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, 2019 and the consolidated financial statements for the year ended December 31, 2018. The consolidated financial statements and the MD&A can be found at www.sedar.com. This MD&A is dated July 31, 2019.

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 (“IASB”).

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

Certain financial measures referred to in this MD&A are not prescribed by IFRS. See “Non-GAAP Financial Measures” for information regarding the following non-GAAP financial measures used in this MD&A: “cash flow”, “operating netback”, “adjusted working capital” and, “net debt”.

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, condensate, NGL (natural gas liquids) and natural gas reserves; future prospects; the focus of and timing of capital expenditures; expectations regarding the ability to raise capital and to continually add to reserves through acquisitions and development; access to debt and equity markets; projections of market prices and costs; the performance characteristics of the Company's crude oil, condensate, NGL and natural gas properties; crude oil, condensate, NGL and natural gas production levels and product mix; the payment of dividends and the timing and amount thereof; Tourmaline’s future operating and financial results; capital investment programs; supply and demand for crude oil, condensate, NGL and natural gas; future royalty rates; drilling, development and completion plans and the results therefrom; future land expiries; dispositions and joint venture arrangements; amount of operating, transportation and general and administrative expenses; treatment under governmental regulatory regimes and tax and environmental laws and regulations; and estimated tax pool balances. In addition, statements relating to "reserves" are deemed to be forward-looking statements, as they involve the implied assessment, based on certain estimates and assumptions, that the reserves described can be profitably produced in the future.

These forward-looking statements are subject to numerous risks and uncertainties, most of which are beyond the Company's control, including the impact of general economic conditions; volatility and uncertainty in market prices for crude oil, condensate, NGL and natural gas; industry conditions; currency fluctuation; imprecision of reserve estimates; liabilities inherent in crude oil, condensate, NGL and natural gas operations; environmental, political, social and regulatory risks; incorrect assessments of the value of acquisitions and exploration and development programs; competition; the lack of availability of qualified personnel or management and skilled labour; changes in income tax and environmental laws and regulations and incentive programs relating to the oil and gas industry; hazards such as fire, explosion, blowouts, cratering, and spills, any of which could result in substantial damage to wells, production facilities, other property and the environment or in personal injury; stock market volatility; ability to access sufficient capital from internal and external sources; the receipt of applicable regulatory or third-party approvals; 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, condensate, natural gas and NGL successfully. Without limitation of the foregoing, future dividend payments, if any, and the level thereof is uncertain, as the Company's dividend policy and the funds available for the payment of dividends from time to time will be dependent upon, among other things, cash flow, financial requirements for the Company's operations and the execution of its growth strategy, fluctuations in working capital and the timing and amount of capital expenditures, debt service requirements and other factors beyond the Company's control. Further, the ability of Tourmaline to pay dividends will be subject to applicable laws (including the satisfaction of the solvency test contained in applicable corporate legislation) and contractual restrictions contained in the instruments governing its indebtedness, including its credit facility.

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

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

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

PRODUCTION

	Three Months Ended June 30,			Six Months Ended June 30,		
	2019	**2018**	**Change**	**2019**	**2018**	**Change**
Natural gas *(mcf/d)*	**1,371,325**	1,290,436	6%	**1,405,081**	1,309,478	7%
Oil *(bbl/d)*	**6,882**	7,387	(7)%	**7,122**	7,286	(2)%
Condensate (*bbl/d*)	**16,513**	14,129	17%	**16,792**	15,001	12%
NGL *(bbl/d)*	**28,598**	24,341	17%	**28,861**	24,174	19%
Oil equivalent *(boe/d)*	**280,547**	260,930	8%	**286,955**	264,707	8%
Production in storage (*boe/d*)	**3,000**	–	100%	**1,508**	–	100%
Total produced volumes (*boe/d*)	**283,547**	260,930	9%	**288,463**	264,707	9%
Natural gas %	**81%**	82%		**82%**	82%	

Production for the three months ended June 30, 2019 averaged 280,547 boe/d, an 8% increase over the average production for the same quarter of 2018 of 260,930 boe/d. For the six months ended June 30, 2019, production increased 8% to 286,955 boe/d from 264,707 boe/d for the same period of 2018.

