



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

As at June 30, 2018 and for the three months and six months ended June 30, 2018 and 2017

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MANAGEMENT'S DISCUSSION AND ANALYSIS

This management's discussion and analysis ("MD&A") should be read in conjunction with Tourmaline's unaudited interim condensed consolidated financial statements and related notes as at and for the three and six months ended June 30, 2018 and the consolidated financial statements for the year ended December 31, 2017. The consolidated financial statements and the MD&A can be found at www.sedar.com. This MD&A is dated August 1, 2018.

The financial information contained herein has been prepared in accordance with International Financial Reporting Standards ("IFRS") and sometimes referred to in this MD&A as Generally Accepted Accounting Principles ("GAAP") as issued by the International Accounting Standards Board. All dollar amounts are expressed in Canadian currency, unless otherwise noted.

Certain financial measures referred to in this MD&A are not prescribed by IFRS. See "Non-GAAP Financial Measures" for information regarding the following non-GAAP financial measures used in this MD&A: "cash flow", "operating netback", "working capital (adjusted for the fair value of financial instruments)", "net debt", "adjusted EBITDA", "senior debt", "total debt", and "total capitalization".

Additional information relating to Tourmaline can be found at www.sedar.com or at www.tourmalineoil.com.

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

In particular, forward-looking statements included in this MD&A include, but are not limited to, statements with respect to: the size of, and future net revenues and cash flow from, crude oil, NGL (natural gas liquids) and natural gas reserves; future prospects; the focus of and timing of capital expenditures; expectations regarding the ability to raise capital and to continually add to reserves through acquisitions and development; access to debt and equity markets; projections of market prices and costs; the performance characteristics of the Company's crude oil, NGL and natural gas properties; crude oil, NGL and natural gas production levels and product mix; the payment of dividends and the timing and amount thereof; Tourmaline's future operating and financial results; capital investment programs; supply and demand for crude oil, NGL and natural gas; future royalty rates; drilling, development and completion plans and the results therefrom; future land expiries; dispositions and joint venture

arrangements; amount of operating, transportation and general and administrative expenses; treatment under governmental regulatory regimes and tax and environmental laws and regulations; and estimated tax pool balances. In addition, statements relating to "reserves" are deemed to be forward-looking statements, as they involve the implied assessment, based on certain estimates and assumptions, that the reserves described can be profitably produced in the future.

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

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

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

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

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

PRODUCTION

	Three Months Ended June 30,			Six Months Ended June 30,		
	2018	2017	Change	2018	2017	Change
Natural gas (<i>mcf/d</i>)	1,290,436	1,196,477	8%	1,309,478	1,195,435	10%
Oil (<i>bbl/d</i>)	21,516	17,529	23%	22,287	16,704	33%
NGL (<i>bbl/d</i>)	24,341	18,598	31%	24,174	18,472	31%
Oil equivalent (<i>boe/d</i>)	260,930	235,540	11%	264,707	234,415	13%
Natural gas %	82%	85%		82%	85%	

Production for the three months ended June 30, 2018 averaged 260,930 boe/d, an 11% increase over the average production for the same quarter of 2017 of 235,540 boe/d. For the six months ended June 30, 2018, production increased 13% to 264,707 boe/d from 234,415 boe/d for the same period of 2017.

The increase in production is primarily related to the Company's successful exploration and production program. The significant growth in oil and NGL production is the result of increased drilling in the Spirit River/Peace River High Charlie Lake oil plays, and strong condensate recoveries from new wells commencing production as the liquids-rich Montney Turbidite and Gundy assets are developed in Northeast British Columbia.

Full-year average production guidance for 2018 is now 267,500-275,000 boe/d, which is slightly lower than the initial Company guidance released in the Company's November 8, 2017 press release of 270,000-280,000 boe/d. The reduced range reflects unplanned downtime in the second and third quarters of 2018 due to third party outages.

REVENUE

(000s)	Three Months Ended June 30,			Six Months Ended June 30,		
	2018	2017	Change	2018	2017	Change
Revenue from:						
Natural gas	\$ 179,084	\$ 333,486	(46)%	\$ 471,581	\$ 654,241	(28)%
Oil and NGL	216,206	129,866	66%	421,005	258,183	63%
Realized gain (loss) from:						
Natural gas	84,755	14,238	495%	147,196	31,613	366%
Oil and NGL	(16,200)	1,679	(1,065)%	(25,771)	1,877	(1,473)%
Total revenue from natural gas, oil and NGL sales	\$ 463,845	\$ 479,269	(3)%	\$ 1,014,011	\$ 945,914	7%

Revenue for the three months ended June 30, 2018 decreased 3% to \$463.8 million from \$479.3 million for the same quarter of 2017. The decrease in revenue can be attributed to overall lower natural gas prices in the second quarter of 2018 compared to the same period in 2017, partially offset by higher production volume.

Revenue for the six months ended June 30, 2018 increased 7% from \$945.9 million in 2017 to \$1,014.0 million in 2018. Higher revenue for the period is primarily due to the significant increase in oil and NGL production combined with higher realized prices for those commodities. Revenue includes all petroleum, natural gas and NGL sales and the realized gain on risk management activities.

Revenue for the second quarter of 2018 included a gain on risk management activities of \$68.6 million (for the six months ended June 30, 2018 - \$121.4 million) compared to a gain of \$15.9 million for the same period of the prior year (for the six months ended June 30, 2017 - \$33.5 million). Realized gains on commodity contracts for the period ended June 30, 2018 have increased compared to the same period of the prior year primarily due to the decline in Canadian natural gas prices resulting in higher gains on commodity contracts as well as an increase in gains related to Tourmaline's market diversification strategy including gas sold in California, Chicago and at Dawn. Realized prices exclude the effect of unrealized gains or losses on commodity contracts. Once these gains and losses are realized they are included in the per-unit amounts.

