

March 27, 2023

VIA SEDAR

NOTICE TO READER

Re: Tourmaline Oil Corp. – Re-Filing of Audited Consolidated Financial Statements for the Years Ended December 31, 2022 and 2021

Please be advised that Tourmaline Oil Corp. is re-filing its audited consolidated financial statements for the years ended December 31, 2022 and 2021 (the "**Financial Statements**") in the form attached as the Management's Report and Independent Auditors' Report were inadvertently included in the Management's Discussion and Analysis filed on March 1, 2023 and omitted from the Financial Statements filed on March 1, 2023. The Management's Report and Independent Auditor's Report are now included in the attached Financial Statements. All other information contained in the attached Financial Statements remains the same as the version of the Financial Statements filed on March 1, 2023. This version of the Financial Statements replaces and supersedes the version of the Financial Statements filed on March 1, 2023.

MANAGEMENT'S REPORT

To the Shareholders of Tourmaline Oil Corp.:

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

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

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

(signed)

Michael L. Rose
*President and
Chief Executive Officer*

Calgary, Alberta

March 1, 2023

(signed)

Brian G. Robinson
*Vice-President, Finance and
Chief Financial Officer*

Calgary, Alberta

INDEPENDENT AUDITORS' REPORT

To the Shareholders of Tourmaline Oil Corp.

Opinion

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

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

Hereinafter referred to as the “financial statements”.

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

Basis for Opinion

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

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

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

Key Audit Matters

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

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

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

Description of the matter

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

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

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

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

Why the matter is a key audit matter

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

How the matter was addressed in the audit

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

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

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

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

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

Description of the matter

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

Why the matter is a key audit matter

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

How the matter was addressed in the audit

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

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

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

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

Other Information

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

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

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

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

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

We have nothing to report in this regard.

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

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

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

Auditors' Responsibilities for the Audit of the Financial Statements

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

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

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

We also:

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

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

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

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

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

(signed) "KPMG LLP"
Chartered Professional Accountants
Calgary, Canada
March 1, 2023

CONSOLIDATED FINANCIAL STATEMENTS

CONSOLIDATED STATEMENTS OF FINANCIAL POSITION

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

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

See accompanying notes to the consolidated financial statements.

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

(signed)
Jill T. Angevine, Director

(signed)
Andrew B. MacDonald, Director

CONSOLIDATED STATEMENTS OF INCOME AND COMPREHENSIVE INCOME

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

See accompanying notes to the consolidated financial statements.

CONSOLIDATED STATEMENTS OF CHANGES IN EQUITY

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

(000s)	Share Capital	Contributed Surplus	Retained Earnings	Non-Controlling Interest	Total Equity
Balance at December 31, 2020	\$ 6,328,115	\$ 307,152	\$ 2,173,828	\$ 467,443	\$ 9,276,538
Issue of common shares on corporate acquisitions (notes 6 and 12)	939,580	–	–	–	939,580
Issuance and sale of Topaz common shares to NCI	–	–	21,421	210,423	231,844
Share issue costs, net of tax on issuance of Topaz common shares	–	–	(2,962)	(3,593)	(6,555)
Share-based payments	–	16,448	–	–	16,448
Capitalized share-based payments (note 6)	–	12,014	–	–	12,014
Options exercised (note 12)	219,332	(47,815)	–	–	171,517
Purchase of common shares under NCIB (note 12)	(4,493)	(2,052)	–	–	(6,545)
Dividends paid (note 12)	–	–	(457,663)	(10,892)	(468,555)
Income attributable to common shareholders	–	–	2,025,991	–	2,025,991
Income attributable to non-controlling interest	–	–	–	3,417	3,417
Loss of control of Topaz	–	(1,458)	78,914	(666,798)	(589,342)
Balance at December 31, 2021	\$ 7,482,534	\$ 284,289	\$ 3,839,529	\$ –	\$11,606,352

See accompanying notes to the consolidated financial statements.

CONSOLIDATED STATEMENTS OF CASH FLOW

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

Cash is defined as cash and cash equivalents.