The production increase is a result of the Company's successful exploration and production program. The significant growth in condensate and NGL production reflects the continued development of the Gundy area in northeast British Columbia.

In addition to the production discussed above, for the quarter ended June 30, 2019, the Company injected 3,000 boe/d into natural gas storage facilities (for the six months ended June 30, 2019 – 1,508 boe/d). The Company has storage capacity at both Dawn and PG&E Citygate. The storage capacity allows for the opportunity to inject in periods of lower commodity prices (typically summer months) and subsequently withdraw in periods of higher prices (typically winter months). The inventory is anticipated to be sold later in 2019 or the first quarter of 2020 when natural gas prices are expected to be higher.

Full-year average production guidance for 2019 is unchanged at 300,000 boe/d as previously disclosed in the November 7, 2018 press release.

REVENUE AND REALIZED GAINS (LOSSES)

	Three Months Ended June 30,			Six Months Ended June 30,		
(000s)	**2019**	**2018**	**Change**	**2019**	**2018**	**Change**
Natural gas						
Sales from production	**$ 166,450**	$ 179,084	(7)%	**$ 545,077**	$ 471,581	16%
Realized gain on risk management activities	**90,168**	79,477	13%	**177,891**	139,819	27%
Realized gain on financial instruments	**1,838**	5,278	(65)%	**74**	7,377	(99)%
	258,456	263,839	(2)%	**723,042**	618,777	17%
Oil						
Sales from production	**42,398**	51,374	(17)%	**82,584**	92,579	(11)%
Realized gain on risk management activities	**1,701**	3,055	(44)%	**2,155**	4,257	(49)%
Realized gain (loss) on financial instruments	**10,769**	(19,241)	156%	**10,640**	(30,072)	135%
	54,868	35,188	56%	**95,379**	66,764	43%
Condensate						
Sales from production	**106,328**	110,034	(3)%	**202,809**	218,579	(7)%
Realized gain (loss) on risk management activities	**–**	(14)	100%	**–**	44	(100)%
Realized (loss) on financial instruments	**(479)**	–	(100)%	**(479)**	–	(100)%
	105,849	110,020	(4)%	**202,330**	218,623	(7)%
NGL						
Sales from production	**24,186**	54,798	(56)%	**86,909**	109,847	(21)%
Total						
Sales from production	**339,362**	395,290	(14)%	**917,379**	892,586	3%
Realized gain on risk management activities	**91,869**	82,518	11%	**180,046**	144,120	25%
Realized gain (loss) on financial instruments	**12,128**	(13,963)	187%	**10,235**	(22,695)	145%
Total revenue from commodity sales and realized gains (losses) on risk management activities and financial instruments	**$ 443,359**	$ 463,845	(4)%	**$ 1,107,660**	$ 1,014,011	9%

Total sales from production for the three months ended June 30, 2019 decreased 14% to $339.4 million from $395.3 million for the same quarter of 2018. The decrease is primarily due to lower benchmark prices across all commodities during the quarter.

Total sales from production for the six months ended June 30, 2019 increased 3% from $892.6 million in 2018 to $917.4 million in 2019. The higher natural gas revenue reflects an improvement in the AECO benchmark price and higher production volumes. Revenue includes all petroleum, natural gas and NGL sales and the realized gain on risk management activities.

The second quarter of 2019 included a gain on risk management activities of $91.9 million compared to a gain of $82.5 million for the same period of the prior year. Included in realized gains on risk management activities are the premiums that Tourmaline receives from selling gas to markets outside Alberta and British Columbia and the premium on physical commodity contract prices compared to benchmark pricing. Tourmaline has significantly diversified the markets where its natural gas is sold including Malin, PG&E City Gate, Chicago, and Dawn, all of which during the quarter had higher natural gas prices as compared to AECO. As a result, the Company's realized gains on risk management activities for natural gas have increased significantly due to this market diversification strategy.