TOURMALINE REALIZED PRICES:

	Three Months Ended June 30,			Six Months Ended June 30,		
	2018	2017	Change	2018	2017	Change
Natural gas (\$/mcf)	\$ 2.25	\$ 3.19	(29)%	\$ 2.61	\$ 3.17	(18)%
Oil (\$/bbl)	\$ 74.16	\$ 60.32	23%	\$ 70.74	\$ 61.76	15%
NGL (\$/bbl)	\$ 24.74	\$ 20.88	18%	\$ 25.11	\$ 21.94	14%
Oil equivalent (\$/boe)	\$ 19.53	\$ 22.36	(13)%	\$ 21.16	\$ 22.29	(5)%

BENCHMARK OIL AND GAS PRICES:

	Three Months Ended June 30,		
	2018	2017	Change
Natural gas			
NYMEX Last Day (USD\$/mmbtu)	\$ 2.80	\$ 3.14	(11)%
AECO (CAD\$/mcf)	\$ 1.19	\$ 2.78	(57)%
West Coast Station 2 (CAD\$/mcf)	\$ 1.05	\$ 2.21	(52)%
Sumas (USD\$/mmbtu)	\$ 1.60	\$ 2.49	(36)%
ATP 5A Day Ahead (CAD\$/GJ)	\$ 1.46	\$ 2.74	(47)%
Chicago City Gate (USD\$/mmbtu)	\$ 2.67	\$ 2.92	(9)%
Ventura (USD\$/mmbtu)	\$ 2.56	\$ 2.81	(9)%
PG&E Malin (USD\$/mmbtu)	\$ 2.04	\$ 2.75	(26)%
PG&E City Gate (USD\$/mmbtu)	\$ 2.85	\$ 3.27	(13)%
Dawn (USD\$/mmbtu)	\$ 2.77	\$ 3.11	(11)%
Oil			
NYMEX (USD\$/bbl)	\$ 67.91	\$ 48.15	41%
Edmonton Par (CAD\$/bbl)	\$ 78.85	\$ 61.51	28%

RECONCILIATION OF WEIGHTED-AVERAGE INDEX PRICE TO TOURMALINE'S REALIZED GAS PRICES:

	Three Months Ended June 30,		
(\$/mcf)	2018	2017	Change
Weighted average index natural gas prices	\$ 1.42	\$ 2.84	(50)%
Heat/quality differential	0.11	0.22	(50)%
Realized gain	0.72	0.13	454%
Tourmaline realized natural gas price	\$ 2.25	\$ 3.19	(29)%
Premium to benchmark pricing due to higher heat content	8%	8%	

CURRENCY – EXCHANGE RATES:

	Three Months Ended June 30,		
	2018	2017	Change
CAD\$/USD\$ ⁽¹⁾	\$ 0.7749	\$ 0.7439	4%

(1) Average rates for the period.

The realized average natural gas price for the three and six months ended June 30, 2018 was \$2.25/mcf and \$2.61/mcf, respectively, which is 29% and 18% lower than the same periods of the prior year. The decrease reflects lower overall natural gas benchmark prices in the quarter partially offset by higher realized gains on risk management activities.

Included in realized gains on risk management activities are the premiums that Tourmaline receives from selling gas to markets outside Alberta and British Columbia. Since the third quarter of 2016, Tourmaline has significantly diversified the markets where its natural gas is sold. These markets include Malin, PG&E City Gate, Chicago, and as of the fourth quarter of 2017 Dawn, Ontario, all of which during the quarter had higher natural gas prices compared to AECO. As a result, the Company's realized gains on natural gas have increased due to this market diversification strategy.

Realized oil prices increased by 23% and 15% for the three and six months ended June 30, 2018, respectively, compared to the same periods of the prior year. The increase in price reflects the higher benchmark price for oil partially offset by a realized loss on risk management activities.

For the second quarter of 2018, the realized NGL price increased by 18% to \$24.74/bbl when compared to the same quarter of 2017. The increase is consistent with the higher benchmark price for oil in prices for pentane, butane and propane. Ethane prices were lower as they are more correlated with the benchmark price for natural gas.

ROYALTIES

(000s)	Three Months Ended June 30,		Six Months Ended June 30,	
	2018	2017	2018	2017
Natural gas	\$ (853)	\$ 9,550	\$ 1,830	\$ 22,762
Oil and NGL	20,843	9,859	38,279	24,498
Total royalties	\$ 19,990	19,409	\$ 40,109	\$ 47,260
Royalties as a percentage of revenue	5.1%	4.2%	4.5%	5.2%

For the quarter ended June 30, 2018, the average effective royalty rate increased to 5.1% from 4.2% in the second quarter of 2017. The increase in the royalty rate is primarily due to the increase in the price of oil and NGLs which has increased the per-unit royalty rate. Natural gas royalties for the quarter were negative as royalty credits, including gas cost allowance, during the quarter were greater than the royalties owed on natural gas production.

For the six-month period ended June 30, 2018, the average effective royalty rate decreased from 5.2% in 2017 to 4.5% in 2018. This decrease is mostly attributable to significantly lower Canadian natural gas benchmark prices. Both AECO and Station 2 benchmark prices were significantly lower when compared to the same period of the prior year. This decrease was partially offset by higher oil and NGL royalties attributed to the higher realized prices.

The Company continues to benefit from the New Well Royalty Reduction Program and the Natural Gas Deep Drilling Program in Alberta, as well as the Deep Royalty Credit Program in British Columbia. The Company also receives gas cost allowance from the Crown, which further reduces royalties to account for expenses incurred to process and transport the Crown's portion of natural gas production.

On January 1, 2017, the Company adopted the Modernized Royalty Framework (the "MRF") introduced by the Alberta Government in 2016. This new royalty regime is applicable to all new wells drilled beginning January 1, 2017, and all other wells drilled prior to January 1, 2017 will follow the old framework for a further 10 years. The Company believes that the MRF is generally consistent with the initial goal of incentivizing the use of technology to improve productivity and rewards producers deploying the most competitive operating practices. Under the MRF, if commodity prices stayed consistent, the Company anticipates an increase in the corporate royalty rate but based on the Company's current development plans and operational practices, the increase is not expected to be significant.

The Company expects its royalty rate for 2018 to be approximately 5%, which is consistent with the guidance provided in the Company's March 31, 2018 MD&A. The royalty rate is sensitive to commodity prices, and as such, fluctuations in commodity prices will impact the actual rate.

