, and realized gain (loss) on financial instruments	\$ 1,213,376	\$ 518,061	134%	\$ 3,139,918	\$ 1,486,529	111%

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

Total sales from production for the three months ended September 30, 2021 increased 143% to \$1,323.2 million from \$545.1 million for the same quarter of 2020. Total sales from production for the nine months ended September 30, 2021 increased 121% from \$1,512.6 million in 2020 to \$3,344.5 million in 2021. The significant increase for both periods can be attributed to an increase in all commodity prices and increased sales volumes.

Included in the premium (loss) on risk management activities are the premiums/losses that Tourmaline receives from selling gas to markets outside Alberta and British Columbia and the premium (loss) received on physical commodity contract prices compared to benchmark pricing. Tourmaline has significantly diversified the markets where its natural gas is sold including Malin, PG&E City Gate, Chicago, and Dawn, all of which have historically had higher natural gas prices as compared to AECO.

The three and nine months ended September 30, 2021 included a gain on risk management activities of \$15.3 million and a loss of \$7.6 million, respectively, compared to a loss of \$38.2 million and \$95.1 million, respectively, for the same periods of the prior year. The gain on risk management activities for the three months ended September 30, 2021 reflects an increase in the differential between the price at AECO and the price received at Malin, PG&E City Gate and Dawn which created gains at those hubs. The loss on risk management activities, for the nine months ended September 30, 2021 and the three and nine months ended September 30, 2020, reflects the increase in AECO prices in those periods, which were higher than the prices received (after transportation) at the other hubs where Tourmaline sold its natural gas, as well as increased losses 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 September 30,			Nine Months Ended September 30,		
	2021	2020	Change	2021	2020	Change
Natural gas						
NYMEX Last Day (USD\$/mcf)	\$ 4.01	\$ 1.98	103%	\$ 3.18	\$ 1.88	69%
AECO 5A (CAD\$/mcf)	\$ 3.62	\$ 2.25	61%	\$ 3.30	\$ 2.10	57%
West Coast Station 2 (CAD\$/mcf)	\$ 3.44	\$ 2.26	52%	\$ 3.18	\$ 1.96	53%
Sumas (USD\$/mmbtu)	\$ 4.14	\$ 1.94	113%	\$ 3.49	\$ 1.78	96%
ATP 5A Day Ahead (CAD\$/mcf)	\$ 4.26	\$ 2.19	95%	\$ 4.02	\$ 1.98	103%
Chicago City Gate (USD\$/mmbtu)	\$ 4.10	\$ 1.84	123%	\$ 5.39	\$ 1.74	210%
Ventura (USD\$/mmbtu)	\$ 4.02	\$ 1.80	123%	\$ 6.43	\$ 1.70	278%
PG&E Malin (USD\$/mmbtu)	\$ 4.37	\$ 1.98	121%	\$ 3.47	\$ 1.78	95%
PG&E City Gate (USD\$/mmbtu)	\$ 5.69	\$ 3.03	88%	\$ 4.53	\$ 2.72	67%
Dawn (USD\$/mmbtu)	\$ 3.98	\$ 1.82	119%	\$ 3.24	\$ 1.74	86%
Oil and condensate						
NYMEX (USD\$/bbl)	\$ 70.52	\$ 40.92	72%	\$ 65.07	\$ 38.21	70%
Edmonton Par (CAD\$/bbl)	\$ 84.16	\$ 49.06	72%	\$ 76.74	\$ 43.66	76%
Edmonton Condensate (CAD\$/bbl)	\$ 89.23	\$ 51.71	73%	\$ 81.49	\$ 47.64	71%

CURRENCY – EXCHANGE RATES:

	Three Months Ended September 30,			Nine Months Ended September 30,		
	2021	2020	Change	2021	2020	Change
CAD\$/USD\$ ⁽¹⁾	\$ 0.7939	\$ 0.7507	6%	\$ 0.7993	\$ 0.7393	8%

(1) Average rates for the period.

TOURMALINE REALIZED PRICES:

	Three Months Ended September 30,			Nine Months Ended September 30,		
	2021	2020	Change	2021	2020	Change
Natural gas (\$/mcf)	\$ 3.88	\$ 2.60	49%	\$ 3.67	\$ 2.48	48%
Oil (\$/bbl)	\$ 70.25	\$ 48.58	45%	\$ 65.32	\$ 46.85	39%
Condensate (\$/bbl)	\$ 73.20	\$ 52.43	40%	\$ 69.67	\$ 52.45	33%
NGL (\$/bbl)	\$ 33.99	\$ 15.82	115%	\$ 29.31	\$ 12.89	127%
Oil equivalent (\$/boe)	\$ 28.89	\$ 18.89	53%	\$ 26.98	\$ 17.97	50%

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

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

The realized average natural gas price for the three months ended September 30, 2021 increased by 49% to \$3.88/mcf from \$2.60/mcf in the same period of the prior year. For the nine months ended September 30, 2021, the realized average natural gas price was \$3.67/mcf, which is 48% higher than the same period of the prior year. The increase in both periods is the result of significantly higher natural gas benchmark prices across all the major hubs where the Company sells its natural gas compared to the same periods of the prior year, prior to any deductions for transportation.

Realized oil prices increased by 45% and 39% for the three and nine months ended September 30, 2021, respectively, compared to the same periods of the prior year. The increase reflects the increase in benchmark oil prices in the three and nine months ended September 30, 2021 compared to the same periods in 2020 partially offset by the realized loss on financial instruments. The realized oil price for the nine months ended September 30, 2020 included a \$4.8 million realized gain on financial instruments primarily related to unwinding a portion of the Company's financial contracts early in 2020 to take advantage of the significant gain that had been realized at that time.

For the three and nine months ended September 30, 2021, the realized price of condensate was \$73.20/bbl and \$69.67/bbl, which is 40% and 33%, respectively, higher than the same periods of the prior year. The increase reflects the higher benchmark prices received during the first nine months of 2021 partially offset by the realized loss on financial instruments. The realized condensate price for the nine months ended September 30, 2020 included a \$10.4 million realized gain on financial instruments primarily related to unwinding a portion of the Company's financial contracts early in the year to take advantage of the significant gain that had been realized.

The realized NGL price for the three and nine months ended September 30, 2021 increased by 115% and 127%, respectively, compared to the same periods of the prior year. The increase in both periods reflects significantly higher benchmark prices for ethane, propane, butane and pentane, which correlates with the increase in natural gas, oil and condensate benchmark prices for the periods.

ROYALTIES

(000s)	Three Months Ended September 30,		Nine Months Ended September 30,	
	2021	2020	2021	2020
Natural gas	\$ 50,243	\$ (478)	\$ 89,331	\$ 3,137
Oil, condensate and NGL	59,180	9,074	130,415	33,763
Total royalties	\$ 109,423	\$ 8,596	\$ 219,746	\$ 36,900
Royalties as a percentage of commodity sales from production	8.3%	1.6%	6.6%	2.4%

For the three and nine months ended September 30, 2021, the average effective royalty rate was 8.3% and 6.6% compared to 1.6% and 2.4%, respectively, for the same periods of the prior year. The significantly higher benchmark commodity prices in 2021 resulted in higher natural gas, oil, condensate and NGL royalties compared to the prior year. Additionally, royalties for the third quarter of 2021 reflect gross overriding royalties paid by the Company to Topaz post June 8, 2021. These royalties were previously eliminated as Topaz was a subsidiary of Tourmaline and its operating results were reported on a consolidated basis.

Natural gas royalties of \$89.3 million, for the nine months ended September 30, 2021, included crown and GORR royalties of \$196.6 million offset by credits of \$107.3 million. For the nine months ended September 30, 2020, natural gas royalties of \$3.1 million included crown and GORR royalties of \$46.4 million offset by credits of \$43.3 million. Included in the credits received for the three and nine months ended September 30, 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 7-8%. The increase over the 2020 annual effective royalty rate of 3% is expected due to higher forecast commodity prices in 2021 and the incremental royalties to be paid to Topaz for the remainder of 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

(000s)	Three Months Ended September 30,			Nine Months Ended September 30,		
	2021	2020	Change	2021	2020	Change
Marketing revenue	\$ 13,195	\$ 10,305	28%	\$ 40,530	\$ 38,269	6%
Marketing purchases	(11,494)	(9,654)	19%	(37,731)	(37,464)	1%
	\$ 1,701	\$ 651	161%	\$ 2,799	\$ 805	248%

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

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

For the three months ended September 30, 2021, marketing revenue increased by 28% and marketing purchases increased by 19% compared to the same period of 2020. The increases in both marketing revenue and marketing purchases can be attributed to an increase in benchmark oil and condensate prices.

For the nine months ended September 30, 2021, marketing revenue and marketing purchases increased by 6% and 1%, respectively, compared to the nine months ended September 30, 2020. The slight increases in both marketing revenue and marketing purchases can be attributed to the increase in benchmark oil and condensate prices partially offset by a decrease in third-party volumes purchased and sold in 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)	Three Months Ended September 30,			Nine Months Ended September 30,		
	2021	2020	Change	2021	2020	Change
Other income	\$ 10,453	\$ 11,964	(13)%	\$ 37,245	\$ 26,842	39%

Other income for the three months ended September 30, 2021 was \$10.5 million compared to \$12.0 million for the same period of the prior year. The decrease in other income is related to lower processing and gathering fees received from third parties after Topaz was deconsolidated as that income is now assigned directly to Topaz. Partially offsetting this decrease is an increase in power generation income in the third quarter of 2021.

For the nine months ended September 30, 2021, other income increased by 39% from \$26.8 million in 2020 to \$37.2 million in 2021. The increase in 2021 is due to Topaz entering into third-party processing agreements, which did not exist in the prior period, resulting in additional processing income while it was a subsidiary of Tourmaline.

OPERATING EXPENSES

(000s) except per unit amounts	Three Months Ended September 30,			Nine Months Ended September 30,		
	2021	2020	Change	2021	2020	Change
Operating expenses	\$ 157,854	\$ 89,370	77%	\$ 430,932	\$ 256,084	68%
Per boe	\$ 3.76	\$ 3.26	15%	\$ 3.70	\$ 3.10	19%

Operating expenses include all periodic lease and field-level expenses and exclude income recoveries from processing third-party volumes. For the third quarter of 2021, total operating expenses were \$157.9 million compared to \$89.4 million for the same period of 2020, an increase of 77% over a production base increase of 53%. Operating costs for the nine months ended September 30, 2021 were \$430.9 million compared to \$256.1 million for the same period of 2020, reflecting a 68% increase in total costs over a 41% increase in production.

On a per-boe basis, the costs increased from \$3.26/boe for the third quarter of 2020 to \$3.76/boe in the third quarter of 2021. For the nine months ended September 30, 2021, operating costs were \$3.70/boe, up from \$3.10/boe, for the first nine months of 2020. The increase in per-boe costs for both periods is related to processing and gathering fees paid to Topaz post June 8, 2021, which were previously eliminated, and due to the Company's production exceeding 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, Jupiter and Black Swan (as defined in the accompanying interim condensed consolidated financial statements) corporate acquisitions since Q3 2020 carried higher operating expenses per-boe which the Company continues to bring down as the assets are integrated and operational efficiencies are realized.