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

BENCHMARK OIL AND GAS PRICES:

				Three Months Ended June 30,					**Six Months Ended June 30,**
		2019		**2018**	**Change**		**2019**		**2018**	**Change**
Natural gas										
NYMEX Last Day *(USD$/mcf)*	**$**	**2.64**	$	2.80	(6)%	**$**	**2.89**	$	3.09	(6)%
AECO 5A *(CAD$/mcf)*	**$**	**1.04**	$	1.19	(13)%	**$**	**1.84**	$	1.51	22%
West Coast Station 2 (*CAD$/mcf*)	**$**	**0.61**	$	1.11	(45)%	**$**	**0.91**	$	1.18	(23)%
Sumas (*USD$/mmbtu*)	**$**	**1.81**	$	1.60	13%	**$**	**7.93**	$	3.52	125%
ATP 5A Day Ahead (*CAD$/mcf*)	**$**	**1.24**	$	1.55	(20)%	**$**	**1.96**	$	2.20	(11)%
Chicago City Gate (*USD$/mmbtu*)	**$**	**2.31**	$	2.67	(13)%	**$**	**2.70**	$	3.02	(11)%
Ventura (*USD$/mmbtu*)	**$**	**2.20**	$	2.56	(14)%	**$**	**2.66**	$	2.96	(10)%
PG&E Malin (*USD$/mmbtu*)	**$**	**1.88**	$	2.04	(8)%	**$**	**3.30**	$	2.76	20%
PG&E City Gate (*USD$/mmbtu*)	**$**	**2.99**	$	2.85	5%	**$**	**4.04**	$	3.35	21%
Dawn (*USD$/mmbtu*)	**$**	**2.34**	$	2.77	(16)%	**$**	**2.63**	$	3.12	(16)%
Oil and condensate										
NYMEX *(USD$/bbl)*	**$**	**59.91**	$	67.91	(12)%	**$**	**57.41**	$	65.40	(12)%
Edmonton Par *(CAD$/bbl)*	**$**	**72.52**	$	78.85	(8)%	**$**	**69.70**	$	75.58	(8)%
Edmonton Condensate (*CAD$/bbl*)	**$**	**73.85**	$	86.48	(15)%	**$**	**71.28**	$	83.41	(15)%

CURRENCY – EXCHANGE RATES:

					Three Months Ended June 30,					**Six Months Ended June 30,**
		2019		**2018**	**Change**		**2019**		**2018**	**Change**
CAD$/USD$ [(1)]	**$**	**0.7475**	$	0.7749	(4)%	**$**	**0.7498**	$	0.7830	(4)%

(1) Average rates for the period.

TOURMALINE REALIZED PRICES:

	Three Months Ended June 30,			Six Months Ended June 30,		
	2019	2018	Change	**2019**	2018	Change
Natural gas *($/mcf)*	**$ 2.07**	$ 2.25	(8)%	**$ 2.84**	$ 2.61	9%
Oil *($/bbl)*	**$ 87.61**	$ 52.33	67%	**$ 73.99**	$ 50.61	46%
Condensate (*$/bbl*)	**$ 70.44**	$ 85.57	(18)%	**$ 66.57**	$ 80.49	(17)%
NGL *($/bbl)*	**$ 9.29**	$ 24.74	(62)%	**$ 16.64**	$ 25.11	(34)%
Oil equivalent *($/boe)*	**$ 17.37**	$ 19.53	(11)%	**$ 21.33**	$ 21.16	1%

The realized average natural gas price for the three months ended June 30, 2019 decreased by 8% to $2.07/mcf from $2.25/mcf in the same period of the prior year. The decrease is the result of lower natural gas benchmark prices compared to the same period of the prior year primarily the AECO and Station 2 benchmarks.

For the six months ended June 30, 2019, the realized average natural gas price was $2.84/mcf, which is 9% higher than the same period of the prior year. The increase reflects the higher AECO natural gas benchmark price for the six months ended June 30, 2019 and higher realized gains on risk management activities from Tourmaline's market diversification strategy.

Realized oil prices increased by 67% and 46% for the three and six months ended June 30, 2019, respectively, compared to the same periods of the prior year. The realized oil price for the second quarter reflects a $14.7 million realized gain on financial instruments related to unwinding a portion of the Company's oil hedges.

For the three and six months ended June 30, 2019, the realized price of condensate was $70.44/bbl and $66.57/bbl which is 18% and 17%, respectively, lower than the same periods of the prior year. The decrease is consistent with the decline in benchmark prices experienced during the first half of 2019.