COMMODITY MARKETING

(000s)	Three Months Ended June 30,			Six Months Ended June 30,		
	2018	2017	Change	2018	2017	Change
Marketing revenue	\$ 5,318	\$ 418	1,172%	\$ 11,198	\$ 418	2,579%
Marketing purchases	(5,004)	(458)	993%	(10,730)	(458)	2,243%
Net marketing income	\$ 314	\$ (40)	885%	\$ 468	\$ (40)	1,270%

During the second quarter of 2017, the Company commissioned the Mulligan marketing terminal in the Gordondale area of Alberta. The throughput from the marketing terminal is comprised of Tourmaline produced oil and NGL volumes as well as oil and NGL volumes purchased from third parties. The revenue and purchases from third parties are recorded gross for financial statement presentation purposes. Any gains or losses on the sale of third-party product related to the price differential are recorded in marketing revenue.

OTHER INCOME

(000s)	Three Months Ended June 30,			Six Months Ended June 30,		
	2018	2017	Change	2018	2017	Change
Other income	\$ 8,667	\$ 6,337	37%	\$ 17,764	\$ 13,516	31%

Other income increased from \$6.3 million in the second quarter of 2017 (\$13.5 million for the six months ended June 30, 2017) to \$8.7 million for the same quarter of 2018 (\$17.8 million for the six months ended June 30, 2018). The increase in other income is due to the Company utilizing existing infrastructure to provide additional services to third parties including gas processing, water disposal, and road access.

OPERATING EXPENSES

(000s) except per unit amounts	Three Months Ended June 30,			Six Months Ended June 30,		
	2018	2017	Change	2018	2017	Change
Operating expenses	\$ 75,525	\$ 69,005	9%	\$ 156,832	\$ 142,438	10%
Per boe	\$ 3.18	\$ 3.22	(1)%	\$ 3.27	\$ 3.36	(3)%

Operating expenses include all periodic lease and field-level expenses and exclude income recoveries from processing third-party volumes. For the second quarter of 2018, total operating expenses were \$75.5 million compared to \$69.0 million in 2017, an increase of 9% over a production base increase of 11% for the same period. Operating costs for the six months ended June 30, 2018 were \$156.8 million, compared to \$142.4 million for the same period of 2017, reflecting a 10% increase in total costs over a 13% increase in production.

On a per-boe basis, the costs decreased from \$3.22/boe for the second quarter of 2017 to \$3.18/boe in the second quarter of 2018. For the six months ended June 30, 2018, operating costs were \$3.27/boe, down from \$3.36/boe in the prior year. Along with a commitment to continue to drive down the overall cost structure, the Company continues to realize increased operational efficiencies in all three core areas along with fixed costs being distributed over a higher production base.

The Company continues to expect full-year 2018 operating expenses to average approximately \$3.30/boe as originally disclosed in the Company's December 31, 2017 MD&A. The slight increase over 2017 per-boe costs takes into consideration higher anticipated property taxes as well as operating expenses attributable to an increased liquids portfolio, which carry higher operating costs. Actual operating costs per boe can change, however, depending on a number of factors, including the Company's actual production levels.

TRANSPORTATION

<i>(000s) except per unit amounts</i>	Three Months Ended June 30,			Six Months Ended June 30,		
	2018	2017	Change	2018	2017	Change
Natural gas transportation	\$ 59,889	\$ 45,922	30%	\$ 117,863	\$ 91,900	28%
Oil and NGL transportation	21,069	15,704	34%	43,444	28,825	51%
Total transportation	\$ 80,958	\$ 61,626	31%	\$ 161,307	\$ 120,725	34%
Per boe	\$ 3.41	\$ 2.88	18%	\$ 3.37	\$ 2.85	18%

For the second quarter of 2018, total transportation expenses were \$81.0 million compared to \$61.6 million in the second quarter of 2017. For the six months ended June 30, 2018, transportation expenses were \$161.3 million, compared to \$120.7 million for the same period of 2017. Both periods reflect increased costs related to higher production volumes and increased diversification of sales points.

On a per-boe basis, the transportation increased from \$2.88/boe for the second quarter of 2017 to \$3.41/boe in the second quarter of 2018. For the six months ended June 30, 2018, transportation costs were \$3.37/boe, up from \$2.85/boe for the same period of 2017. The increase in per-unit costs in 2018 reflects an increased focus on diversifying markets where Tourmaline sells its natural gas and receives a premium to AECO. In the fourth quarter of 2017, Tourmaline began selling natural gas at Dawn, Ontario, further diversifying its sales markets. At Dawn, the Company received a higher price for its natural gas when compared to the AECO benchmark price. Also, in the second quarter of 2018, Tourmaline added approximately 100 mmcf/day of transportation capacity to access the Malin and PG&E markets. The increased proportion of natural gas sold outside Alberta and the increased distance resulted in higher per-boe fuel and transportation costs.

GENERAL & ADMINISTRATIVE EXPENSES (“G&A”)

<i>(000s) except per unit amounts</i>	Three Months Ended June 30,			Six Months Ended June 30,		
	2018	2017	Change	2018	2017	Change
G&A expenses	\$ 21,377	\$ 18,305	17%	\$ 41,945	\$ 35,180	19%
Administrative and capital recovery	(2,198)	(2,057)	7%	(4,439)	(3,625)	22%
Capitalized G&A	(6,814)	(6,310)	8%	(13,650)	(11,553)	18%
Total G&A expenses	\$ 12,365	\$ 9,938	24%	\$ 23,856	\$ 20,002	19%
Per boe	\$ 0.52	\$ 0.46	13%	\$ 0.50	\$ 0.47	6%

Total G&A expenses in the second quarter of 2018 were \$12.4 million compared to \$9.9 million for the same quarter of 2017. For the six-month period ended June 30, 2018, G&A expenses were \$23.9 million compared to \$20.0 million for the same period in 2017. The increase in total G&A expenses and the per-boe expense is primarily due to staff additions to manage the larger production, reserve and land base as well as higher third-party service provider fees.

G&A expenses for 2018 are expected to average approximately \$0.45/boe which is unchanged from the initial guidance released in the Company’s December 31, 2017 MD&A. As production increases throughout the year, the per-boe costs should trend downward. Actual costs per boe can change, however, depending on a number of factors including the Company’s actual production levels.