See accompanying notes to the consolidated financial statements.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

FOR THE YEARS ENDED DECEMBER 31, 2022 AND 2021

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

Corporate Information:

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

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

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

OPERATING ENVIRONMENT

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

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

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

CLIMATE CHANGE AND ENVIRONMENTAL REGULATION

Climate-related considerations are integrated into key business planning and risk management processes throughout the Company.

Regulatory Update

Emissions, carbon and other regulations impacting climate and climate-related matters are constantly evolving. With respect to environmental, social, governance (ESG) and climate reporting, the International Sustainability Standards Board ("ISSB") has issued exposure drafts for its IFRS Sustainability Disclosure Standard with the aim to develop sustainability disclosure standards that are globally consistent, comparable and reliable. In addition, the Canadian Securities Administrators ("CSA") published for comment Proposed National Instrument 51-107 – *Disclosure of Climate Related Matters*, intended to introduce climate-related disclosure requirements for reporting issuers in Canada with limited exceptions. The Company is awaiting further guidance in 2023 from the ISSB and CSA on their final rules.

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

Sustainability Reporting

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

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

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

(i) Impairment

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

(ii) Reserves

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

1. BASIS OF PREPARATION

(a) Statement of compliance:

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

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

(b) Basis of measurement:

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

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

(c) Functional and presentation currency:

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

(d) Use of judgements and estimates:

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

Critical judgements in applying accounting policies:

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

(i) Identification of cash-generating units:

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

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

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

(iii) Exploration and evaluation assets:

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

(iv) Lease arrangements:

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

(v) Embedded derivatives:

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

(vi) Deferred taxes:

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

Key sources of estimation uncertainty:

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

(i) Reserves:

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

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

(ii) Share-based payments:

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

(iii) Business combinations:

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

(iv) Decommissioning obligations:

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

(v) Embedded Derivatives:

The Company determines the fair value of embedded derivatives, at the end of each period, through the use of internal models which incorporate significant unobservable inputs (Level 3 inputs). In instances where observable data is unavailable, consideration is given to the assumptions that market participants would use in valuing the asset or liability. This includes assumptions about market risks, such as future prices of energy and discount rates. When determining fair value estimates the Company attempts to maximize the use of observable inputs and minimize the use of unobservable inputs.

(vi) Deferred taxes:

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

2. SIGNIFICANT ACCOUNTING POLICIES

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

(a) Consolidation:

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

(i) Subsidiaries:

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

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

(ii) Transactions eliminated on consolidation:

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

(iii) Jointly-owned assets:

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

(b) Foreign Currency:

(i) Foreign currency transactions:

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

(ii) Foreign Operations:

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

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

(c) Business Combinations:

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

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

(d) Financial instruments:

(i) Non-derivative financial instruments:

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

Cash and cash equivalents:

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

Other:

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

(ii) Derivative financial instruments:

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

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

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

(iii) Share capital:

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

(iv) Interests in equity-accounted investees:

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

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

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

(i) Recognition and measurement:

Exploration and evaluation expenditures:

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

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

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

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

Development and production costs:

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

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

(ii) Subsequent costs:

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

(iii) Depletion and depreciation:

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

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

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

The estimated useful lives for depreciable assets are as follows:

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

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

(f) Impairment:

(i) Financial assets:

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

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

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

All impairment losses are recognized in profit or loss.

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

(ii) Non-financial assets:

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

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

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

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

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

(g) Provisions:

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

(i) Decommissioning obligations:

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

(ii) Onerous contracts:

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

(h) Revenue recognition:

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

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

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

(i) Finance income and expenses:

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

(j) Income taxes:

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

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

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

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

(k) Share-based payments:

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

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

(l) Per-share information:

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

(m) Leased assets:

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

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

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

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

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

(n) Borrowing costs:

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

(o) Common control transactions:

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

(p) Government grants:

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

3. DETERMINATION OF FAIR VALUE

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

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

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

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

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

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

(iii) Derivatives:

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

The Company determines the fair value of embedded derivatives, at the end of each period, through the use of internal models which incorporate significant unobservable inputs (Level 3 inputs). In instances where observable data is unavailable, consideration is given to the assumptions that market participants would use in valuing the asset or liability. This includes assumptions about market risks, such as future prices of energy and discount rates. When determining fair value estimates the Company attempts to maximize the use of observable inputs and minimize the use of unobservable inputs.