The realized NGL price for the three and six months ended June 30, 2019, decreased by 62% and 34%, respectively. The decrease reflects significantly lower benchmark prices for butane, propane and pentane in the first half of 2019 compared to the prior year.

ROYALTIES

	Three Months Ended June 30,		Six Months Ended June 30,	
(000s)	**2019**	**2018**	**2019**	**2018**
Natural gas	**$ (1,436)**	$ (853)	**$ 12,387**	$ 1,830
Oil, condensate and NGL	**17,630**	20,843	**35,430**	38,279
Total royalties	**$ 16,194**	$ 19,990	**$ 47,817**	$ 40,109
Royalties as a percentage of commodity sales from production	**4.8%**	5.1%	**5.2%**	4.5%

For the quarter ended June 30, 2019, the average effective royalty rate was 4.8%. The rate decrease compared to the second quarter of 2018 is generally attributable to the lower oil and condensate benchmark prices.

For the six-month period ended June 30, 2019, the average effective royalty rate increased from 4.5% in 2018 to 5.2% in 2019. This increase is mostly attributable to the higher AECO natural gas benchmark price which was 22% higher in the first six months of 2019 compared to the same period of the prior year.

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.

The Company continues to expect its royalty rate for 2019 to be approximately 5%, as previously disclosed in the Company's December 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

	Three Months Ended June 30			Six Months Ended June 30,		
(000s)	**2019**	**2018**	**Change**	**2019**	**2018**	**Change**
Marketing revenue	**$ 10,207**	$ 5,318	92%	**$ 12,755**	$ 11,198	14%
Marketing purchases	**(9,318)**	(5,004)	86%	**(12,046)**	(10,730)	12%
	$ 889	$ 314	183%	**$ 709**	$ 468	51%

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

For the three months ended June 30, 2019, marketing revenue and marketing purchases increased 92% and 86%, respectively, compared to the three months ended June 30, 2018. For the three and six months ended June 30, 2019, the increase in both revenue and purchases can be attributed to the Company purchasing more third-party production compared to the same periods of the prior year.

OTHER INCOME

(000s)	2019	2018	Change	2019	2018	Change
	Three Months Ended June 30,			Six Months Ended June 30,		
Other income	**$ 9,309**	$ 8,667	7%	**$ 16,651**	$ 17,764	(6)%

Other income increased to $9.3 million in the second quarter of 2019 from $8.7 million for the same quarter of 2018 mostly due to higher power generation income. For the six months ended June 30, 2019, other income decreased by 6% from the same period of the prior year. The decrease is the result of lower water disposal income as well as overall lower processing income over the prior year which is the result of Tourmaline increasing its production and displacing third-party production at Company-owned processing facilities.

OPERATING EXPENSES

(000s) except per unit amounts	2019	2018	Change	2019	2018	Change
	Three Months Ended June 30,			Six Months Ended June 30,		
Operating expenses	**$ 88,463**	$ 75,525	17%	**$ 180,628**	$ 156,832	15%
Per boe	**$ 3.47**	$ 3.18	9%	**$ 3.48**	$ 3.27	6%

Operating expenses include all periodic lease and field-level expenses and exclude income recoveries from processing third-party volumes. For the second quarter of 2019, total operating expenses were $88.5 million compared to $75.5 million in 2018, an increase of 17% over a production base increase of 8% for the same period. Operating costs for the six months ended June 30, 2019 were $180.6 million compared to $156.8 million for the same period of 2018, reflecting a 15% increase in total costs over an 8% increase in production.

On a per-boe basis, the costs increased from $3.18/boe for the second quarter of 2018 to $3.47/boe in the second quarter of 2019. For the six months ended June 30, 2019, operating costs were $3.48/boe up from $3.27/boe in the prior year. The increase in per-boe costs is related to higher processing and gathering fees, electrical power costs, and an increase in property taxes. In addition, operating costs have increased due to the increase in oil, condensate and NGL production which have higher associated operating costs per-boe.

The Company continues to expect full-year 2019 operating expenses to average approximately $3.45/boe as originally disclosed in the Company's December 31, 2018 MD&A. Actual operating costs per boe can change, however, depending on a number of factors, including the Company's actual production levels.