The Company's operating costs for 2021 are expected to average approximately \$3.75/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 corporate acquisitions as well as higher anticipated property taxes and carbon taxes. The higher forecasted costs also now reflect the incremental processing fees post June 8, 2021, which will be paid to Topaz and are no longer eliminated on consolidation. 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

<i>(000s) except per unit amounts</i>	Three Months Ended September 30,			Nine Months Ended September 30,		
	2021	2020	Change	2021	2020	Change
Natural gas transportation	\$ 133,340	\$ 96,630	38%	\$ 369,116	\$ 299,036	23%
Oil and NGL transportation	41,803	28,484	47%	116,084	73,609	58%
Total transportation	\$ 175,143	\$ 125,114	40%	\$ 485,200	\$ 372,645	30%
Per boe	\$ 4.17	\$ 4.56	(9)%	\$ 4.17	\$ 4.50	(7)%

For the third quarter of 2021, total transportation expenses were \$175.1 million compared to \$125.1 million in the third quarter of 2020. For the nine months ended September 30, 2021, transportation expenses were \$485.2 million, compared to \$372.6 million for the same period of 2020. Transportation expenses in 2021 reflect increased costs related to higher production volumes compared to the prior year.

On a per-boe basis, transportation costs decreased from \$4.56/boe for the third quarter of 2020 to \$4.17/boe in the third quarter of 2021. For the nine months ended September 30, 2021, the per-boe transportation costs decreased from \$4.50/boe in the prior year to \$4.17/boe. The decrease in per-unit costs for both periods reflects lower transportation costs associated with the production volume acquired from the Modern and Jupiter acquisitions as those volumes are predominately sold at AECO and production acquired from the Black Swan acquisition where production volumes are predominately sold at Station 2.

GENERAL & ADMINISTRATIVE EXPENSES (“G&A”)

<i>(000s) except per unit amounts</i>	Three Months Ended September 30,			Nine Months Ended September 30,		
	2021	2020	Change	2021	2020	Change
G&A expenses	\$ 33,461	\$ 24,800	35%	\$ 98,204	\$ 75,542	30%
Administrative and capital recovery	(1,992)	(821)	143%	(4,588)	(2,490)	84%
Capitalized G&A	(10,156)	(8,797)	15%	(28,174)	(24,502)	15%
Total G&A expenses	\$ 21,313	\$ 15,182	40%	\$ 65,442	\$ 48,550	35%
Per boe	\$ 0.51	\$ 0.55	(7)%	\$ 0.56	\$ 0.59	(5)%

Total G&A expenses in the third quarter of 2021 were \$21.3 million compared to \$15.2 million for the same quarter of 2020. For the nine-month period ended September 30, 2021, G&A expenses were \$65.4 million compared to \$48.6 million for the same period 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 higher third-party service provider fees, insurance 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

<i>(000s) except per unit amounts</i>	Three Months Ended September 30,		Nine Months Ended September 30,	
	2021	2020	2021	2020
Share-based payments	\$ 10,181	\$ 4,538	\$ 19,533	\$ 12,816
Capitalized share-based payments	(4,346)	(1,889)	(8,147)	(5,280)
Total share-based payments	\$ 5,835	\$ 2,649	\$ 11,386	\$ 7,536
Per boe	\$ 0.14	\$ 0.10	\$ 0.10	\$ 0.09

The Company uses the fair-value method for the determination of non-cash share-based payments expense. During the third quarter of 2021, 450,550 stock options were granted at a weighted-average exercise price of \$34.54 per option and 4,096,503 options were exercised, bringing \$100.9 million of cash into treasury.

The Company recognized \$5.8 million and \$11.4 million of share-based payments expense for the three and nine months ended September 30, 2021 compared to \$2.6 million and \$7.5 million in the same periods of the prior year. Capitalized share-based payments for the three and nine months ended September 30, 2021 were \$4.3 million and \$8.1 million compared to \$1.9 million and \$5.3 million, respectively, for the same periods of the prior year.

Share-based payments are 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

<i>(000s) except per unit amounts</i>	Three Months Ended September 30,		Nine Months Ended September 30,	
	2021	2020	2021	2020
Total depletion, depreciation, amortization and impairment	\$ 276,506	\$ 209,588	\$ 795,499	\$ 921,886
Less mineral lease expiries	(19,982)	(2,535)	(27,120)	(39,785)
Less impairment expense	–	–	–	(250,000)
Depletion, depreciation and amortization (“DD&A”)	\$ 256,524	\$ 207,053	\$ 768,379	\$ 632,101
Per boe	\$ 6.11	\$ 7.55	\$ 6.60	\$ 7.64

DD&A expense, excluding mineral lease expiries and impairment expense, was \$256.5 million for the third quarter of 2021 compared to \$207.1 million for the same period of 2020. For the nine-month period ended September 30, 2021, DD&A expense (excluding mineral lease expiries and impairment expense) was \$768.4 million compared to \$632.1 million for the same period of 2020. The increase in DD&A expense in 2021 over 2020 is primarily due to a higher depletable base and higher production volumes.

The per-unit DD&A rate (excluding the impact of mineral lease expiries and impairment expense) of \$6.11/boe and \$6.60/boe for the three and nine months ended September 30, 2021, respectively, decreased compared to the rate of \$7.55/boe and \$7.64/boe for the same periods of the prior year, respectively. The decrease in both periods can be attributed to lower future development costs per well, thereby adding a higher proportion of reserves with lower associated future development costs and the corporate acquisitions of Modern and Jupiter added proportionately higher reserve volumes compared to the fair value of PP&E acquired. Both factors resulted in a lower depletion rate in 2021.

Mineral lease expiries for the three months ended September 30, 2021 were \$20.0 million, compared to expiries in the same quarter of the prior year of \$2.5 million. For the nine months ended September 30, 2021, expiries were \$27.1 million compared to \$39.8 million for the same period of 2020. 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. The expired leases for the three and nine months ended September 30, 2021 amount to 1.25% of Tourmaline’s total land base.

At September 30, 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.

For the three months ended March 31, 2020, the Company recorded an aggregate impairment charge of \$250.0 million related to the Spirit River CGU 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. The impairment charge, taken on the Spirit River CGU at March 31, 2020, is the only historical impairment charge taken by the Company.

FINANCE EXPENSES

(000s)	Three Months Ended September 30,			Nine Months Ended September 30,		
	2021	2020	Change	2021	2020	Change
Interest expense	\$ 9,821	\$ 8,090	21%	\$ 28,927	\$ 33,181	(13)%
Capitalized interest	(609)	–	(100)%	(609)	–	(100)%
Accretion expense	3,233	1,254	158%	8,786	3,390	159%
Lease interest expense	85	89	(4)%	265	201	32%
Foreign exchange (gain) loss on U.S. denominated debt	22,167	(28,787)	177%	(10,794)	(50,728)	79%
Realized (gain) loss on cross- currency swaps	(22,167)	28,787	(177)%	10,794	50,728	(79)%
Realized loss on interest rate swaps	2,692	2,384	13%	8,088	3,720	117%
Transaction costs on corporate acquisitions	3,533	–	100%	3,608	550	556%
Total finance expenses	\$ 18,755	\$ 11,817	59%	\$ 49,065	\$ 41,042	20%

Finance expenses for the three months ended September 30, 2021 totaled \$18.8 million compared to \$11.8 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 \$1,654.4 million and 1.90% for the three months ended September 30, 2021 compared to \$1,763.5 million and 1.57% for the same period of 2020, respectively. For the three months ended September 30, 2021, the Company recorded \$0.6 million in capitalized borrowing costs related to long-term capital projects compared to nil over the same period of the prior year. Transaction costs of \$3.5 million, predominately related to the Black Swan corporate acquisition, were also incurred in the third quarter of 2021.

For the nine months ended September 30, 2021, finance expenses totaled \$49.1 million compared to \$41.0 million for the same period of 2020. The average bank debt outstanding and the average effective interest rate on the debt for the nine months ended September 30, 2021 was \$1,759.4 million and 1.75% compared to \$1,744.2 million and 2.23% for the same period of 2020, respectively. Interest expense decreased for the nine months ended September 30, 2021 due to the decrease in the effective interest rate compared to the same period of 2020. The decrease in the effective interest rate reflects a lower Bank of Canada prime rate in 2021 over the same period of 2020.

For the three and nine-month periods ended September 30, 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 its U.S. dollar borrowings to be used at the Company's option. It is not expected that this change will have a material impact to the Company.

DEFERRED INCOME TAXES (RECOVERY)

(000s)	Three Months Ended September 30,			Nine Months Ended September 30,		
	2021	2020	Change	2021	2020	Change
Deferred income taxes (recovery)	\$ 106,806	\$ 2,679	3,887%	\$ 218,603	\$ (37,748)	679%

For the three and nine months ended September 30, 2021, the provision for deferred income taxes was \$106.8 million and \$218.6 million, respectively, compared to a deferred income tax of \$2.7 million and deferred income tax recovery of \$37.7 million for the same periods of the prior year. The deferred income tax expense for the three and nine months ended September 30, 2021, is primarily due to the Company having net income before tax of \$467.9 million and \$1,251.8 million, respectively. Included in the net income before taxes for the nine months ended September 30, 2021, is a gain on loss of control of \$321.2 million which is not taxable. The deferred income tax expense for the three months and deferred income tax recovery for the nine months ended September 30, 2020, reflects the Company having a net income before tax of \$6.4 million and a net loss before tax of \$50.3 million, respectively. The net income before tax for the nine months ended September 30, 2020, included gains on acquisitions of \$122.0 million, which are not taxable, resulting in higher losses during that period for tax purposes.

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

(000s) except per unit amounts	Three Months Ended September 30,			Nine Months Ended September 30,		
	2021	2020	Change	2021	2020	Change
Cash flow from operating activities	\$ 543,855	\$ 290,795	87%	\$ 1,788,657	\$ 798,610	124%
Per share ⁽¹⁾	\$ 1.66	\$ 1.07	55%	\$ 5.77	\$ 2.95	96%
Cash flow ⁽²⁾	\$ 761,333	\$ 279,923	172%	\$ 1,960,890	\$ 788,818	149%
Per share ⁽¹⁾⁽²⁾	\$ 2.32	\$ 1.03	125%	\$ 6.33	\$ 2.91	118%
Net earnings (loss)	\$ 361,057	\$ 4,826	7,381%	\$ 1,029,743	\$ (10,880)	9,565%
Per share ⁽¹⁾	\$ 1.10	\$ 0.02	5,400%	\$ 3.32	\$ (0.04)	8,400%
Operating netback per boe ⁽²⁾	\$ 18.35	\$ 10.76	71%	\$ 17.22	\$ 9.92	74%

(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 September 30, 2021 was \$761.3 million or \$2.32 per diluted share compared to \$279.9 million or \$1.03 per diluted share for the same period of 2020. Cash flow for the nine months ended September 30, 2021 was \$1,960.9 million or \$6.33 per diluted share compared to \$788.8 million or \$2.91 per diluted share for the same period of 2020. The increase in cash flow for the first nine months of 2021, compared to the same period 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 September 30, 2021 of \$361.1 million or \$1.10 per diluted share compared to after-tax net earnings of \$4.8 million or \$0.02 per diluted share for the same period of 2020. For the nine-month period ended September 30, 2021, after-tax net earnings were \$1,029.7 million or \$3.32 per diluted share compared to an after-tax net loss of \$10.9 million or \$0.04 per share for the first nine months of 2020. The increase in after-tax net earnings for the three and nine months ended September 30, 2021, reflects a 71% and 74% increase, respectively, in the Company's operating netback per boe combined with the increase in production volume in 2021. The after-tax net earnings for the nine months ended September 30, 2021, also reflects the \$321.2 million gain recorded as a result of the loss of control of Topaz in June 2021. For the three and nine months ended September 30, 2021, net earnings after taxes also includes a gain on divestitures of \$244.3 million.