SHARE-BASED PAYMENTS

<i>(000s) except per unit amounts</i>	Three Months Ended June 30,		Six Months Ended June 30,	
	2018	2017	2018	2017
Share-based payments	\$ 7,551	\$ 10,254	\$ 14,620	\$ 20,528
Capitalized share-based payments	(3,123)	(5,127)	(6,106)	(10,264)
Total share-based payments	\$ 4,428	\$ 5,127	\$ 8,514	\$ 10,264
Per boe	\$ 0.19	\$ 0.24	\$ 0.18	\$ 0.24

The Company uses the fair-value method for the determination of non-cash related share-based payments expense. During the second quarter of 2018, 306,500 stock options were granted at a weighted-average exercise price of \$23.51.

The Company recognized \$4.4 million of share-based payments expense in the second quarter of 2018 compared to \$5.1 million in the second quarter of 2017. Capitalized share-based payments for the second quarter of 2018 were \$3.1 million compared to \$5.1 million for the same period of the prior year.

Share-based payments are lower in 2018 compared to the same period of 2017, which reflects options with a lower fair value being expensed in 2018 compared to 2017.

DEPLETION, DEPRECIATION AND AMORTIZATION (“DD&A”)

<i>(000s) except per unit amounts</i>	Three Months Ended June 30,		Six Months Ended June 30,	
	2018	2017	2018	2017
Total depletion, depreciation and amortization	\$ 195,364	\$ 189,493	\$ 394,036	\$ 378,167
Less mineral lease expiries	(10,070)	(5,684)	(21,811)	(12,185)
Depletion, depreciation and amortization	\$ 185,294	\$ 183,809	\$ 372,225	\$ 365,982
Per boe	\$ 7.80	\$ 8.58	\$ 7.77	\$ 8.63

DD&A expense, excluding mineral lease expiries, was \$185.3 million for the second quarter of 2018 compared to \$183.8 million for the same period of 2017. For the six-month period ended June 30, 2018, DD&A expense (excluding mineral lease expiries) was \$372.2 million compared to \$366.0 million for the same period of 2017. The increase in DD&A expense in 2018 over 2017 is primarily due to higher production volumes.

The per-unit DD&A rate (excluding the impact of mineral lease expiries) was \$7.80/boe for the second quarter of 2018 compared to the rate of \$8.58/boe for the same quarter of 2017. For the six-month period ended June 30, 2018, the per-unit DD&A rate (excluding the impact of mineral lease expiries) was \$7.77/boe compared to the rate of \$8.63/boe for the same period of 2017. The lower rate for the three and six months ended June 30, 2018 compared to the same periods of 2017, reflects lower future development costs per well. Drilling and completion costs have continued to decrease over the past year thereby adding a higher proportion of reserves with lower associated future development costs, resulting in a lower depletion rate.

Mineral lease expiries for the three months ended June 30, 2018 were \$10.1 million, compared to expiries in the same quarter of the prior year of \$5.7 million. For the six months ended June 30, 2018, expiries were \$21.8 million compared to \$12.2 million for the same period of 2017. The Company prioritizes drilling on what it believes to be the most cost-efficient and productive acreage, and with such a large land base, the Company has chosen not to continue some of the expiring sections of land. The Company explores all alternatives (including swaps, farm-outs, joint ventures and dispositions) to realize the value from these sections before they expire.

FINANCE EXPENSES

(000s)	Three Months Ended June 30,			Six Months Ended June 30,		
	2018	2017	Change	2018	2017	Change
Interest expense	\$ 12,226	\$ 10,512	16%	\$ 24,594	\$ 20,587	19%
Accretion expense	1,344	1,262	6%	2,707	2,460	10%
Foreign exchange (gain) loss on U.S. denominated debt	33,500	(41,641)	180%	77,196	(42,147)	283%
Realized (gain) loss on cross- currency swaps	(33,500)	41,641	(180)%	(77,196)	42,147	(283)%
Realized loss on interest rate swaps	224	1,042	(79)%	419	1,792	(77)%
Transaction costs on property acquisitions	32	49	(35)%	75	101	(26)%
Total finance expenses	\$ 13,826	\$ 12,865	7%	\$ 27,795	\$ 24,940	11%

Finance expenses for the three months ended June 30, 2018 totaled \$13.8 million (\$12.9 million for the same period of 2017) of which \$12.2 million was interest expense (\$10.5 million for the same period of 2017). The average bank debt outstanding and the average effective interest rate on the debt was \$1,477.9 million and 2.91% for the three months ended June 30, 2018 compared to \$1,520.8 million and 2.41% for the same period of 2017.

For the six months ended June 30, 2018, finance expenses totaled \$27.8 million compared to \$24.9 million for the same period of 2017, with interest expense totaling \$24.6 million (\$20.6 million for the same period of 2017). The average bank debt outstanding and the average effective interest rate on the debt for the six months ended June 30, 2018 was \$1,541.3 million and 2.85% compared to \$1,478.5 million and 2.45% for the same period of 2017, respectively.

The increase in the effective interest rate for the three and six months ended June 30, 2018 compared to the same periods in 2017 has resulted in higher interest expense. Accretion expense has also increased during the periods due to a higher decommissioning obligation balance.

For the three and six month periods ended June 30, 2018, 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. Concurrent with the draw of U.S. dollar denominated borrowings, the Company entered into cross-currency swaps to manage the foreign currency risk resulting from holding U.S. dollar denominated borrowings. This transaction allows the Company to take advantage of the interest rate spread between CDOR and LIBOR without taking on foreign exchange risk.

DEFERRED INCOME TAXES

For the three and six months ended June 30, 2018, the provision for deferred income tax expense was \$13.0 million and \$64.4 million compared to deferred income tax expense of \$45.3 million and \$86.7 million for the same periods in 2017. The decrease in deferred income tax expense is primarily due to the decrease in pre-tax income which was \$38.9 million and \$220.1 million recorded for the three and six months ended June 30, 2018, respectively, compared to the pre-tax income of \$153.6 million and \$294.7 million for the same periods of 2017, respectively.