TRANSPORTATION

(000s) except per unit amounts	Three Months Ended June 30, 2019	2018	Change	Six Months Ended June 30, 2019	2018	Change
Natural gas transportation	**$ 72,031**	$ 59,889	20%	**$ 150,522**	$ 117,863	28%
Oil and NGL transportation	**21,604**	21,069	3%	**43,702**	43,444	1%
Total transportation	**$ 93,635**	$ 80,958	16%	**$ 194,224**	$ 161,307	20%
Per boe	**$ 3.67**	$ 3.41	8%	**$ 3.74**	$ 3.37	11%

For the second quarter of 2019, total transportation expenses were $93.6 million compared to $81.0 million in the second quarter of 2018. For the six months ended June 30, 2019, transportation expenses were $194.2 million, compared to $161.3 million for the same period of 2018. Both periods reflect increased costs related to higher production volumes and increased volumes going to diversified sales points.

On a per-boe basis, the transportation increased from $3.41/boe for the second quarter of 2018 to $3.67/boe in the second quarter of 2019. For the six months ended June 30, 2019, the per-boe transportation costs increased from $3.37/boe to $3.74/boe compared to the same period of the prior year. The increase in per-unit costs for the first half of 2019 reflects higher costs for fuel gas as well as higher costs due to the increased focus on diversifying markets where Tourmaline sells its natural gas. In the second quarter of 2018, Tourmaline added an additional 100 mmcf/d of transportation capacity to access the Malin and PG&E markets where the Company received a higher price for its natural gas when compared to the AECO benchmark price. The increased volume transported to Malin and PG&E for the full second quarter of 2019 compared to only a portion of the second quarter of 2018 resulted in higher per-boe fuel and transportation costs.

GENERAL & ADMINISTRATIVE EXPENSES ("G&A")

(000s) except per unit amounts	Three Months Ended June 30, 2019	2018	Change	Six Months Ended June 30, 2019	2018	Change
G&A expenses	**$ 21,730**	$ 21,377	2%	**$ 43,678**	$ 41,945	4%
Administrative and capital recovery	**(1,678)**	(2,198)	(24)%	**(4,154)**	(4,439)	(6)%
Capitalized G&A	**(7,443)**	(6,814)	9%	**(14,768)**	(13,650)	8%
Total G&A expenses	**$ 12,609**	$ 12,365	2%	**$ 24,756**	$ 23,856	4%
Per boe	**$ 0.49**	$ 0.52	(6)%	**$ 0.48**	$ 0.50	(4)%

Total G&A expenses in the second quarter of 2019 were $12.6 million compared to $12.4 million for the same quarter of 2018. For the six-month period ended June 30, 2019, G&A expenses were $24.8 million compared to $23.9 million for the same period of 2018. The increase is primarily due to staff additions needed to manage the larger production, reserve and land base as well as higher third-party service provider fees and increased industry marketing initiatives. These increases were partially offset by a reduction to G&A of $2.4 million ($0.05/boe) due to the adoption of IFRS 16 – *Leases*. See the section "*Changes in Accounting Policies*" in this MD&A for additional information.

G&A expenses for 2019 are expected to average approximately $0.45/boe which is unchanged from the initial guidance released in the Company's December 31, 2018 MD&A. Actual costs per boe can change, however, depending on a number of factors including the Company's actual production levels.

SHARE-BASED PAYMENTS

	Three Months Ended June 30,		Six Months Ended June 30,	
(000s) except per unit amounts	**2019**	**2018**	**2019**	**2018**
Share-based payments	**$ 6,549**	$ 7,551	**$ 13,087**	$ 14,620
Capitalized share-based payments	**(2,861)**	(3,123)	**(5,734)**	(6,106)
Total share-based payments	**$ 3,688**	$ 4,428	**$ 7,353**	$ 8,514
Per boe	**$ 0.14**	$ 0.19	**$ 0.14**	$ 0.18

The Company uses the fair-value method for the determination of non-cash share-based payments expense. During the second quarter of 2019, 114,250 stock options were granted at a weighted-average exercise price of $17.82.

The Company recognized $3.7 million of share-based payments expense in the second quarter of 2019 compared to $4.4 million in the second quarter of 2018. Capitalized share-based payments for the second quarter of 2019 were $2.9 million compared to $3.1 million for the same period of the prior year.