CAPITAL EXPENDITURES

(000s)	Three Months Ended September 30,		Nine Months Ended September 30,	
	2021	2020	2021	2020
Land and seismic	\$ 9,038	\$ 1,750	\$ 28,599	\$ 6,869
Drilling and completions	292,983	188,131	702,243	469,289
Facilities	77,700	43,529	250,479	159,028
Property acquisitions	54,482	113,454	519,140	152,613
Property dispositions	(390,200)	–	(390,996)	(235)
Other	12,105	7,831	33,445	24,777
Total cash capital expenditures	\$ 56,108	\$ 354,695	\$ 1,142,910	\$ 812,341

During the third quarter of 2021, the Company invested \$56.1 million of cash consideration, net of dispositions, compared to \$354.7 million for the same period of 2020. Expenditures on exploration and production were \$379.7 million for the third quarter of 2021 compared to \$233.4 million for the same quarter of 2020. During the nine-month period ended September 30, 2021, the Company invested \$1,142.9 million of cash consideration, net of dispositions, compared to \$812.3 million for the same period of 2020.

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

	Nine Months Ended September 30, 2021		Nine Months Ended September 30, 2020	
	Gross	Net	Gross	Net
Drilled	214	201.14	142	134.83
Completed	185	176.50	149	145.30
Tied-in	204	187.56	141	136.43

Exploration and production capital expenditures in 2021 are now forecast to be \$1,375.0 million which reflects additional capital to be spent in 2021 on the acquired Saguaro and Black Swan assets as well as increased capital spending focused on liquids production, margin improvements and modest acceleration of drilling activities. The Company expects drilling and completions costs of approximately \$945.0 million, facilities expenditures (including equipment, pipelines and tie-ins) of \$390.0 million as well as land and seismic expenditures of \$40.0 million. The capital budget is closely monitored and will continue to be adjusted as required, depending on cash flow available.

Corporate Acquisition

On July 15, 2021, the Company acquired all of the issued and outstanding shares of Black Swan. The Company issued 26.0 million common shares at a price of \$34.48 per common share for share consideration of \$896.5 million. Total transaction costs incurred by the Company of \$2.8 million associated with this acquisition were expensed in the consolidated statement of income (loss) and comprehensive income (loss). The acquisition resulted in an increase in PP&E of approximately \$1.4 billion, net debt of \$335.7 million (including the assumption of \$10.2 million in working capital), financial instrument liabilities of \$151.2 million (net), decommissioning obligations of \$10.3 million, and a deferred income tax liability of \$44.7 million. The acquisition of Black Swan is part of the Company's consolidation activities in Northeast BC and provides for an increase in developed lands, production and infrastructure including a working interest in two natural gas processing plants.

Acquisitions

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

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

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

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

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

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

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

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

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

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

Dispositions

On July 1, 2021, the Company sold a royalty interest on some of its developed and undeveloped lands in NEBC along with a working interest in the Gundy deep cut gas processing facility to Topaz for cash consideration of \$245.0 million, before customary closing adjustments. The transaction resulted in a gain on disposition of \$186.8 million which was recorded in the Company's consolidated income statement for the three and nine months ended September 30, 2021.

On August 1, 2021, Tourmaline sold a royalty interest on both the Black Swan and Birch lands discussed above to Topaz for cash consideration of \$145.0 million, before customary closing adjustments. The transaction resulted in a gain on disposition of \$57.1 million which was recorded in the Company's consolidated income statement for the three and nine months ended September 30, 2021.

Total Property Acquisitions and Dispositions

In total, for the nine months ended September 30, 2021, the Company, and Topaz, prior to deconsolidation, completed property acquisitions for cash consideration of \$519.1 million, including the acquisitions discussed above (December 31, 2020 - \$171.9 million) and \$70.1 million in acquisitions for non-cash consideration (December 31, 2020 - \$6.2 million). The Company assumed \$24.9 million in decommissioning liabilities as a result of these acquisitions (December 31, 2020 - \$15.9 million).

For the nine months ended September 30, 2021, the Company also completed property dispositions, including the dispositions discussed above, for total cash consideration of \$391.0 million (December 31, 2020 - \$0.2 million) and non-cash consideration of \$1.0 million (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. At September 30, 2021, the revolving credit facility was not drawn.

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 September 30, 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 \$24.4 million at September 30, 2021 (December 31, 2020 - \$19.5 million), which reduces the credit available on this facility.

The Company's aggregate borrowing capacity is \$3.3 billion at September 30, 2021, including the senior unsecured notes. As at, and for the quarter ending September 30, 2021, the Company is in compliance with all debt covenants.

On October 8, 2021, Tourmaline increased the credit capacity of its revolving credit facility from \$1.8 billion to \$2.55 billion and concurrently cancelled the \$950.0 million term loan, which had a higher interest rate. The aggregate borrowing capacity of the Company was reduced from \$3.3 billion to \$3.1 billion.

Senior unsecured notes

On January 25, 2021, the Company issued \$250.0 million of senior unsecured notes. The notes bear interest at a fixed rate of 2.077%, payable semi-annually commencing on July 25, 2021, with a due date of January 25, 2028 and rank equally with all other present unsecured and subordinated debt of the Company. There are no financial covenants on these senior unsecured notes.

On August 9, 2021, the Company issued \$200.0 million of senior unsecured notes. The notes bear interest at a fixed rate of 2.529%, payable semi-annually commencing on February 12, 2022, with a due date of February 12, 2029 and rank equally with all other present unsecured and subordinated debt of the Company. There are no financial covenants on these senior unsecured notes.

Working capital and net debt ⁽¹⁾

As at September 30, 2021, the Company had an adjusted working capital deficit⁽¹⁾ of \$70.4 million, after adjusting for the fair value of financial instruments, short term lease liabilities, short term decommissioning obligations and unrealized foreign exchange in working capital deficit (the unadjusted working capital deficiency was \$591.7 million) (December 31, 2020 – working capital of \$157.3 million and \$111.7 million, respectively). As at September 30, 2021, the Company had \$946.7 million in long-term debt outstanding and \$448.0 million of notes outstanding for total bank debt and notes of \$1,394.7 million (net of debt issue costs) (December 31, 2020 - \$1,942.3 million). Net debt⁽¹⁾ at September 30, 2021 was \$1,465.1 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).

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

Normal course issuer bid

The Company has a normal course issuer bid ("NCIB") with the Toronto Stock Exchange ("TSX"). On July 9, 2021, the Company renewed its NCIB with the TSX allowing up to 14,943,420 common shares, representing 5% of the common shares outstanding at July 9, 2021, to be purchased over a twelve-month period commencing on July 20, 2021. Under the NCIB, common shares may be repurchased at prevailing market prices and any common shares that are purchased under the NCIB will be cancelled upon their purchase by the Company. For the nine months ended September 30, 2021, the Company purchased 0.2 million common shares for cancellation at an average price of \$32.73 per share for total cash consideration of \$6.5 million.

Non-controlling interest and common control transactions

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. Topaz applied the optional IFRS 3 concentration test to this acquisition which resulted in the acquired assets being accounted for 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%.

On May 31, 2021, Topaz issued 1,794,886 common shares to acquire Reserve Royalty. The share issuance resulted in Tourmaline's ownership interest being reduced from 51.6% to 50.8%.

On June 8, 2021, Topaz closed a public offering and concurrent private placement equity financing for total net consideration of \$197.7 million (net of share issue costs of \$8.5 million) which resulted in the issuance of 14.3 million common shares. This financing resulted in Tourmaline's ownership interest being reduced from 50.8% to 45.2%.

Subsequent to the Topaz public offering and concurrent private placement equity financing, Tourmaline determined that, in accordance with IFRS, it no longer controlled Topaz. Due to the loss of control, Topaz will no longer be consolidated in the Company's financial statements subsequent to June 8, 2021. The Company retains significant influence over Topaz, resulting in Topaz being recorded on the Company's statement of financial position as an investment in Topaz and accounted for using the equity method subsequent to initial recognition.

Accordingly, on June 8, 2021, Tourmaline derecognized the assets and liabilities of Topaz, derecognized the associated NCI and recognized the non-controlling investment in Topaz at fair value with the residual amount recognized as a gain on the Company's consolidated statement of income (loss) and comprehensive income (loss) for the three and nine months ended September 30, 2021 and 2020. The fair value of the investment in Topaz was determined using the closing price of Topaz common shares on June 8, 2021 of \$14.97 per share.

On September 21, 2021, Tourmaline and Topaz closed a bought deal, secondary offering of Topaz common shares for net consideration of \$103.8 million (net of brokers fees of \$4.3 million) which resulted in the Company selling 7.0 million Topaz common shares representing 5.4% of the total Topaz common shares outstanding. The bought deal, secondary offering resulted in Tourmaline's ownership interest being reduced from 45.2% to 39.7%.

On October 26, 2021, Topaz completed a bought-deal equity financing which resulted in the issuance of 10.1 million Topaz common shares. Tourmaline did not participate in the bought-deal equity financing which resulted in Tourmaline's ownership interest being reduced from 39.7% to 36.8%.

Dividends

During the three and nine months ended September 30, 2021, the Company paid a cash dividend of \$0.17 and \$0.49 per common share totalling \$55.7 million and \$150.9 million, respectively, compared to \$0.12 and \$0.36 per common share totalling \$32.5 million and \$97.5 million for the same periods of the prior year. Additionally, during the nine months ended September 30, 2021, while Topaz was a controlled subsidiary, Topaz paid a cash dividend of \$0.20 per common share totalling \$22.5 million. The Topaz dividend paid in the first quarter of 2021 includes \$11.6 million which was paid to Tourmaline and eliminated on consolidation and \$10.9 million which was paid to outside investors and is included in dividends paid to NCI. Subsequent to June 8, 2021, for the three and nine months ended September 30, 2021, Topaz paid cash dividends of \$0.24 and \$0.44 per common share and Tourmaline received \$12.2 million and \$23.8 million, respectively, which was recorded as a deduction to the investment in Topaz.

On September 22, 2021, the Company declared a special dividend of \$0.75 per common share totalling \$247.2 million, payable on October 7, 2021. The special dividend is recorded as a dividend payable at September 30, 2021.