(iv) Share based payments:

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

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

(v) Measurement:

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

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

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

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

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

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

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

(2) Natural gas embedded derivatives are fair valued using Level 3 information.

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

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

4. FINANCIAL RISK MANAGEMENT

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

The Company's risk management policies are established to identify and analyze the risks faced by the Company, to set appropriate risk limits and controls, and to monitor risks and adherence to market conditions and the Company's activities.

(a) Credit risk:

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

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

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

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

(b) Liquidity risk:

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

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

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

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

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

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

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

(c) Market risk:

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

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

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

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

Commodity price risk is the risk that the fair value or future cash flow will fluctuate as a result of changes in commodity prices. Commodity prices for oil and natural gas are based upon the US dollar and as a result the price received by Canadian producers is affected by the Canadian to US dollar exchange rate. The commodity prices are also impacted by world economic events that dictate the levels of supply and demand. As at December 31, 2022, the Company has entered into certain financial derivative and physical delivery sales contracts in order to manage commodity risk. These instruments are not used for trading or speculative purposes. The Company has not designated its financial derivative contracts as effective accounting hedges, even though the Company considers all commodity contracts to be effective economic hedges. As a result, all such financial commodity contracts are recorded on the consolidated statement of financial position at fair value, with changes in the fair value being recognized as an unrealized gain or loss on the consolidated statement of income and comprehensive income. The Company has not offset any financial assets and liabilities, in the consolidated statements of financial position.

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

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

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

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

(2) These deals are 7A underlying.

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

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

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

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

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

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

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

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

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

In July 2021, the Company entered into a 15-year natural gas supply agreement (“JKM natural gas supply agreement”), under which Tourmaline will deliver 140,000 mmbtu/d (approximately 140,000 mcf/d), commencing in January 2023. Under the terms of the JKM natural gas supply agreement, Tourmaline will deliver natural gas to its counterparty at a delivery point in Louisiana, USA and receive a Japan Korea Marker (“JKM”) index price less deductions for transport and liquefaction. Due to the fact that the volumes are delivered to a counterparty in the United States but Tourmaline ultimately receives a JKM index price, it was determined that the JKM natural gas supply agreement contained an embedded derivative as a result of the pricing spread between forecasted JKM and NYMEX prices. The Company defined the host contract as a natural gas sales contract with an underlying natural gas price of NYMEX.

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

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

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

The Level 3 fair value measurements of the JKM natural gas supply agreement embedded derivative could be materially impacted by a change in the discount rate and significant movements in natural gas prices. At December 31, 2022, a change in the discount rate or a change in the price of the JKM index over the 15-year contract would have the following impact on the fair value of the JKM natural gas supply agreement embedded derivative:

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

(d) Capital Management:

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

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

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

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

During the year ended December 31, 2022, the Company increased its quarterly dividend from \$0.18 per share to \$0.25 per share and paid special dividends of \$1.25, \$1.50, \$2.00 and \$2.25 per share.

5. EXPLORATION AND EVALUATION ASSETS

(000s)

As at January 1, 2021	\$ 509,533
Transfers to property, plant and equipment (note 6)	(52,267)
Divestitures	(6,901)
Expired mineral leases	(48,007)
Loss of control of Topaz (note 11)	(32,476)
As at December 31, 2021	\$ 369,882
Transfers to property, plant and equipment (note 6)	(46,234)
Divestitures	(2,068)
Expired mineral leases	(32,530)
As at December 31, 2022	\$ 289,050

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

Impairment Assessment

At December 31, 2022 and 2021, the Company determined that no internal or external indicators of impairment existed on its E&E assets; therefore, an impairment test was not performed.