CASH FLOW FROM OPERATING ACTIVITIES, CASH FLOW AND NET EARNINGS

(000s) except per unit amounts	Three Months Ended June 30,			Six Months Ended June 30,		
	2018	2017	Change	2018	2017	Change
Cash flow from operating activities	\$ 283,155	\$ 278,577	2%	\$ 625,303	\$ 616,582	1%
Per share ⁽¹⁾	\$ 1.04	\$ 1.03	1%	\$ 2.30	\$ 2.29	1%
Cash flow ⁽²⁾	\$ 272,261	\$ 313,271	(13)%	\$ 624,509	\$ 606,204	3%
Per share ⁽¹⁾⁽²⁾	\$ 1.00	\$ 1.16	(14)%	\$ 2.30	\$ 2.25	2%
Net earnings	\$ 25,639	\$ 108,580	(76)%	\$ 155,227	\$ 208,114	(25)%
Per share ⁽¹⁾	\$ 0.09	\$ 0.40	(78)%	\$ 0.57	\$ 0.77	(26)%
Operating netback per boe ⁽²⁾	\$ 12.10	\$ 15.36	(21)%	\$ 13.68	\$ 14.98	(9)%

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

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

Cash flow for the three months ended June 30, 2018 was \$272.3 million or \$1.00 per diluted share compared to \$313.3 million or \$1.16 per diluted share for the same period of 2017. Cash flow for the six months ended June 30, 2018 was \$624.5 million or \$2.30 per diluted share compared to \$606.2 million or \$2.25 per diluted share for the same period of 2017.

The Company had after-tax net earnings for the three months ended June 30, 2018 of \$25.6 million or \$0.09 per diluted share compared to after-tax net earnings of \$108.6 million or \$0.40 per share for the same period of 2017. For the six-month period ended June 30, 2018, after-tax net earnings were \$155.2 million or \$0.57 per share compared to after-tax net earnings of \$208.1 million or \$0.77 per share for the first half of 2017. The decrease in after-tax net earnings for the three and six months ended June 30, 2018, is primarily related to the change in unrealized gain (loss) on financial instruments between 2017 and 2018. For the three and six months ended June 30, 2018, Tourmaline recorded an unrealized loss on financial instruments of \$47.2 million and \$55.4 million respectively, compared to an unrealized gain on financial instruments of \$35.7 million and \$75.5 million, respectively, for the same periods of 2017. After-tax net earnings for the three and six months ended June 30, 2018 were positively impacted by gains on divestitures of \$14.8 million and \$55.0 million respectively.

CAPITAL EXPENDITURES

(000s)	Three Months Ended June 30,		Six Months Ended June 30,	
	2018	2017	2018	2017
Land and seismic	\$ 2,042	\$ 8,731	\$ 12,981	\$ 25,604
Drilling and completions	110,407	121,755	298,711	363,045
Facilities	71,617	56,506	152,585	191,305
Property acquisitions	243	30	1,692	825
Property dispositions	–	(4,000)	(71,234)	(4,000)
Other	7,464	6,510	14,589	12,138
Total cash capital expenditures	\$ 191,773	\$ 189,532	\$ 409,324	\$ 588,917

During the second quarter of 2018, the Company invested \$191.8 million of cash consideration, compared to \$189.5 million for the same period of 2017, net of dispositions. Expenditures on exploration and production were \$184.1 million compared to \$187.0 million for the same quarter of 2017. During the six-month period ended June 30, 2018, the Company invested \$409.3 million of cash consideration, net of dispositions, compared to \$588.9 million for the same period of 2017.

Facilities expenditures in the quarter include construction costs for the Gundy Deep Cut Gas Plant, expected to be commissioned in 2019, as well as costs associated with the Doe Sour Gas Plant expected to be commissioned in late 2018 to early 2019.

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

	Six Months Ended June 30, 2018		Six Months Ended June 30, 2017	
	Gross	Net	Gross	Net
Drilled	94	85.45	125	109.51
Completed	86	75.42	117	102.04
Tied-in	84	74.46	112	99.16

Exploration and production capital expenditures in 2018 are forecast to be \$1.1 billion (including proceeds from non-core asset dispositions of \$71.2 million received in the first quarter 2018). The net amount is unchanged from the initial guidance disclosed in the November 8, 2017 press release. The Company expects drilling and completions costs of approximately \$810.0 million, facilities expenditures (including equipment, pipelines and tie-ins) of \$320.0 million as well as land and seismic expenditures of \$25.0 million. The capital budget is closely monitored and will continue to be adjusted as required depending on cash flow available.

Acquisitions and Dispositions

2018

On February 28, 2018, the Company completed the sale of a number of undeveloped assets across all three cash-generating units (“CGUs”) for proceeds of approximately \$71.2 million, before customary closing adjustments.

2017

On July 20, 2017, the Company completed an asset swap in NEBC allowing for the consolidation in the Sundown complex. The Company exchanged predominantly Exploration and Evaluation (“E&E”) assets and cash consideration of \$19.0 million for producing properties, land and reserves.

LIQUIDITY AND CAPITAL RESOURCES

On May 15, 2018, the Company issued 1,000,000 flow-through common shares at a price of \$30.00 per share, for total consideration of \$30.0 million. The proceeds were used to temporarily reduce bank debt and then to fund the Company’s 2018 exploration program.

The Company has a covenant-based, unsecured, five-year extendible revolving credit facility in place with a syndicate of banks, in the amount of \$1,800.0 million. In May 2018, the Company extended the maturity date of the credit facility to June 2023. In addition, the financial covenants were amended to a maximum ratio of total debt to total capitalization of 0.6 times and a minimum ratio of adjusted EBITDA to interest expense of 3.0 times, respectively. With the exception of the change in maturity date and the changes to the financial covenants the revolving credit facility was renewed under the same terms and conditions as those described in note 9 of the Company’s consolidated financial statements for the year ended December 31, 2017. 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 revolving credit 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 bank’s prime lending rate, banker’s acceptance rates or LIBOR (for U.S. borrowings), plus applicable margins.

The Company also has a \$950.0 million term loan with a syndicate of banks. In May 2018, the Company extended the maturity date of the term loan resulting in an initial maturity date of June 2023. The covenants for the term loan were also amended and are the same as those under the Company’s revolving credit facility. The term loan ranks equally with the obligation under the Company’s revolving credit facility. With the exception of the change in maturity date and financial covenants the term loan was renewed under the same terms and conditions as those described in note 9 of the Company’s consolidated financial statements for the year ended December 31, 2017. The term loan can be drawn in either Canadian or U.S. funds and bears interest at the bank’s prime lending rate, banker’s acceptance rates or LIBOR (for U.S. borrowings), plus 157.5 basis points.