Capital management

Management continues to use internally generated cash flow to fund its 2021 exploration and development program and is dedicated to keeping a strong statement of financial position, which has proven to be very important, especially in times of volatile commodity prices. The significant increase in cash flow in 2021 has consistently been directed towards modest, sustainable dividend increases and continued debt reduction. On a go-forward basis, the Company intends to return the vast majority of cash flow less cash capital expenditures back to shareholders which will be achieved through continued modest and sustainable base dividend increases, special dividends when appropriate, and tactical share buybacks. Management's approach to capital management is further described in note 4(d) of the Company's annual consolidated financial statements.

SHARES AND STOCK OPTIONS OUTSTANDING

As at November 3, 2021, the Company has 330,115,388 common shares and 16,820,201 stock options outstanding.

COMMITMENTS AND CONTRACTUAL OBLIGATIONS

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

PAYMENTS DUE BY YEAR

(000s)	1 Year	2-3 Years	4-5 Years	>5 Years	Total
Operating commitments ⁽¹⁾	\$ 3,134	\$ 5,192	\$ 4,459	\$ 1,100	\$ 13,885
Firm transportation agreements ⁽²⁾	717,689	1,493,152	1,271,391	4,254,145	7,736,377
Processing commitments ⁽³⁾	129,620	220,818	195,842	519,453	1,065,733
Capital commitments ⁽⁴⁾	74,250	148,500	–	–	222,750
Term debt ⁽⁵⁾	18,610	37,219	981,535	–	1,037,364
Senior unsecured notes ⁽⁶⁾	10,378	20,757	20,757	469,125	521,017
	\$ 953,681	\$ 1,925,638	\$ 2,473,984	\$ 5,243,823	\$10,597,126

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

(2) Includes firm transportation agreements acquired from Black Swan.

(3) Includes processing commitments and power commitments.

(4) Includes rig commitments.

(5) Includes interest expense at an annual rate of 1.96% being the fixed rate on the term debt at September 30, 2021.

(6) Includes interest expense at an annual rate of 2.31% being the average 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 September 30, 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 September 30, 2021 are summarized and disclosed in note 3 of the Company's unaudited interim condensed consolidated financial statements for the three and nine months ended September 30, 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 September 30, 2021 have been summarized and disclosed in note 3 of the Company's unaudited interim condensed consolidated financial statements for the three and nine months ended September 30, 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.

ADDITIONAL ACCOUNTING POLICIES

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 except for the following additional accounting policies noted below:

Consolidation

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

Interests in equity-accounted investees

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

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

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 July 1, 2021 and ending on September 30, 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.

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:

(000s)	Three Months Ended September 30,		Nine Months Ended September 30,	
	2021	2020	2021	2020
Cash flow from operating activities (per GAAP)	\$ 543,855	\$ 290,795	\$ 1,788,657	\$ 798,610
Change in non-cash working capital	217,478	(10,872)	172,233	(9,792)
Cash flow	\$ 761,333	\$ 279,923	\$ 1,960,890	\$ 788,818

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:

(\$/boe)	Three Months Ended September 30,		Nine Months Ended September 30,	
	2021	2020	2021	2020
Revenue, excluding processing income	\$ 28.89	\$ 18.89	\$ 26.98	\$ 17.97
Royalties	(2.61)	(0.31)	(1.89)	(0.45)
Transportation costs	(4.17)	(4.56)	(4.17)	(4.50)
Operating expenses	(3.76)	(3.26)	(3.70)	(3.10)
Operating netback	\$ 18.35	\$ 10.76	\$ 17.22	\$ 9.92

Adjusted Working Capital

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

(000s)	As at September 30, 2021	As at December 31, 2020
Working capital (deficit)	\$ (591,736)	\$ 111,744
Fair value of financial instruments – short-term liability (net)	500,630	36,115
Lease liabilities – short-term	3,197	3,412
Decommissioning obligations – short-term	21,129	4,618
Unrealized foreign exchange in working capital - liability	(3,611)	1,450
Adjusted working capital (deficit)	\$ (70,391)	\$ 157,339

Net Debt

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

(000s)	As at September 30, 2021	As at December 31, 2020
Bank debt	\$ (946,740)	\$(1,942,259)
Senior unsecured notes	(447,959)	–
Adjusted working capital (deficit)	(70,391)	157,339
Net debt	\$ (1,465,090)	\$(1,784,920)

SELECTED QUARTERLY INFORMATION

(\$000s, unless otherwise noted)	2021			2020				2019
	Q3	Q2	Q1	Q4	Q3	Q2	Q1	Q4
PRODUCTION								
Natural gas (mcf)	197,475,909	174,322,330	172,588,310	146,464,921	130,086,424	129,693,070	134,195,958	132,456,603
Oil, condensate and NGL (bbls)	9,084,310	8,287,097	8,277,417	6,531,062	5,753,450	5,627,083	5,693,802	5,509,543
Oil equivalent (boe)	41,996,962	37,340,819	37,042,135	30,941,882	27,434,520	27,242,595	28,059,795	27,585,644
Natural gas (mcf/d)	2,146,477	1,915,630	1,917,648	1,592,010	1,413,983	1,425,199	1,474,681	1,439,746
Oil, condensate and NGL (bbls/d)	98,743	91,067	91,971	70,990	62,538	61,836	62,569	59,886
Oil equivalent (boe/d)	456,489	410,339	411,579	336,325	298,202	299,369	308,349	299,844
FINANCIAL								
Total revenue from commodity sales and premium (loss) on risk management activities and realized gain (loss) on financial instruments	1,213,376	921,278	1,005,264	688,374	518,061	443,553	524,915	579,588
Cash flow from operating activities	543,855	494,673	750,129	326,526	290,795	165,857	341,958	287,729
Per diluted share	1.66	1.64	2.51	1.18	1.07	0.61	1.26	1.06
Cash flow ⁽¹⁾	761,333	570,232	629,325	396,869	279,923	225,177	283,718	335,856
Per diluted share	2.32	1.89	2.11	1.44	1.03	0.83	1.05	1.24
Net earnings (loss)	361,057	420,849	247,837	629,191	4,826	20,106	(35,812)	61,340
Per basic share	1.12	1.41	0.84	2.28	0.02	0.07	(0.13)	0.23
Per diluted share	1.10	1.40	0.83	2.28	0.02	0.07	(0.13)	0.23
Total assets	14,923,735	13,153,137	12,728,515	12,790,200	11,246,517	11,239,383	11,106,254	11,180,610
Working capital (deficit)	(591,736)	(301,459)	(249,592)	111,744	(170,489)	112,170	(165,667)	(152,987)
Adjusted working capital (deficit) ⁽¹⁾	(70,391)	(86,363)	(165,236)	157,339	(153,625)	82,382	(268,397)	(136,675)
Cash capital expenditures	56,108	664,696	422,106	271,284	354,695	140,032	317,614	320,389
Dividends paid	55,739	47,656	58,395	48,991	39,306	36,663	36,666	32,525
Total outstanding shares (000s)	329,598	298,452	296,914	296,572	270,803	270,776	270,776	270,997
PER UNIT								
Natural gas (\$/mcf)	3.88	3.25	3.86	3.19	2.60	2.41	2.45	2.77
Oil and NGL (\$/bbl)	49.21	42.84	41.06	33.85	31.31	23.24	34.54	38.59
Revenue (\$/boe)	28.89	24.67	27.14	22.25	18.89	16.28	18.71	21.01
Operating netback (\$/boe) ⁽¹⁾	18.35	15.47	17.70	13.65	10.76	8.20	10.79	13.00

(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 426,300 boe per day in the first nine months of 2021. The production growth can be attributed primarily to the Company's exploration and development activities, and from property and corporate acquisitions.

The Company's cash flow was \$1,205.5 million in 2019, \$1,185.7 million in 2020 and forecast 2021 cash flow is \$3,060.0 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. The increase in the forecast 2021 cash flow reflects the significant improvement in forecast commodity prices as well as the significant increase in production for the year.

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

<i>(000s) (unaudited)</i>	September 30, 2021	December 31, 2020
Assets		
Current assets:		
Cash and cash equivalents	\$ 210,930	\$ 220,168
Accounts receivable	564,450	363,640
Prepaid expenses and deposits	23,465	22,591
Fair value of financial instruments <i>(note 3)</i>	8,423	23,074
Total current assets	807,268	629,473
Long-term asset	4,020	4,758
Fair value of financial instruments <i>(note 3)</i>	1,060	2,385
Exploration and evaluation assets <i>(note 4)</i>	405,922	509,533
Property, plant and equipment <i>(note 5)</i>	12,948,780	11,632,033
Right-of-use asset <i>(note 6)</i>	11,496	12,018
Investment in Topaz <i>(note 11)</i>	745,189	–
Total Assets	\$ 14,923,735	\$ 12,790,200
Liabilities and Shareholders' Equity		
Current liabilities:		
Accounts payable and accrued liabilities	\$ 618,408	\$ 450,510
Dividends declared <i>(note 12)</i>	247,217	–
Lease liabilities <i>(note 6)</i>	3,197	3,412
Fair value of financial instruments <i>(note 3)</i>	509,053	59,189
Decommissioning obligations <i>(note 7)</i>	21,129	4,618
Total current liabilities	1,399,004	517,729
Bank debt <i>(note 8)</i>	946,740	1,942,259
Senior unsecured notes <i>(note 9)</i>	447,959	–
Lease liabilities <i>(note 6)</i>	8,606	8,763
Fair value of financial instruments <i>(note 3)</i>	180,162	48,361
Decommissioning obligations <i>(note 7)</i>	550,645	590,814
Deferred taxes	761,861	405,736
Shareholders' equity:		
Share capital <i>(note 12)</i>	7,441,460	6,328,115
Non-controlling interest <i>(note 10)</i>	–	467,443
Contributed surplus	284,469	307,152
Retained earnings	2,902,829	2,173,828
Total shareholders' equity	10,628,758	9,276,538
Total Liabilities and Shareholders' Equity	\$ 14,923,735	\$ 12,790,200

Commitments (note 15).

Subsequent events (notes 3, 8 and 10).

See accompanying notes to the interim condensed consolidated financial statements.