6. PROPERTY, PLANT AND EQUIPMENT

Cost

(000s)

As at January 1, 2021	\$17,555,185
Capital expenditures	1,449,080
Transfers from exploration and evaluation (note 5)	52,267
Change in decommissioning liabilities (note 8)	22,946
Corporate acquisitions	1,438,462
Property acquisitions	662,584
Divestitures	(179,708)
Loss of control of Topaz	(1,618,413)
As at December 31, 2021	\$19,382,403
Capital expenditures	1,698,663
Transfers from exploration and evaluation (note 5)	46,234
Change in decommissioning liabilities (note 8)	(89,211)
Corporate acquisitions	306,837
Property acquisitions	304,160
Divestitures	(76,936)
As at December 31, 2022	\$21,572,150

Accumulated Depletion, Depreciation and Amortization

(000s)

As at January 1, 2021	\$ 5,923,152
Depletion, depreciation and amortization	1,031,428
Impairment (reversal)	(236,810)
Divestitures	(15,529)
Loss of control of Topaz (<i>note 11</i>)	(783,416)
As at December 31, 2021	\$ 5,918,825
Depletion, depreciation and amortization	1,148,564
Divestitures	(421)
As at December 31, 2022	\$ 7,066,968

Net Book Value

(000s)

As at December 31, 2021	\$ 13,463,578
As at December 31, 2022	\$ 14,505,182

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

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

A total of \$46.7 million in G&A expenditures have been capitalized and included in PP&E assets at December 31, 2022 (December 31, 2021 - \$38.4 million). Also included in PP&E are non-cash share-based payments of \$21.7 million at December 31, 2022 (December 31, 2021 - \$12.0 million). At December 31, 2022, there were nil in capitalized borrowing costs on specified projects included in PP&E (December 31, 2021 - \$1.1 million).

Impairment Assessment

In accordance with IFRS, an impairment test is performed on a CGU if the Company identifies an indicator of impairment or reversal of impairment. At December 31, 2022, the Company did not identify indicators of impairment on any of its CGUs; therefore an impairment test was not performed. The Company has no CGUs with historical impairment that have not been fully reversed.

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

The Company determined that there was a reversal of impairment to PP&E at December 31, 2021 and reversed the full amount of the impairment loss of \$250.0 million, net of DD&A, that would have been recorded had no impairment been recorded. The net impairment reversal recorded in the Company's consolidated statement of income and comprehensive income for the year ended December 31, 2021 was \$236.8 million.

Corporate Acquisition

Rising Star

On August 10, 2022, the Company acquired all of the issued and outstanding shares of Rising Star. As consideration, the Company included 6.0 million common shares of Topaz which were owned by Tourmaline at a price of \$20.56 for Topaz share consideration of \$123.4 million and cash consideration of \$67.8 million for total consideration of \$191.1 million, including working capital. Total transaction costs incurred by the Company of \$0.4 million associated with this acquisition were expensed in the consolidated statement of income and comprehensive income.

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

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

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

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

If the Company had acquired Rising Star on January 1, 2022, the pro-forma results of the oil and gas sales and net income and comprehensive income for the year ended December 31, 2022 would have been as follows:

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

Black Swan Energy Ltd.

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

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

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

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

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

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

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

Acquisitions of Oil and Natural Gas Properties

2022

On February 15, 2022, the Company acquired land in NEBC for cash consideration of \$20.0 million, before customary closing adjustments. The acquisition resulted in an increase in PP&E of approximately \$20.0 million and the assumption of nil in decommissioning liabilities.

On April 12, 2022, the Company acquired the remaining interest in two gas processing facilities in NEBC in which the Company was already a working interest owner for cash consideration of \$235.3 million, before customary closing adjustments. The acquisition resulted in an increase in PP&E of approximately \$236.2 million and the assumption of \$0.9 million in decommissioning liabilities.