The maturity date may, at the request of the Company and with consent of the lenders, be extended on an annual basis.

The Company 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 2019, 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. In May 2018, this operating credit facility replaced the revolving operating credit facility that was outstanding at December 31, 2017.

Additionally, the Company has a letter of credit facility payable on demand in the amount of \$50.0 million with a Canadian bank. Tourmaline has outstanding letters of credit of \$9.2 million (December 31, 2017 - \$17.6 million), which reduces the credit available on this facility.

The Company's aggregate borrowing capacity is \$2.85 billion at June 30, 2018. As at, and for the quarter ended June 30, 2018, the Company is in compliance with all debt covenants.

As at June 30, 2018, the Company had negative working capital of \$130.8 million, after adjusting for the fair value of financial instruments (the unadjusted working capital deficiency was \$192.1 million) (December 31, 2017 – \$202.5 million and \$219.2 million, respectively). As at June 30, 2018, the Company had \$947.7 million in long-term debt outstanding and \$460.1 million drawn against the revolving credit facility for total bank debt of \$1,407.8 million (net of prepaid interest and debt issue costs) (December 31, 2017 - \$1,534.8 million). Net debt at June 30, 2018 was \$1,538.7 million excluding the fair value of financial instruments (December 31, 2017 - \$1,737.2 million).

The 2018 exploration and development program will continue to be diligently monitored and adjusted as necessary depending on commodity prices. As at June 30, 2018, the Company has \$1,433.0 million in unutilized borrowing capacity. Management is dedicated to keeping a strong balance sheet, which has proven to be very important, especially in the current commodity price environment.

On June 29, 2018, the Company paid a cash dividend of \$24.5 million.

SHARES AND STOCK OPTIONS OUTSTANDING

As at August 1, 2018, the Company has 272,083,946 common shares and 19,477,383 stock options outstanding.

COMMITMENTS AND CONTRACTUAL OBLIGATIONS

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

PAYMENTS DUE BY YEAR

(000s)	1 Year	2-3 Years	4-5 Years	>5 Years	Total
Operating leases	\$ 5,406	\$ 4,080	\$ –	\$ –	\$ 9,486
Firm transportation and processing agreements	354,523	757,125	658,324	1,751,661	3,521,633
Capital commitments ⁽¹⁾	309,248	503,813	6,837	56,713	876,611
Flow-through share commitments	51,158	–	–	–	51,158
Credit facility ⁽²⁾	–	–	543,418	–	543,418
Term debt ⁽³⁾	30,694	61,388	1,008,759	–	1,100,841
	\$ 751,029	\$ 1,326,406	\$ 2,217,338	\$ 1,808,374	\$ 6,103,147

(1) Includes drilling commitments, and capital spending commitments under the joint arrangement in the Spirit River complex of \$300.0 million per year until 2020. The capital spending commitment can be deferred to future periods in the event of an economic downturn, and as agreed upon by both parties.

(2) Includes interest expense at an annual rate of 3.13% being the rate applicable to outstanding debt on the credit facility at June 30, 2018.

(3) Includes interest expense at an annual rate of 3.23% being the fixed rate on the term debt at June 30, 2018.

OFF BALANCE SHEET ARRANGEMENTS

The Company has certain lease arrangements, all of which are reflected in the commitments and contractual obligations table above, which were entered into in the normal course of operations. All leases have been treated as operating leases whereby the lease payments are included in operating expenses or general and administrative expenses depending on the nature of the lease.

FINANCIAL RISK MANAGEMENT

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

The Company's risk management policies are established to identify and analyze the risks faced by the Company, to set appropriate risk limits and controls, and to monitor risks and adherence to market conditions and the Company's activities. The Company's financial risks are discussed in note 5 of the Company's audited consolidated financial statements for the year ended December 31, 2017.

As at June 30, 2018, the Company has entered into certain financial derivative contracts in order to manage commodity price and interest rate risk. These instruments are not used for trading or speculative purposes. The Company has not designated its financial derivative contracts as effective accounting hedges, even though the Company considers all commodity contracts to be effective economic hedges. Such financial derivative contracts are recorded on the consolidated statement of financial position at fair value, with changes in the fair value being recognized as an unrealized gain (loss) on the consolidated statement of income and comprehensive income. The contracts that the Company has in place at June 30, 2018 are summarized and disclosed in note 3 of the Company's unaudited interim condensed consolidated financial statements for the three and six months ended June 30, 2018 and 2017.

The Company has entered into physical delivery sales contracts to manage commodity risk. These contracts are considered normal sales contracts and are not recorded at fair value in the consolidated financial statements. Physical contracts in place at June 30, 2018 have been summarized and disclosed in note 3 of the Company's unaudited interim condensed consolidated financial statements for the three and six months ended June 30, 2018 and 2017.

APPLICATION OF CRITICAL ACCOUNTING ESTIMATES

Certain accounting policies require that management make appropriate decisions with respect to the formulation of estimates and assumptions that affect the reported amounts of assets, liabilities, revenues and expenses. Management reviews its estimates on a regular basis. The emergence of new information and changed circumstances may result in actual results or changes to estimates that differ materially from current estimates. The Company's use of estimates and judgments in preparing the interim condensed consolidated financial statements is discussed in note 1 of the consolidated financial statements for the year ended December 31, 2017.

DISCLOSURE CONTROLS AND PROCEDURES AND INTERNAL CONTROLS OVER FINANCIAL REPORTING

The Company's Chief Executive Officer and Chief Financial Officer have designed, or caused to be designed under their supervision, disclosure controls and procedures ("DC&P"), as defined by National Instrument 52-109. The Company's Chief Executive Officer and Chief Financial Officer have designed, or caused to be designed under their supervision, internal controls over financial reporting ("ICFR"), as defined by National Instrument 52-109, to provide reasonable assurance regarding the reliability of the Company's financial reporting and the preparation of financial statements for external purposes in accordance with IFRS.