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

(000s) except per-share amounts (unaudited)	Three Months Ended September 30,		Nine Months Ended September 30,	
	2021	2020	2021	2020
Commodity sales from production (note 17)	\$ 1,323,203	\$ 545,092	\$ 3,344,548	\$ 1,512,642
Gain (loss) on risk management activities (note 17)	15,303	(38,180)	(7,636)	(95,088)
Marketing revenue (note 17)	13,195	10,305	40,530	38,269
Royalties	(109,423)	(8,596)	(219,746)	(36,900)
Other income	10,453	11,964	37,245	26,842
Realized gain (loss) on financial instruments	(125,130)	11,149	(196,994)	68,975
Unrealized gain (loss) on financial instruments (note 3)	(251,990)	(58,843)	(448,475)	(29,707)
	875,611	472,891	2,549,472	1,485,033
Expenses:				
Operating	157,854	89,370	430,932	256,084
Transportation	175,143	125,114	485,200	372,645
Marketing purchases	11,494	9,654	37,731	37,464
General and administration	21,313	15,182	65,442	48,550
Share-based payments	5,835	2,649	11,386	7,536
Depletion, depreciation, amortization and impairment (notes 4, 5 and 6)	276,506	209,588	795,499	921,886
Realized foreign exchange (gain) loss	(5,497)	1,962	(6,524)	(27,912)
Unrealized foreign exchange (gain) loss	(7,074)	1,123	(3,611)	60
(Income) on investment in Topaz (note 11)	(2,238)	–	(1,879)	–
(Gain) on loss of control of Topaz (note 10)	–	–	(321,189)	–
(Gain) on acquisitions and divestitures (note 5)	(244,343)	–	(244,343)	(122,006)
Total expenses	388,993	454,642	1,248,644	1,494,307
Income (loss) from operations	486,618	18,249	1,300,828	(9,274)
Finance expenses	18,755	11,817	49,065	41,042
Income (loss) before taxes	467,863	6,432	1,251,763	(50,316)
Deferred tax expense (recovery)	106,806	2,679	218,603	(37,748)
Net income (loss) and comprehensive income (loss) before non-controlling interest	361,057	3,753	1,033,160	(12,568)
Net income (loss) and comprehensive income (loss) attributable to:				
Shareholders of the Company	361,057	4,826	1,029,743	(10,880)
Non-controlling interest (note 10)	–	(1,073)	3,417	(1,688)
	\$ 361,057	\$ 3,753	\$ 1,033,160	\$ (12,568)
Net income (loss) per share attributable to common shareholders (note 13)				
Basic	\$ 1.12	\$ 0.02	\$ 3.37	\$ (0.04)
Diluted	\$ 1.10	\$ 0.02	\$ 3.32	\$ (0.04)

See accompanying notes to the interim condensed consolidated financial statements.

CONSOLIDATED STATEMENTS OF CHANGES IN EQUITY

<i>(000s) (unaudited)</i>	Share Capital	Contributed Surplus	Retained Earnings	Non-Controlling Interest	Total Equity
Balance at December 31, 2020	\$ 6,328,115	\$ 307,152	\$ 2,173,828	\$ 467,443	\$ 9,276,538
Issue of common shares on corporate and property acquisitions (<i>notes 5 and 12</i>)	939,580	–	–	–	939,580
Issue of Topaz common shares to NCI (<i>note 10</i>)	–	–	21,421	210,423	231,844
Share issue costs, net of tax on issuance of Topaz common shares (<i>note 10</i>)	–	–	(2,962)	(3,593)	(6,555)
Share-based payments	–	11,386	–	–	11,386
Capitalized share-based payments	–	8,147	–	–	8,147
Options exercised (<i>note 12</i>)	178,258	(38,706)	–	–	139,552
Purchase of common shares under NCIB (<i>note 12</i>)	(4,493)	(2,052)	–	–	(6,545)
Dividends paid (<i>note 12</i>)	–	–	(150,898)	(10,892)	(161,790)
Dividends declared (<i>note 12</i>)	–	–	(247,217)	–	(247,217)
Income attributable to common shareholders	–	–	1,029,743	–	1,029,743
Income attributable to non-controlling interest	–	–	–	3,417	3,417
Loss of control of Topaz (<i>note 10</i>)	–	(1,458)	78,914	(666,798)	(589,342)
Balance at September 30, 2021	\$ 7,441,460	\$ 284,469	\$ 2,902,829	\$ –	\$10,628,758

<i>(000s) (unaudited)</i>	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
Issuance of Topaz common shares to NCI (<i>note 10</i>)	–	–	30,652	114,639	145,291
Share issue costs, net of tax on issuance of Topaz common shares (<i>note 10</i>)	–	–	(2,052)	(1,136)	(3,188)
Share-based payments	–	7,536	–	–	7,536
Capitalized share-based payments	–	5,280	–	–	5,280
Options exercised (<i>note 12</i>)	426	(79)	–	–	347
Purchase of common shares under NCIB (<i>note 12</i>)	(4,814)	2,661	–	–	(2,153)
Dividends paid (<i>note 12</i>)	–	–	(97,507)	(15,128)	(112,635)
(Loss) attributable to common shareholders	–	–	(10,880)	–	(10,880)
(Loss) attributable to non-controlling interest	–	–	–	(1,688)	(1,688)
Balance at September 30, 2020	\$ 5,882,589	\$ 302,808	\$1,530,844	\$ 278,258	\$ 7,994,499

See accompanying notes to the interim condensed consolidated financial statements.

CONSOLIDATED STATEMENTS OF CASH FLOW

(000s) (unaudited)	Three Months Ended September 30,		Nine Months Ended September 30,	
	2021	2020	2021	2020
Cash provided by (used in):				
Operations:				
Net income (loss)	\$ 361,057	\$ 4,826	\$ 1,029,743	\$ (10,880)
Items not involving cash:				
Depletion, depreciation, amortization and impairment	276,506	209,588	795,499	921,886
Accretion (note 7)	3,233	1,254	8,786	3,390
Lease interest expense (note 6)	85	89	265	201
Share-based payments	5,835	2,649	11,386	7,536
Deferred tax expense (recovery)	106,806	2,679	218,603	(37,748)
Unrealized (gain) loss on financial instruments (note 3)	251,990	58,843	448,475	29,707
(Gain) on loss of control of Topaz (note 10)	–	–	(321,189)	–
(Gain) on acquisitions and divestitures	(244,343)	–	(244,343)	(122,006)
Amortization on long-term asset	246	180	738	552
Non-controlling interest (note 10)	–	(1,073)	3,417	(1,688)
Unrealized foreign exchange (gain) loss	(7,074)	1,123	(3,611)	60
(Income) on investment in Topaz (note 11)	(2,238)	–	(1,879)	–
Decommissioning expenditures (note 7)	(2,981)	(235)	(8,841)	(2,192)
Dividends received from Topaz (note 11)	12,211	–	23,841	–
Changes in non-cash operating working capital	(217,478)	10,872	(172,233)	9,792
Total cash flow from operating activities	543,855	290,795	1,788,657	798,610
Financing:				
Issue of common shares (note 12)	100,920	347	139,552	347
Purchase of common shares under NCIB (note 12)	(6,545)	–	(6,545)	(2,153)
Issuance of Topaz common shares to NCI (note 10)	–	16,163	197,336	141,143
Lease payments (note 6)	(1,016)	(677)	(3,000)	(2,653)
Dividends paid (note 12)	(55,739)	(39,306)	(161,790)	(112,635)
(Decrease) in cash on loss of control of Topaz (note 10)	–	–	(177,357)	–
Increase (decrease) in bank debt	(792,842)	(137,762)	(1,322,323)	10,173
Increase in senior unsecured notes	199,127	–	447,959	–
Total cash flow from (used in) financing activities	(556,095)	(161,235)	(886,168)	34,222
Investing:				
Exploration and evaluation (note 4)	–	(1,377)	–	(5,046)
Property, plant and equipment (note 5)	(391,826)	(239,864)	(1,014,766)	(654,917)
Property acquisitions (note 5)	(54,482)	(113,454)	(519,140)	(152,613)
Proceeds from divestitures (note 5)	390,200	–	390,996	235
Corporate acquisitions (note 5)	–	–	–	(27,072)
Proceeds from sale of Topaz common shares (note 11)	103,824	–	103,824	–
Changes in non-cash investing working capital	175,454	90,279	127,359	21,382
Total cash flow from (used in) investing activities	223,170	(264,416)	(911,727)	(818,031)
Changes in cash	210,930	(134,856)	(9,238)	14,801
Cash, beginning of period	–	149,657	220,168	–
Cash, end of period	\$ 210,930	\$ 14,801	\$ 210,930	\$ 14,801

Cash is defined as cash and cash equivalents.

See accompanying notes to the interim condensed consolidated financial statements.

NOTES TO THE INTERIM CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

AS AT SEPTEMBER 30, 2021 AND FOR THE THREE AND NINE MONTHS ENDED SEPTEMBER 30, 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 November 3, 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., which has 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. On July 15, 2021, the Company’s newly acquired subsidiary Black Swan Energy Ltd. (“Black Swan”) was amalgamated into Tourmaline.

On June 8, 2021, Tourmaline determined it no longer controlled Topaz Energy Corp. (“Topaz”) due to its ownership interest reducing to 45.2% and as such it derecognized the assets and liabilities of Topaz, derecognized the NCI and recorded the non-controlling investment at fair value (note 10). As a result of the reduced ownership, Tourmaline now accounts for Topaz as an equity investment rather than Topaz being consolidated 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 except for the following additional accounting policies noted below:

Consolidation

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

Interests in equity-accounted investees

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

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

OPERATING ENVIRONMENT AND THE COVID-19 PANDEMIC

The COVID-19 pandemic had a significantly negative impact on global economic conditions in 2020 which included a large decrease in oil demand which, combined with other macro-economic conditions, resulted in significant volatility of commodity prices as well as increased economic uncertainty. Throughout 2021, there has been an economic recovery providing for more positive outlooks on commodity prices and general market and industry conditions as COVID-19 vaccination rates continue to increase and government restrictions are slowly eased.

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:

The Company is committed to maintaining its strong statement of financial position and financial liquidity. Management intends to use internally generated cash flow to fund its 2021 exploration and development program and is dedicated to keeping a strong statement of financial position, which has proven to be very important, especially in times of volatile commodity prices. The significant increase in cash flow in 2021 has consistently been directed towards modest, sustainable dividend increases and continued net debt reduction.

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, dividends declared, 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 which approximates the fair value. 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 September 30, 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 September 30, 2021 ⁽¹⁾:

		2021	2022	2023	2024	Fair Value (000s)
Gas						
AECO swaps ⁽²⁾	<i>mmbtu/d</i>	139,561	89,601	44,262	18,917	\$ (122,832)
	<i>CAD\$/mmbtu</i>	\$ 2.01	2.13	2.27	2.26	
NYMEX swaps	<i>mmbtu/d</i>	231,009	198,529	108,329	–	\$ (216,712)
	<i>USD\$/mmbtu</i>	\$ 2.94	\$ 3.03	\$ 3.07		
NYMEX swaps - other	<i>mmbtu/d</i>	–	5,000	–	–	\$ (4,764)
	<i>USD\$/mmbtu</i>		\$ 3.69			
AECO Basis swaps	<i>mmbtu/d</i>	58,321	14,074	–	–	\$ 5,893
	<i>CAD\$/mmbtu</i>	\$ (1.80)	\$ (1.35)			
Basis differentials – other	<i>mmbtu/d</i>	37,500	37,500	37,500	27,500	\$ (46,332)
	<i>USD\$/mmbtu</i>	\$ 0.29	\$ 0.29	\$ 0.29	\$ 0.28	
AECO financial collars	<i>mmbtu/d</i>	18,956	37,188	16,087	3,535	\$ (36,456)
	<i>CAD\$/mmbtu</i>	\$ 2.14 -	\$ 2.14 -	\$ 2.27 -	\$ 2.41 -	
		\$ 2.56	\$ 2.53	\$ 2.73	\$ 2.85	
NYMEX financial collars	<i>mmbtu/d</i>	25,033	3,625	–	–	\$ (11,392)
	<i>CAD\$/mmbtu</i>	\$ 3.30 -	\$ 3.61 -			
		\$ 3.81	\$ 8.18			
Financial put options	<i>mmbtu/d</i>	4,700	–	–	–	\$ (228)
	<i>CAD\$/mmbtu</i>	\$ 3.50				
Call options (writer) ⁽³⁾	<i>mmbtu/d</i>	29,700	69,932	20,000	–	\$ (47,536)
	<i>USD\$/mmbtu</i>	\$ 3.39	\$ 3.96	\$ 4.00		