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

2021

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

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

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

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

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

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

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

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

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

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

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

Disposition of Oil and Natural Gas Properties

2022

On September 1, 2022, the Company sold a royalty interest on some of its developed and undeveloped lands to Topaz for cash consideration of \$51.0 million, before customary closing adjustments. The transaction resulted in a gain on disposition of \$28.9 million which was recorded in the Company's consolidated income statement for the year ended December 31, 2022.

On September 29, 2022, the Company sold non-core assets, acquired from Rising Star, for cash consideration of \$16.7 million, before customary closing adjustments. The disposition resulted in a decrease in PP&E of approximately \$43.1 million and decommissioning obligations of \$26.2 million.

2021

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

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

Total Acquisitions and Dispositions of Oil and Natural Gas Properties

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

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

7. LEASES

Right-of-use assets

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

Lease Liabilities

<i>(000s)</i>	As at December 31, 2022	As at December 31, 2021
Balance, beginning of year	\$ 11,169	\$ 12,175
Additions	1,463	1,717
Modifications	561	(334)
Lease liabilities acquired from corporate acquisitions (<i>note 6</i>)	335	1,343
Lease interest expense	319	349
Lease payments	(3,692)	(4,081)
Balance, end of year	\$ 10,155	\$ 11,169
Current lease liabilities	\$ 3,109	\$ 2,997
Long-term lease liabilities	\$ 7,046	\$ 8,172

The Company leases office space, vehicles and IT equipment. The lease payments are discounted using the Company's incremental borrowing rate at the inception of the lease to calculate the lease liability. The total payments made for short-term and low-value leases were less than \$0.1 million for the year ended December 31, 2022 which are not included in the lease liability (for the year ended December 31, 2021 – less than \$0.1 million).

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

PAYMENTS DUE BY YEAR

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

8. DECOMMISSIONING OBLIGATIONS

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

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

9. BANK DEBT

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

U.S. dollar LIBOR benchmarks were phased out on December 31, 2021. The U.S. LIBOR benchmarks were replaced with the Secured Overnight Financing Rate ("SOFR"), an alternative that will apply to our U.S. dollar borrowings to be used at our option. We do not expect this change to have a material impact to the Company.

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

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

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

For the year ended December 31, 2022, the Company drew from the credit facility in U.S. dollars, as permitted under the credit facility which, when repaid, created a foreign exchange loss due to the weakening of the Canadian dollar. Concurrent with the draw of U.S. dollar denominated borrowings, the Company entered into cross-currency swaps to offset the foreign currency risk resulting from holding U.S. dollar denominated borrowings. This transaction allows the Company to take advantage of the interest rate spread between CDOR and SOFR without taking on any foreign exchange risk.

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

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

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

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

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

10. SENIOR UNSECURED NOTES

<i>(000s)</i>	As at December 31, 2022	As at December 31, 2021
Senior unsecured notes	\$ 450,000	\$ 450,000
Debt issue costs	(1,658)	(1,965)
Senior unsecured notes	\$ 448,342	\$ 448,035

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

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

11. INVESTMENT IN TOPAZ

At December 31, 2022, the Company owned 31.3% of the outstanding common shares of its associate Topaz. A reconciliation of the investment in Topaz is provided below:

<i>(000s)</i>	As at December 31, 2022	As at December 31, 2021
Balance, beginning of period	\$ 745,924	\$ –
Fair value of investment in Topaz recognized on loss of control	–	870,498
Income on investment in Topaz	34,358	7,998
Dividends received from Topaz	(52,788)	(36,117)
Divestitures of Topaz common shares	(87,976)	(103,347)
Gain on dilution of investment in Topaz	8,711	6,892
Balance, end of period	\$ 648,229	\$ 745,924

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

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

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

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

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

12. SHARE CAPITAL

(a) Authorized

Unlimited number of Common Shares without par value.

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

(b) Common Shares Issued

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

Normal course issuer bid

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

Dividends

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

On February 1, 2022, the Company paid a special dividend of \$1.25 per common share totalling \$414.5 million.