Share-based payments are lower in 2019 compared to the same period of 2018, which reflects options with a lower fair value being expensed in 2019 compared to 2018.

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

	Three Months Ended June 30,		Six Months Ended June 30,	
(000s) except per unit amounts	**2019**	**2018**	**2019**	**2018**
Total depletion, depreciation and amortization	**$ 202,053**	$ 195,364	**$ 430,849**	$ 394,036
Less mineral lease expiries	**(4,959)**	(10,070)	**(32,824)**	(21,811)
Depletion, depreciation and amortization	**$ 197,094**	$ 185,294	**$ 398,025**	$ 372,225
Per boe	**$ 7.72**	$ 7.80	**$ 7.66**	$ 7.77

DD&A expense, excluding mineral lease expiries, was $197.1 million for the second quarter of 2019 compared to $185.3 million for the same period of 2018. For the six-month period ended June 30, 2019, DD&A expense (excluding mineral lease expiries) was $398.0 million compared to $372.2 million for the same period of 2018. The increase in DD&A expense in 2019 over 2018 is primarily due to higher production volumes.

The per-unit DD&A rate (excluding the impact of mineral lease expiries) of $7.72/boe for the second quarter of 2019 was consistent with the rate of $7.80/boe for the same quarter of 2018. For the six-month period ended June 30, 2019, the per-unit DD&A rate (excluding the impact of mineral lease expiries) of $7.66/boe was consistent with the rate for the same period of 2018.

Mineral lease expiries for the three months ended June 30, 2019 were $5.0 million, compared to expiries in the same quarter of the prior year of $10.1 million. For the six months ended June 30, 2019, expiries were $32.8

million compared to $21.8 million for the same period of 2018. 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

	Three Months Ended June 30,			Six Months Ended June 30,		
(000s)	**2019**	**2018**	**Change**	**2019**	**2018**	**Change**
Interest expense	**$ 14,643**	$ 12,226	20%	**$ 29,433**	$ 24,594	20%
Capitalized borrowing costs	**(1,671)**	–	(100)%	**(3,026)**	–	(100)%
Accretion expense	**1,402**	1,344	4%	**2,747**	2,707	1%
Lease interest expense	**68**	–	100%	**119**	–	100%
Foreign exchange (gain) loss on U.S. denominated debt	**(26,293)**	33,500	(178)%	**(40,170)**	77,196	(152)%
Realized (gain) loss on cross-currency swaps	**26,293**	(33,500)	178%	**40,170**	(77,196)	152%
Realized (gain) loss on interest rate swaps	**(230)**	224	(203)%	**(798)**	419	(290)%
Transaction costs on property acquisitions	**–**	32	(100)%	**–**	75	(100)%
Total finance expenses	**$ 14,212**	$ 13,826	3%	**$ 28,475**	$ 27,795	2%

Finance expenses for the three months ended June 30, 2019 totaled $14.2 million compared to $13.8 million for the same period of 2018. The average bank debt outstanding and the average effective interest rate on the debt was $1,596.0 million and 3.24% for the three months ended June 30, 2019 compared to $1,477.9 million and 2.91% for the same period of 2018, respectively.

For the six months ended June 30, 2019, finance expenses totaled $28.5 million compared to $27.8 million for the same period of 2018. The average bank debt outstanding and the average effective interest rate on the debt for the six months ended June 30, 2019 was $1,595.8, million and 3.30% compared to $1,541.3 million and 2.85% for the same period of 2018, respectively.

The increase in the effective interest rate for the three and six months ended June 30, 2019 compared to the same periods in 2018 reflects the increase in the Bank of Canada prime rate over the same period resulting in an increase in interest expense. For the six months ended June 30, 2019, the Company recorded $3.0 million in capitalized borrowing costs related to long-term capital projects which lowered finance expense for the period.