Oil						
Financial swaps	<i>bbls/d</i>	14,174	9,156	248	–	\$ (90,832)
	<i>USD\$/bbl</i>	\$ 52.58	\$ 59.61	\$ 64.71		
Financial swaps	<i>bbls/d</i>	2,800	791	650	249	\$ (18,276)
	<i>CAD\$/bbl</i>	\$ 64.72	\$ 65.84	\$ 64.09	\$ 63.95	
Financial collars	<i>bbls/d</i>	2,500	248	–	–	\$ (6,164)
	<i>USD\$/bbl</i>	\$ 46.84 - \$ 58.96	\$ 55.00 - \$ 65.70			
Financial collars	<i>bbls/d</i>	1,700	1,564	400	–	\$ (24,727)
	<i>CAD\$/bbl</i>	\$ 52.06 - \$ 60.09	\$ 52.01 - \$ 61.77	\$ 58.25 - \$ 70.24		
NYMEX call options	<i>bbls/d</i>	6,000	–	2,000	–	\$ (12,719)
	<i>USD\$/bbl</i>	\$ 80.83		\$ 60.00		
Propane Financial Swaps ⁽⁴⁾	<i>bbls/d</i>	2,000	586	–	–	\$ (10,253)
	<i>USD\$/bbl</i>	\$ 33.81	\$ 41.31			
Propane Financial Swaps ⁽⁴⁾	<i>bbls/d</i>	900	49	–	–	\$ (5,614)
	<i>CAD\$/bbl</i>	\$ 38.76	\$ 50.00			
Total fair value						\$ (648,944)

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

(2) These deals are 7A underlying.

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

(4) Propane Financial Swaps include OPIS Conway, Argus FEI, and Baltic LPG Freight Financial Swap transactions.

The Company has entered into the following financial commodity derivative contracts subsequent to September 30, 2021.

Type of Contract	Quantity	Time Period	Contract Price
NYMEX swap	10,000 mmbtu/d	April - December 2022	USD \$4.05/mmbtu average
NYMEX swap	20,000 mmbtu/d	January - December 2023	USD \$3.57/mmbtu average
NYMEX swap	10,000 mmbtu/d	January - December 2024	USD \$3.23/mmbtu average
NYMEX oil swap	1,000 bbls/d	January – June 2022	USD \$64.72/bbl average
NYMEX oil swap	1,000 bbls/d	July – December 2022	USD \$77.60/bbl average
NYMEX oil swap	1,000 bbls/d	January – December 2023	USD \$65.00/bbl average
NYMEX call option	1,000 bbls/d	January – June 2022	USD \$74.60/bbl average

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⁾	1.84%	1.87%	1.98%	2.02%	1.42%	1.10%	1.10%	
Notional amount hedged (000s)	\$ 750,000	\$ 730,570	\$ 558,802	\$ 224,733	\$ 50,067	\$ 25,000	\$ 6,319	\$ (13,958)

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

The Company has not entered into any interest rate derivative contracts subsequent to September 30, 2021.

The Company has the following financial foreign currency derivative contracts in place at September 30, 2021:

		2021	2022	2023	Fair Value (000s)
Costless collar ⁽¹⁾	<i>\$USD(000s) Monthly</i>	\$ 43,000	\$ 27,000	\$ 3,000	\$ (15,460)
	<i>\$CAD/\$USD</i>	\$ 1.244 – \$ 1.307	\$ 1.215 – \$ 1.305	\$ 1.250 – \$ 1.327	
Average rate forward	<i>\$USD(000s) Monthly</i>	\$ 11,000	\$ 6,750	\$ 1,000	\$ (973)
	<i>\$CAD/\$USD</i>	\$ 1.261	\$ 1.261	\$ 1.28	
Average rate puts	<i>\$USD(000s) Monthly</i>	\$ 1,500	\$2,000	–	\$ (397)
	<i>\$CAD/\$USD</i>	\$ 1.250	\$1.200	–	
Total fair value					\$ (16,830)

(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, \$1.0 million/month at \$1.30 for 2022 and \$18.0 million/month at \$1.31 for 2023. Disclosure also includes short term trading strategies.

The Company has not entered into any foreign currency derivative contracts subsequent to September 30, 2021.

The following table provides a reconciliation of the fair value of the Company's financial instruments to the statement of financial position at September 30, 2021.

	Fair Value of Financial Instruments (000s)			
	Commodity Contracts	Interest Rate Swaps	Foreign Currency Contracts	Total
Current asset	\$ 6,190	\$ 122	\$ 2,111	\$ 8,423
Long-term asset	109	549	402	1,060
Current liability	(486,472)	(6,336)	(16,245)	(509,053)
Long-term liability	(168,771)	(8,293)	(3,098)	(180,162)
Total fair value of financial instruments	\$ (648,944)	\$ (13,958)	\$ (16,830)	\$ (679,732)

The following table provides a summary of the unrealized gains (losses) on financial instruments recorded in the interim condensed consolidated statements of income (loss) and comprehensive income (loss) for the three and nine months ended September 30, 2021 and 2020:

(000s)	Three Months Ended September 30,		Nine Months Ended September 30,	
	2021	2020	2021	2020
Unrealized gain (loss) on financial instruments – commodity contracts	\$ (238,471)	\$ (60,014)	\$ (445,819)	\$ 7,109
Unrealized gain (loss) on financial instruments – interest rate swaps	2,844	1,171	15,188	(34,072)
Unrealized (loss) on financial instruments – foreign currency	(16,363)	–	(17,844)	(2,744)
Total unrealized gain (loss) on financial instruments	\$ (251,990)	\$ (58,843)	\$ (448,475)	\$ (29,707)

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 September 30, 2021 ⁽¹⁾⁽⁹⁾:

		2021	2022	2023	2024
Gas					
Fixed price ⁽²⁾	<i>mcf/d</i>	473,271	256,827	21,025	1,243
	<i>CAD\$/mcf</i>	\$ 3.40	\$ 3.51	\$ 2.88	\$ 3.17
Basis differentials - AECO ⁽³⁾	<i>mmbtu/d</i>	201,250	233,363	178,315	110,833
	<i>USD\$/mmbtu</i>	\$ (0.71)	\$ (0.70)	\$ (0.73)	\$ (0.70)
Basis differentials - Dawn	<i>mmbtu/d</i>	5,000	20,000	20,000	15,000
	<i>USD\$/mmbtu</i>	\$ (0.09)	\$ (0.10)	\$ (0.08)	\$ (0.06)
Basis differentials – Stn 2 ⁽⁴⁾	<i>mcf/d</i>	40,900	25,578	–	–
	<i>CAD\$/mcf</i>	\$ (0.02)	\$ 0.04		
Basis differentials – Hunt ⁽⁵⁾	<i>mmbtu/d</i>	20,000	20,000	16,658	–
	<i>USD\$/mmbtu</i>	\$ (0.50)	\$ (0.50)	\$ (0.50)	
Basis differentials – Other ⁽⁶⁾	<i>mcf/d</i>	45,000	50,000	47,514	62,500
	<i>USD\$/mcf</i>	\$ 0.22	\$ 0.30	\$ 0.16	\$ (0.09)
Oil					
Basis differentials ⁽⁷⁾	<i>bbls/d</i>	3,591	1,552	–	–
	<i>USD\$/bbl</i>	\$ (5.17)	\$ (4.67)		
Condensate differentials ⁽⁸⁾	<i>bbls/d</i>	6,669	4,914	–	–
	<i>USD\$/bbl</i>	\$ (0.67)	\$ (1.24)		

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

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

(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 volumes are priced at a basis to 7A.

(5) A portion of these basis deals have a cap on Hunt of \$3.00 US/Mmbtu, delivered at Stn2.

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

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

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

(9) Not included above are incremental deals that Tourmaline has entered into 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 off Chicago GDD that extends into 2027. Tourmaline reserves the right to periodically fix the price or lock in the basis in each market.

The Company has entered into the following physical contracts subsequent to September 30, 2021:

Type of Contract	Quantity	Time Period	Contract Price
Gas Fixed Price	20,500 GJ/d	November 2021	CAD \$5.351/GJ average
Gas Fixed Price	8,000 GJ/d	December 2021	CAD \$5.694/GJ average
Gas Fixed Price	10,000 GJ/d	November 2021 – March 2022	CAD \$5.00/GJ average
Gas Fixed Price	2,500 mmbtu/d	November 2021 – March 2022	USD \$6.14/mmbtu average
Gas Fixed Price	10,000 mmbtu/d	January 2022	USD \$8.025/mmbtu average
Gas Fixed Price	35,000 GJ/d	April – October 2022	CAD \$3.564/GJ average
Gas Fixed Price	10,000 GJ/d	April – December 2022	CAD \$3.52/GJ average
Gas Fixed Price	20,000 GJ/d	November 2022 – March 2023	CAD \$3.938/GJ average
Gas Fixed Price	15,000 GJ/d	January – December 2023	CAD \$3.34/GJ average
Condensate differentials	1,061 bbls/d	January – March 2022	USD \$3.25/bbl average

4. EXPLORATION AND EVALUATION ASSETS

(000s)

As at December 31, 2019	\$ 621,656
Capital expenditures	6,633
Transfers to property, plant and equipment (<i>note 5</i>)	(90,912)
Acquisitions	20,949
Divestitures	(6,240)
Expired mineral leases	(42,553)
As at December 31, 2020	\$ 509,533
Transfers to property, plant and equipment (<i>note 5</i>)	(40,415)
Divestitures	(3,600)
Expired mineral leases	(27,120)
Loss of control of Topaz (<i>note 10</i>)	(32,476)
As at September 30, 2021	\$ 405,922

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 September 30, 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	1,022,913
Transfers from exploration and evaluation (note 4)	40,415
Change in decommissioning liabilities (note 7)	(53,950)
Corporate acquisition	1,438,462
Property acquisitions	614,107
Divestitures	(148,024)
Loss of control of Topaz (note 10)	(1,618,413)
As at September 30, 2021	\$ 18,850,695

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	765,494
Divestitures	(3,315)
Loss of control of Topaz (note 10)	(783,416)
As at September 30, 2021	\$ 5,901,915

Net Book Value

(000s)

As at December 31, 2020	\$ 11,632,033
As at September 30, 2021	\$ 12,948,780

Future development costs of \$11.1 billion were included in the depletion calculation at September 30, 2021 (December 31, 2020 – \$8.8 billion).

Capitalization of G&A and Share-Based Payments

A total of \$28.2 million in G&A expenditures have been capitalized and included in PP&E for the nine months ended September 30, 2021 (December 31, 2020 – \$32.5 million). Also included in PP&E are non-cash share-based payments of \$8.1 million (December 31, 2020 - \$7.2 million). Borrowing costs on specified projects have been capitalized and included in PP&E at September 30, 2021 of \$0.6 million (December 31, 2020 – nil).