There were no changes in the Company's DC&P or ICFR during the period beginning on April 1, 2018 and ending on June 30, 2018 that have materially affected, or are reasonably likely to materially affect, the Company's ICFR. It should be noted that a control system, including the Company's disclosure and internal controls and procedures, no matter how well conceived can provide only reasonable, but not absolute assurance that the objectives of the control system will be met and it should not be expected that the disclosure and internal controls and procedures will prevent all errors or fraud.

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

BUSINESS RISKS AND UNCERTAINTIES

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

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

IMPACT OF ENVIRONMENTAL REGULATIONS

The oil and gas industry is currently subject to regulation pursuant to a variety of provincial and federal environmental legislation, all of which is subject to governmental review and revision from time to time. Such legislation provides for, among other things, restrictions and prohibitions on the spill, release or emission of various substances produced in association with certain oil and gas industry operations, such as sulphur dioxide and nitrous oxide. In addition, such legislation sets out the requirements with respect to oilfield waste handling and storage, habitat protection and the satisfactory operation, maintenance, abandonment and reclamation of well and facility sites. Compliance with such legislation can require significant expenditures and a breach of such requirements may result in suspension or revocation of necessary licenses and authorizations, civil liability and the imposition of material fines and penalties.

The use of fracture stimulations has been ongoing safely in an environmentally responsible manner in western Canada for decades. With the increase in the use of fracture stimulations in horizontal wells, there is increased communication between the oil and natural gas industry and a wider variety of stakeholders regarding the responsible use of this technology. This increased attention to fracture stimulations may result in increased regulation or changes of law which may make the operation of the Company's business more expensive or prevent the Company from operating its business as currently conducted. Tourmaline focuses on conducting transparent, safe and responsible operations.

CHANGES IN ACCOUNTING POLICIES

The following pronouncements as issued by the International Accounting Standards Board ("IASB") have been adopted by the Company effective January 1, 2018.

IFRS 9 – Financial Instruments replaces the existing guidance in IAS 39 *Financial Instruments: Recognition and Measurement*. The new standard includes revised guidance on the classification and measurement of financial instruments, including a new expected credit loss model for calculating impairment on financial assets, and the new general hedge accounting requirements. It also carries forward the guidance on recognition and derecognition of financial instruments from IAS 39.

The three principal classification categories under the new standard for financial instruments are: measured at amortized cost, fair value through other comprehensive income ("FVOCI") and fair value through profit and loss ("FVTPL"). The classification of financial instruments under IFRS 9 is generally based on the business model in which a financial instrument is managed and its contractual cash flow characteristics. The previous categories under IAS 39 of held to maturity, loans and receivables and available for sale have been removed.

IFRS 9 replaces the "incurred loss" model in IAS 39 with an "expected loss" model. The new impairment model applies to financial instruments measured at amortized cost, and contract assets and debt investments measured at FVOCI. Under IFRS 9, credit losses will be recognized earlier than under IAS 39.

Cash and cash equivalents, accounts receivable, accounts payable and accrued liabilities, and bank debt continue to be measured at amortized cost and are now classified as “amortized cost”. There were no changes to the Company’s classifications of its financial instrument assets and liabilities as FVTPL. None of the Company’s financial instruments have been classified as FVOCI.

The Company did not formerly apply hedge accounting to its financial instruments and has not elected to apply hedge accounting to any of its financial instruments upon adoption of IFRS 9. There was no impact to the Company as a result of adopting the new standard.

IFRS 15 – Revenue from Contracts with Customers establishes a comprehensive framework for determining whether, how much and when revenue is recognized. It replaces existing revenue recognition guidance, including IAS 18 *Revenue*, IAS 11 *Construction Contracts* and IFRIC 13 *Customer Loyalty Programmes*. The Company has adopted IFRS 15 using the modified retrospective approach on January 1, 2018. Based on the Company’s review of contracts with customers and its assessment of various revenue streams using the IFRS 15 five step model, there were no material changes to net income, the timing of revenue recognized, income statement line classification or to opening retained earnings as at January 1, 2018. Tourmaline has expanded disclosures in the notes to its interim condensed consolidated financial statements as prescribed by IFRS 15, including disclosing the Company’s disaggregated revenue streams by product type. As a result of adopting IFRS 15 the Company’s revenue recognition policy is now:

Revenue Recognition:

Revenue from the sale of crude oil, 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.

STANDARDS ISSUED BUT NOT YET ADOPTED

The following pronouncement from the IASB will become effective for financial reporting periods beginning January 1, 2019 and have not yet been adopted by the Company. This new standard permits early adoption with transitional arrangements depending upon the date of initial application.

IFRS 16 – Leases sets out the principles for the recognition, measurement, presentation and disclosure of leases for both parties to a contract, i.e. the customer (‘lessee’) and the supplier (‘lessor’) and replaces the previous leases standard, IAS 17 *Leases*. IFRS 16 is effective for annual reporting periods beginning on or after January 1, 2019. The Company is in the early stages of evaluating the impact of IFRS 16 on its consolidated financial statements which includes a detailed review of existing contracts and the extent of the impact has not yet been determined.

NON-GAAP FINANCIAL MEASURES

This MD&A or documents referred to in this MD&A make reference to the terms “cash flow”, “operating netback”, “working capital (adjusted for the fair value of financial instruments)”, “net debt”, “adjusted EBITDA”, “total debt”, and “total capitalization” which are not recognized measures under GAAP, and do not have a standardized meaning prescribed by GAAP. Accordingly, the Company’s use of these terms may not be comparable to similarly defined measures presented by other companies. Management uses the terms “cash flow”, “operating netback”, “working capital (adjusted for the fair value of financial instruments)” and “net debt”, for its own performance measures and to provide shareholders and potential investors with a measurement of the Company’s efficiency and its ability to generate the cash necessary to fund a portion of its future growth expenditures or to repay debt. Investors are cautioned that the non-GAAP measures should not be construed as an alternative to net income determined in accordance with GAAP as an indication of the Company’s performance. The terms “adjusted EBITDA”, “total debt”, and “total capitalization” are not used by management in measuring performance but are used in the financial covenants under the Company’s credit facility. Under the Company’s credit facility “adjusted EBITDA” means generally net income or loss, excluding extraordinary items, plus interest expense and income taxes and adjusted for non-cash items and gains or losses on dispositions, “total debt” means generally the sum of debt plus subordinated debt (Tourmaline currently does not have any subordinated debt), and “total capitalization” means generally the sum of the Company’s shareholders’ equity and all other indebtedness of the Company including bank debt, all determined on a consolidated basis in accordance with GAAP.