On May 19, 2022, the Company paid a special dividend of \$1.50 per common share totalling \$502.3 million.

On July 27, 2022, the Company paid a special dividend of \$2.00 per common share totalling \$672.6 million.

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

13. REVENUE

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

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

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

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

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

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

14. INCOME TAXES

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

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

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

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

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

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

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

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

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

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

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

Unrecognized deferred tax assets

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

Investments

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

15. EARNINGS PER SHARE

Basic earnings per share was calculated as follows:

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

Diluted earnings per share was calculated as follows:

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

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

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

16. SHARE-BASED PAYMENTS

STOCK OPTION PLAN

The Company has a rolling stock option plan. Under the employee stock option plan, the Company may grant options to its employees up to 28,788,200 shares of common stock, which represents 8.5% of the current outstanding common shares. The exercise price of each option equals the volume-weighted average market price for the five days preceding the issue date of the Company's stock on the date of grant and the option's maximum term is seven years. Options are granted throughout the year and vest 1/3 on each of the first, second and third anniversaries from the date of grant.

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

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

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

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

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

	Years Ended December 31,	
	2022	2021
Fair value of options granted (weighted average)	\$ 25.98	\$ 9.34
Risk-free interest rate	3.21%	0.88%
Estimated hold period prior to exercise	4.2 years	4.6 years
Expected volatility	42%	40%
Forfeiture rate	1.8%	1.9%
Dividend per share	\$ 0.86	\$ 0.63

RESTRICTED SHARE UNIT (“RSU”) PLAN

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

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

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

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

17. OTHER INCOME

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

18. FINANCE EXPENSES

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

19. SUPPLEMENTAL DISCLOSURES

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

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

20.SUPPLEMENTAL CASH FLOW INFORMATION

Changes in non-cash working capital is comprised of:

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

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

21.COMMITMENTS

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

PAYMENTS DUE BY YEAR

(000s)	1 Year	2-3 Years	4-5 Years	>5 Years	Total
Operating commitments ⁽¹⁾	\$ 3,848	\$ 8,690	\$ 5,773	\$ 1,888	\$ 20,199
Firm transportation agreements	934,888	1,723,377	1,401,022	5,169,104	9,228,391
Processing commitments ⁽²⁾	131,827	260,604	241,773	476,057	1,110,261
Capital commitments ⁽³⁾	68,404	–	–	–	68,404
Revolving credit facility ⁽⁴⁾	–	–	269,288	–	269,288
Senior unsecured notes ⁽⁵⁾	10,378	20,757	20,757	456,152	508,044
	\$ 1,149,345	\$ 2,013,428	\$ 1,938,613	\$ 6,103,201	\$ 11,204,587

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

(2) Includes processing commitments and power commitments.

(3) Includes drilling commitments.

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

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

22. KEY MANAGEMENT PERSONNEL COMPENSATION

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

Compensation of Key Management

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

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

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

23. RELATED PARTY

The Company has entered into a number of agreements with Topaz, relating to both royalty and infrastructure assets. From January 1, 2022, to December 31, 2022, gross overriding royalties of \$188.4 million and processing fees of \$38.6 million were payable to Topaz and are included in the Company's consolidated statement of income and comprehensive income as royalties and operating expense. At December 31, 2022, \$42.3 million of the Company's accounts payable balance was due to Topaz (December 31, 2021 - \$36.2 million).

From January 1, 2021, to June 8, 2021, transactions between Tourmaline and Topaz were eliminated on consolidation while Topaz was a subsidiary of Tourmaline. Subsequent to June 8, 2021, Topaz became an associate of Tourmaline and was deconsolidated, and as a result, transactions between Tourmaline and Topaz were no longer eliminated. From June 8, 2021, to December 31, 2021, gross overriding royalties of \$83.0 million and processing fees of \$18.4 million were payable to Topaz and are included in the Company's consolidated statement of income and comprehensive income as royalties and operating expenses.

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

24. SUBSEQUENT EVENTS

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