Impairment Assessment

In accordance with IFRS, an impairment test is performed on a CGU if the Company identifies an indicator of impairment or reversal of impairment. At September 30, 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 any indicators of impairment reversal.

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 charge taken was reaffirmed at December 31, 2020. The impairment was a result of the material decrease in the forecasted oil and gas commodity prices. The decrease in the forecasted oil and gas commodity prices resulted in a significant drop in the discounted cash flows from proved and probable oil and gas reserves in the Spirit River CGU. There were no impairments recorded in the Company’s other CGUs. The impairment charge taken on the Spirit River CGU at March 31, 2020, is the only historical impairment charge taken by the Company.

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.

Corporate Acquisition

Black Swan Energy Ltd. (“Black Swan”)

On July 15, 2021, the Company acquired all of the issued and outstanding shares of Black Swan. As consideration, the Company issued 26.0 million common shares at a price of \$34.48 per common share for share consideration of \$896.5 million. Total transaction costs incurred by the Company of \$2.8 million associated with this acquisition were expensed in the unaudited interim consolidated statement of income (loss) and comprehensive income (loss).

Results from operations for Black Swan are included in the Company's unaudited interim consolidated financial statements from the closing date of the transaction. The estimated acquisition date fair value attributed to the PP&E was derived from the estimate of proved and probable oil and gas reserves and the related cash flows prepared at December 31, 2020 by independent third-party reserve evaluators and internally updated to reflect activity up to July 15, 2021. The estimated proved and probable oil and gas reserves and the related cash flows were discounted at a rate based on what a market participant would have paid, as well as market metrics in the prevailing area at that time. The acquisition has been accounted for using the purchase method based on estimated fair values as follows, using discount rates based on what a market participant would have paid:

(000s)	Black Swan
Fair value of net assets acquired:	
Working capital	\$ 10,235
Property, plant and equipment	1,438,462
Right-of-use assets	1,343
Financial instruments (net)	(151,166)
Lease liabilities	(1,343)
Decommissioning obligations	(10,333)
Bank debt	(345,983)
Deferred income tax liability	(44,735)
Total	\$ 896,480
Consideration:	
Shares issued	\$ 896,480

Included in the Company's unaudited interim consolidated statements of income (loss) and comprehensive income (loss) for the nine months ended September 30, 2021, are the following amounts relating to Black Swan since July 15, 2021:

(000s)	Black Swan
Oil and natural gas sales	\$ 118,128
Net income (loss) and comprehensive income (loss) attributable to common shareholders ⁽¹⁾	\$ (44,007)

(1) Net income (loss) and comprehensive income (loss) attributable to common shareholders includes an unrealized loss on financial instruments of \$99.4 million.

If the Company had acquired Black Swan on January 1, 2021, the pro-forma results of the oil and gas sales and net income and comprehensive income for the nine months ended September 30, 2021 would have been as follows:

(000s)	As Stated	Black Swan	Pro-forma nine months ended September 30, 2021
Oil and natural gas sales	\$ 3,344,548	\$ 217,582	\$ 3,562,130
Net income (loss) and comprehensive income (loss) attributable to common shareholders ⁽¹⁾	\$ 1,029,743	\$ (36,856)	\$ 992,887

(1) The Black Swan Net income (loss) and comprehensive income (loss) attributable to common shareholders includes an unrealized loss on financial instruments of \$94.7 million.

Acquisitions 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.

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

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

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

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

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

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

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

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

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

Dispositions of Oil and Natural Gas Properties

On July 1, 2021, the Company sold a royalty interest on some of its developed and undeveloped lands in NEBC along with a working interest in the Gundy deep cut gas processing facility to Topaz for cash consideration of \$245.0 million, before customary closing adjustments. The transaction resulted in a gain on disposition of \$186.8 million which was recorded in the Company’s unaudited interim consolidated statements of income (loss) and comprehensive income (loss) for the three and nine months ended September 30, 2021.

On August 1, 2021, Tourmaline sold a royalty interest on both the Black Swan and Birch lands discussed above to Topaz for cash consideration of \$145.0 million, before customary closing adjustments. The transaction resulted in a gain on disposition of \$57.1 million which was recorded in the unaudited interim consolidated statements of income (loss) and comprehensive income (loss) for the three and nine months ended September 30, 2021.

Total Acquisitions and Dispositions of Oil and Natural Gas Properties

In total, for the nine months ended September 30, 2021, the Company, and Topaz prior to deconsolidation, completed property acquisitions for cash consideration of \$519.1 million, including the acquisitions discussed above (December 31, 2020 - \$171.9 million) and \$70.1 million in acquisitions for non-cash consideration (December 31, 2020 - \$6.2 million). The Company assumed \$24.9 million in decommissioning liabilities as a result of these acquisitions (December 31, 2020 - \$15.9 million).

For the nine months ended September 30, 2021, the Company also completed property dispositions, including the dispositions discussed above, for total cash consideration of \$391.0 million (December 31, 2020 - \$0.2 million) and non-cash consideration of \$1.0 million (December 31, 2020 - \$6.2 million). The Company removed \$0.2 million in decommissioning liabilities as a result of these dispositions (December 31, 2020 - nil).

6. LEASES

Right-of-Use Assets

<i>(000s)</i>	As at September 30, 2021	As at December 31, 2020
Balance, beginning of period	\$ 12,018	\$ 10,831
Additions	1,354	2,704
Modifications	(334)	–
Right-of-use assets acquired from corporate acquisitions (<i>note 5</i>)	1,343	1,701
Depreciation	(2,885)	(3,218)
Balance, end of period	\$ 11,496	\$ 12,018

Lease Liabilities

<i>(000s)</i>	As at September 30, 2021	As at December 31, 2020
Balance, beginning of period	\$ 12,175	\$ 10,879
Additions	1,354	2,704
Modifications	(334)	–
Lease liabilities acquired from corporate acquisitions	1,343	1,701
Lease interest expense	265	289
Lease payments	(3,000)	(3,398)
Balance, end of period	\$ 11,803	\$ 12,175
Current lease liabilities	\$ 3,197	\$ 3,412
Long-term lease liabilities	\$ 8,606	\$ 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 \$931.4 million (December 31, 2020 – \$783.4 million). A risk-free rate of 1.98% (December 31, 2020 – 1.21%) and an inflation rate of 1.73% (December 31, 2020 – 1.49%) were used to calculate the decommissioning obligations. The decommissioning obligations at September 30, 2021 have been reduced by approximately \$75.3 million reflecting the change in the risk-free rate and the inflation rate in 2021.

<i>(000s)</i>	As at September 30, 2021	As at December 31, 2020
Balance, beginning of period	\$ 595,432	\$ 321,863
Obligation incurred	21,384	16,160
Obligation incurred on corporate acquisitions (<i>note 5</i>)	10,333	50,731
Obligation incurred on property acquisitions (<i>note 5</i>)	24,901	15,850
Obligation divested	(213)	-
Obligation settled	(8,841)	(6,569)
Accretion expense	8,786	5,423
Change in future estimated cash outlays	(75,334)	191,974
Loss of control of Topaz (<i>note 10</i>)	(4,674)	-
Balance, end of period	\$ 571,774	\$ 595,432
Current decommissioning obligations	\$ 21,129	\$ 4,618
Long-term decommissioning obligation	\$ 550,645	\$ 590,814

8. BANK DEBT

<i>(000s)</i>	As at September 30, 2021	As at December 31, 2020
Revolving credit facility	\$ -	\$ 994,948
Term debt	950,000	949,495
Debt issue costs	(3,260)	(2,184)
Bank debt	\$ 946,740	\$ 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. At September 30, 2021, the revolving credit facility was not drawn.

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 September 30, 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 \$24.4 million at September 30, 2021 (December 31, 2020 - \$19.5 million), which reduces the credit available on this facility.

The Company's aggregate borrowing capacity is \$3.3 billion at September 30, 2021 including the senior unsecured notes (note 9). The effective interest rate for the nine months ended September 30, 2021 was 1.75% (nine months ended September 30, 2020 – 2.23%). As at, and for the quarter ending September 30, 2021, the Company is in compliance with all debt covenants.

On October 8, 2021, Tourmaline increased the credit capacity of its revolving credit facility from \$1.8 billion to \$2.55 billion and concurrently cancelled the \$950.0 million term loan. The aggregate borrowing capacity of the Company was reduced from \$3.3 billion to \$3.1 billion.

9. SENIOR UNSECURED NOTES

(000s)	As at September 30, 2021
Senior unsecured notes	\$ 450,000
Debt issue costs	(2,041)
Senior unsecured notes	\$ 447,959

On January 25, 2021, the Company issued \$250.0 million of senior unsecured notes. The notes bear interest at a fixed rate of 2.077%, payable semi-annually, with a due date of January 25, 2028 and rank equally with all other present unsecured and subordinated debt of the Company. There are no financial covenants on these senior unsecured notes.

On August 9, 2021, the Company issued \$200.0 million of senior unsecured notes. The notes bear interest at a fixed rate of 2.529%, payable semi-annually commencing on February 12, 2022, with a due date of February 12, 2029 and rank equally with all other present unsecured and subordinated debt of the Company. There are no financial covenants on these senior unsecured notes.

10. NON-CONTROLLING INTEREST

At December 31, 2020, the Company owned 51.7% of Topaz, a royalty and infrastructure energy company.

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%.

On May 31, 2021, Topaz issued 1,794,886 common shares to acquire Reserve Royalty. The share issuance resulted in Tourmaline's ownership interest being reduced from 51.6% to 50.8%.

(000s)	
Carrying amount of NCI disposed	\$ 20,812
Consideration paid by NCI on issuance of Topaz common shares	25,981
Increase in equity attributable to shareholders of Tourmaline	\$ 5,169

On June 8, 2021, Topaz closed a public offering and concurrent private placement equity financing for net consideration of \$197.7 million (net of share issue costs of \$8.5 million) which resulted in the issuance of 14.3 million common shares representing 12.5% of the total common shares outstanding. The public offering and concurrent private placement resulted in Tourmaline's ownership interest being reduced from 50.8% to 45.2%.

(000s)	
Carrying amount of NCI disposed	\$ 184,517
Consideration paid by NCI on issuance of Topaz common shares	197,725
Increase in equity attributable to shareholders of Tourmaline	\$ 13,208

Subsequent to the Topaz public offering and concurrent private placement, Tourmaline determined that, in accordance with IFRS, it no longer controlled Topaz. Due to the loss of control, Topaz will no longer be consolidated in the Company's financial statements subsequent to June 8, 2021. The Company retains significant influence over Topaz, resulting in Topaz being recorded on the statement of financial position as an investment in Topaz and accounted for using the equity method subsequent to initial recognition.

Accordingly, on June 8, 2021, Tourmaline derecognized the assets and liabilities of Topaz, derecognized the associated NCI and recognized the non-controlling investment in Topaz at fair value with the residual amount recognized as a gain on the Company's consolidated statement of income (loss) and comprehensive income (loss) for the three and nine months ended September 30, 2021 and 2020. The fair value of the investment in Topaz was determined using the closing price of Topaz common shares on June 8, 2021 of \$14.97 per share.