Cash Flow

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

(000s)	Three Months Ended, June 30,		Six Months Ended June 30,	
	2018	2017	2018	2017
Cash flow from operating activities (per GAAP)	\$ 283,155	\$ 278,577	\$ 625,303	\$ 616,582
Change in non-cash working capital	(10,894)	34,694	(794)	(10,378)
Cash flow	\$ 272,261	\$ 313,271	\$ 624,509	\$ 606,204

Operating Netback

Operating netback is calculated on a per-boe basis and is defined as revenue (excluding processing income) less royalties, transportation costs and operating expenses, as shown below:

(\$/boe)	Three Months Ended, June 30,		Six Months Ended June 30,	
	2018	2017	2018	2017
Revenue, excluding processing income	\$ 19.53	\$ 22.36	\$ 21.16	\$ 22.29
Royalties	(0.84)	(0.91)	(0.84)	(1.11)
Transportation costs	(3.41)	(2.88)	(3.37)	(2.85)
Operating expenses	(3.18)	(3.22)	(3.27)	(3.36)
Operating netback	\$ 12.10	\$ 15.36	\$ 13.68	\$ 14.98

Working Capital (Adjusted for the Fair Value of Financial Instruments)

A summary of the reconciliation of working capital to working capital (adjusted for the fair value of financial instruments) is set forth below:

<i>(000s)</i>	As at June 30, 2018	As at December 31, 2017
Working capital (deficit)	\$ (192,116)	\$ (219,168)
Fair value of financial instruments – short-term (net)	61,282	16,684
Working capital (deficit) (adjusted for the fair value of financial instruments)	\$ (130,834)	\$ (202,484)

Net Debt

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

<i>(000s)</i>	As at June 30, 2018	As at December 31, 2017
Bank debt	\$ (1,407,824)	\$(1,534,757)
Working capital (deficit)	(192,116)	(219,168)
Fair value of financial instruments – short-term (net)	61,282	16,684
Net debt	\$ (1,538,658)	\$(1,737,241)

SELECTED QUARTERLY INFORMATION

(\$000s, unless otherwise noted)	2018				2017		2016	
	Q2	Q1	Q4	Q3	Q2	Q1	Q4	Q3
PRODUCTION								
Natural gas (mcf)	117,429,708	119,585,930	120,238,014	109,246,506	108,879,426	107,494,272	90,409,566	82,363,542
Oil and NGL(bbls)	4,172,997	4,236,320	4,184,707	3,587,572	3,287,567	3,079,321	2,578,571	1,852,618
Oil equivalent (boe)	23,744,615	24,167,308	24,224,376	21,795,323	21,434,138	20,995,033	17,646,832	15,579,875
Natural gas (mcf/d)	1,290,436	1,328,733	1,306,935	1,187,462	1,196,477	1,194,380	982,713	895,256
Oil and NGL (bbls/d)	45,857	47,070	45,486	38,995	36,127	34,215	28,028	20,138
Oil equivalent (boe/d)	260,930	268,526	263,309	236,905	235,540	233,278	191,814	169,347
FINANCIAL								
Total revenue from natural gas, oil and NGL sales, net of royalties	443,855	530,047	505,993	398,326	459,860	438,794	366,697	292,495
Cash flow from operating activities	283,155	342,148	299,793	266,525	278,577	338,005	192,134	185,067
Cash flow ⁽¹⁾	272,261	352,248	348,227	251,327	313,271	292,933	252,542	185,531
Per diluted share	1.00	1.30	1.29	0.93	1.16	1.09	1.02	0.79
Net earnings (loss)	25,639	129,588	88,079	50,580	108,580	99,534	59,621	24,738
Per basic share	0.09	0.48	0.33	0.19	0.40	0.37	0.24	0.11
Per diluted share	0.09	0.48	0.33	0.19	0.40	0.37	0.24	0.10
Total assets	10,186,188	10,212,446	10,181,528	9,916,804	9,630,468	9,612,395	9,357,523	7,790,816
Working capital (deficit)	(192,116)	(232,695)	(219,168)	(352,068)	(130,337)	(355,097)	(223,781)	(162,280)
Working capital (deficit)(adjusted for the fair value of financial instruments) ⁽¹⁾	(130,834)	(206,988)	(202,484)	(350,112)	(134,212)	(337,191)	(184,264)	(148,431)
Cash capital expenditures	191,773	217,551	352,233	465,466	189,532	399,385	1,244,974	224,448
Total outstanding shares (000s)	272,084	271,084	271,084	269,784	269,784	269,169	268,596	234,966
PER UNIT								
Natural gas (\$/mcf)	2.25	2.97	2.70	2.52	3.19	3.15	3.20	2.80
Oil and NGL (\$/bbl)	47.93	46.08	48.31	37.63	40.01	41.73	38.42	39.98
Revenue (\$/boe)	19.53	22.76	21.76	18.84	22.36	22.23	22.01	19.54
Operating netback (\$/boe) ⁽¹⁾	12.10	15.25	14.80	12.27	15.36	14.59	15.00	12.69

(1) See Non-GAAP Financial Measures.

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

On an annual basis, the Company has had continued production growth over the last two years. The Company's average annual production has increased from 185,672 boe per day in 2016 to 242,325 boe per day in 2017 and

264,707 boe per day in the first six months of 2018. The production growth can be attributed primarily to the Company's exploration and development activities, and from acquisitions of producing properties.

The Company's cash flow was \$731.8 million in 2016, \$1,205.8 million in 2017 and forecast 2018 cash flow is \$1,343.0 million. The increase in forecast cash flow in 2018 reflects the increase in forecast annual average production over 2017. Commodity price fluctuations can indirectly impact expected production by changing the amount of funds available to reinvest in exploration, development and acquisition activities in the future. Changes in commodity prices impact revenue and cash flow available for exploration, and also the economics of potential capital projects as low commodity prices can potentially reduce the quantities of reserves that are commercially recoverable. The Company's capital program is dependent on cash flow generated from operations and access to capital markets.