(000s)	
Carrying amount of NCI derecognized	\$ 666,798
Net asset value of Topaz derecognized	(1,216,107)
Fair value of investment in Topaz	870,498
Gain recognized on loss of control	\$ 321,189

The net asset value of Topaz on June 8, 2021, was as follows:

(000s)	
Cash	\$ 177,357
Working capital	24,934
E&E	32,476
PP&E	951,285
Deferred income tax asset	55,908
Fair value of financial instruments	(2,000)
Bank debt	(19,179)
Decommissioning obligations	(4,674)
Net asset value of Topaz	\$ 1,216,107

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

(000s)	As at September 30, 2021	As at December 31, 2020
Balance, beginning of period	\$ 467,443	\$ 181,571
Share of subsidiary's net income for the period	3,417	242
Topaz dividends paid to NCI	(10,892)	(25,988)
Carrying amount of NCI disposed	206,830	311,618
Loss of control of Topaz	(666,798)	–
Balance, end of period	\$ –	\$ 467,443

11. INVESTMENT IN TOPAZ

At September 30, 2021, the Company owned 39.7% of the outstanding common shares of its associate Topaz. A reconciliation of the investment in Topaz is provided below:

<i>(000s)</i>	As at September 30, 2021
Balance, beginning of period	\$ –
Fair value of investment in Topaz recognized on loss of control (<i>note 10</i>)	870,498
Income on investment in Topaz	1,879
Dividends received from Topaz	(23,841)
Divestitures of Topaz common shares	(103,347)
Balance, end of period	\$ 745,189

On September 21, 2021, Tourmaline and Topaz closed a bought deal, secondary offering of Topaz common shares for net consideration of \$103.8 million (net of brokers fees of \$4.3 million) which resulted in the Company selling 7.0 million Topaz common shares representing 5.4% of the total common shares outstanding. The bought deal, secondary offering resulted in Tourmaline's ownership interest being reduced from 45.2% to 39.7%. At September 30, 2021, Tourmaline owned 51.1 million common shares of Topaz.

Subsequent to June 8, 2021, for the three and nine months ended September 30, 2021, Topaz paid a cash dividend of \$0.24 and \$0.44 per common share and Tourmaline received \$12.2 million and \$23.8 million, respectively, which was recorded as a deduction to the investment in Topaz.

On October 26, 2021, Topaz completed a bought-deal equity financing which resulted in the issuance of 10.1 million Topaz common shares. Tourmaline did not participate in the bought-deal equity financing which resulted in Tourmaline's ownership interest being reduced from 39.7% to 36.8%.

12. SHARE CAPITAL

(a) Authorized

Unlimited number of Common Shares without par value.

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

(b) Common Shares Issued

<i>(000s) except share amounts</i>	As at September 30, 2021		As at December 31, 2020	
	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 and property acquisitions (<i>note 5</i>)	27,250,000	939,580	25,700,000	444,402
Purchase of common shares under NCIB	(200,000)	(4,493)	(221,600)	(4,814)
For cash on exercise of stock options	5,976,853	139,552	95,957	1,261
Contributed surplus on exercise of stock options	–	38,706	–	289
Balance, end of period	329,598,369	\$ 7,441,460	296,571,516	\$ 6,328,115

Normal course issuer bid

The Company has a normal course issuer bid (“NCIB”) with the Toronto Stock Exchange (“TSX”). On July 9, 2021, the Company renewed its NCIB with the TSX allowing up to 14,943,420 common shares, representing 5% of the common shares outstanding at July 9, 2021, to be purchased over a twelve-month period commencing on July 20, 2021. Under the NCIB, common shares may be repurchased at prevailing market prices and any common shares that are purchased under the NCIB will be cancelled upon their purchase by the Company. For the nine months ended September 30, 2021, the Company purchased 0.2 million shares for cancellation at an average price of \$32.73 per common share for a total of \$6.5 million. Contributed surplus was decreased by \$2.1 million, representing the excess of the average carrying value of the common shares over their purchase price.

Dividends

During the three and nine months ended September 30, 2021, the Company paid a cash dividend of \$0.17 and \$0.49 per common share totalling \$55.7 million and \$150.9 million, respectively, compared to \$0.12 and \$0.36 per common share totalling \$32.5 million and \$97.5 million, respectively, for the same periods of the prior year. Additionally, during the nine months ended September 30, 2021, while Topaz was a controlled subsidiary, Topaz paid a cash dividend of \$0.20 per common share totalling \$22.5 million. The Topaz dividends paid include \$11.6 million which was paid to Tourmaline and eliminated on consolidation and \$10.9 million which was paid to outside investors and is included in dividends paid to NCI.

On September 22, 2021, the Company declared a special dividend of \$0.75 per common share totalling \$247.2 million, payable on October 7, 2021 and recorded as a dividend payable at September 30, 2021.

13. EARNINGS (LOSS) PER SHARE

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

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2021	2020	2021	2020
Net income (loss) attributable to shareholders of the Company for the period (000s)	\$ 361,057	\$ 4,826	\$ 1,029,743	\$ (10,880)
Weighted average number of common shares – basic	322,678,243	270,781,944	305,742,262	270,832,477
Earnings (loss) per share – basic	\$ 1.12	\$ 0.02	\$ 3.37	\$ (0.04)

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

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2021	2020	2021	2020
Net income (loss) attributable to shareholders of the Company for the period (000s)	\$ 361,057	\$ 4,826	\$ 1,029,743	\$ (10,880)
Weighted average number of common shares – diluted	328,272,905	271,129,740	309,744,281	270,832,477
Earnings (loss) per share – fully diluted	\$ 1.10	\$ 0.02	\$ 3.32	\$ (0.04)

There were 4,931,825 and 6,899,925 options excluded from the weighted-average share calculations for the three and nine months ended September 30, 2021 because they were anti-dilutive (three and nine months ended September 30, 2020 – 17,733,818 and 21,270,265 options were anti-dilutive).

14. SHARE-BASED PAYMENTS

The Company has a rolling stock option plan. Under the employee stock option plan, the Company may grant options to its employees up to 28,015,861 shares of common stock, which represents 8.5% of the current outstanding common shares. The exercise price of each option equals the volume-weighted average market price for the five days preceding the issue date of the Company's stock on the date of grant and the option's maximum term is seven years. Options are granted throughout the year and vest 1/3 on each of the first, second and third anniversaries from the date of grant.

	Nine Months Ended September 30,			
	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	5,256,825	31.37	3,729,900	17.02
Exercised	(5,976,853)	23.35	(27,120)	12.81
Expired	(214,164)	27.43	(1,201,000)	37.50
Forfeited	(135,800)	28.22	(379,583)	28.70
Stock options outstanding, end of period	17,254,719	\$ 24.38	21,270,265	\$ 22.79

The average trading price of the Company's common shares was \$28.76 during the nine months ended September 30, 2021 (nine months ended September 30, 2020 – \$13.29).

The following table summarizes stock options outstanding and exercisable at September 30, 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	2,735,591	4.98	\$ 12.93	1,157,611	\$ 12.85
\$17.39 - \$22.04	3,609,764	5.71	17.91	1,030,416	18.18
\$22.05 - \$26.86	3,995,573	3.62	23.88	3,788,073	23.92
\$26.87 - \$32.11	4,786,141	6.36	31.76	374,866	29.89
\$32.12 - \$38.57	2,127,650	3.06	34.43	1,677,100	34.40
	17,254,719	4.96	\$ 24.38	8,028,066	\$ 24.06

The fair value of options granted during the three-month period ended September 30, 2021 was estimated on the date of grant using the Black-Scholes option-pricing model with the following weighted average assumptions and resulting values:

	September 30,	
	2021	2020
Fair value of options granted (weighted average)	\$ 9.00	\$ 4.42
Risk-free interest rate	0.85%	0.42%
Estimated hold period prior to exercise	4.6 years	5.0 years
Expected volatility	40%	40%
Forfeiture rate	1.9%	1.9%
Dividend per share	\$ 0.62	\$ 0.48

15. COMMITMENTS

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

PAYMENTS DUE BY YEAR

(000s)	1 Year	2-3 Years	4-5 Years	>5 Years	Total
Operating commitments ⁽¹⁾	\$ 3,134	\$ 5,192	\$ 4,459	\$ 1,100	\$ 13,885
Firm transportation agreements ⁽²⁾	717,689	1,493,152	1,271,391	4,254,145	7,736,377
Processing commitments ⁽³⁾	129,620	220,818	195,842	519,453	1,065,733
Capital commitments ⁽⁴⁾	74,250	148,500	–	–	222,750
Term debt ⁽⁵⁾	18,610	37,219	981,535	–	1,037,364
Senior unsecured notes ⁽⁶⁾	10,378	20,757	20,757	469,125	521,017
	\$ 953,681	\$ 1,925,638	\$ 2,473,984	\$ 5,243,823	\$ 10,597,126

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

(2) Includes firm transportation agreements acquired from Black Swan.

(3) Includes processing commitments and power commitments.

(4) Includes rig commitments.

(5) Includes interest expense at an annual rate of 1.96% being the fixed rate on the term debt at September 30, 2021.

(6) Includes interest expense at an annual rate of 2.31% being the average fixed rate on the notes.

16. RELATED PARTY TRANSACTIONS

The Company has entered into a number of agreements with Topaz, relating to both royalty and infrastructure assets. At September 30, 2021, \$31.2 million of the accounts payable balance was due to Topaz. See notes 5, 10 and 11 for further details on transactions between Tourmaline and Topaz.

17. 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:

(000s)	Three Months Ended September 30,		Nine Months Ended September 30,	
	2021	2020	2021	2020
Natural gas				
Sales from production	\$ 826,225	\$ 371,392	\$ 2,098,495	\$ 1,057,941
Premium (loss) on risk management activities	14,069	(33,877)	(9,557)	(83,583)
	840,294	337,515	2,088,938	974,358
Oil				
Sales from production	73,957	31,692	201,256	89,745
Premium (loss) on risk management activities	1,599	(928)	5,188	(2,948)
	75,556	30,764	206,444	86,797
Condensate				
Sales from production	230,699	90,655	576,857	242,719
(Loss) on risk management activities	(365)	(3,375)	(3,267)	(8,557)
	230,334	87,280	573,590	234,162
NGL				
Sales from production	192,322	51,353	467,940	122,237
Marketing revenue ⁽¹⁾	13,195	10,305	40,530	38,269
Total				
Commodity sales from production	1,323,203	545,092	3,344,548	1,512,642
Gain (loss) on risk management activities	15,303	(38,180)	(7,636)	(95,088)
Marketing revenue	13,195	10,305	40,530	38,269
Revenue from contracts with customers	\$ 1,351,701	\$ 517,217	\$ 3,377,442	\$ 1,455,823

(1) Marketing revenue represents the sale of commodities purchased from third parties. For the three and nine months ended September 30, 2021, the Company had marketing purchases from third parties of \$11.5 million and \$37.7 million, respectively (three and nine months ended September 30, 2020 - \$9.7 million and \$37.5 million, respectively).