For the three and six months ended June 30, 2019, the Company drew from the credit facility in U.S. dollars, as permitted under the credit facility, which when repaid created a foreign exchange gain due to the strengthening of the Canadian dollar. Concurrent with the draw of U.S. dollar denominated borrowings, the Company 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

	Three Months Ended June 30,			Six Months Ended June 30,		
(000s)	**2019**	**2018**	**Change**	**2019**	**2018**	**Change**
Deferred Income Taxes (Recovery)	**$ (92,097)**	$ 12,957	(811)%	**$ (57,301)**	$ 64,431	(189)%

For the three and six months ended June 30, 2019, the provision for deferred income tax recovery was $92.1 million and $57.3 million compared to deferred income tax expense of $13.0 million and $64.4 million for the same periods of 2018. The deferred income tax recovery is primarily due to a reduction of the Alberta corporate tax rate from 12% to 8% by 2022 which was enacted as at June 30, 2019 with an effective date of July 1, 2019. The effect of the tax rate change resulted in a deferred income tax recovery of $108.9 million in the second quarter of 2019.

CASH FLOW FROM OPERATING ACTIVITIES, CASH FLOW AND NET EARNINGS

	Three Months Ended June 30,			Six Months Ended June 30,		
(000s) except per unit amounts	**2019**	**2018**	**Change**	**2019**	**2018**	**Change**
Cash flow from operating activities	**$ 298,282**	$ 283,155	5%	**$ 681,402**	$ 625,303	9%
Per share [(1)]	**$ 1.10**	$ 1.04	6%	**$ 2.50**	$ 2.30	9%
Cash flow [(2)]	**$ 226,458**	$ 272,261	(17)%	**$ 645,700**	$ 624,509	3%
Per share [(1)(2)]	**$ 0.83**	$ 1.00	(17)%	**$ 2.37**	$ 2.30	3%
Net earnings	**$ 154,940**	$ 25,639	504%	**$ 242,650**	$ 155,227	56%
Per share [(1)]	**$ 0.57**	$ 0.09	533%	**$ 0.89**	$ 0.57	56%
Operating netback per boe [(2)]	**$ 9.60**	$ 12.10	(21)%	**$ 13.19**	$ 13.68	(4)%

(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, 2019 was $226.5 million or $0.83 per diluted share compared to $272.3 million or $1.00 per diluted share for the same period of 2018. Cash flow for the six months ended June 30, 2019 was $645.7 million or $2.37 per diluted share compared to $624.5 million or $2.30 per diluted share for the same period of 2018. The increase in cash flow for the first half of 2019 reflects higher realized oil and natural gas prices and an increase in production over 2018.

The Company had after-tax net earnings for the three months ended June 30, 2019 of $154.9 million or $0.57 per diluted share compared to after-tax net earnings of $25.6 million or $0.09 per diluted share for the same period of 2018. For the six-month period ended June 30, 2019, after-tax net earnings were $242.7 million or $0.89 per diluted share compared to after-tax net earnings of $155.2 million or $0.57 per diluted share for the first half of 2018. The increase in after-tax net earnings reflects a large deferred income tax recovery for the three and six months ended June 30, 2019 of $92.1 million and $57.3 million, respectively, due to the reduction in the Alberta corporate income tax rate compared to a deferred income tax expense of $13.0 million and $64.4 million, respectively, for the same periods of the prior year.

CAPITAL EXPENDITURES

	Three Months Ended June 30,		Six Months Ended June 30,	
(000s)	**2019**	**2018**	**2019**	**2018**
Land and seismic	**$ 1,298**	$ 2,042	**$ 3,065**	$ 12,981
Drilling and completions	**114,085**	110,407	**347,803**	298,711
Facilities	**72,931**	71,617	**214,412**	152,585
Property acquisitions	**473**	243	**596**	1,692
Property dispositions	**(75)**	–	**(1,838)**	(71,234)
Other	**9,467**	7,464	**18,525**	14,589
Total cash capital expenditures	**$ 198,179**	$ 191,773	**$ 582,563**	$ 409,324

During the second quarter of 2019, the Company invested $198.2 million of cash consideration, net of dispositions, compared to $191.8 million for the same period of 2018. Expenditures on exploration and production were $188.3 million for the second quarter of 2019 compared to $184.1 million for the same quarter of 2018. During the six-month period ended June 30, 2019, the Company invested $582.6 million of cash consideration, net of dispositions, compared to $409.3 million for the same period of 2018.

Facilities expenditures in the quarter include construction costs for the Gundy Deep Cut Gas Plant, which was commissioned in the second quarter of 2019, as well as new pipeline infrastructure in Gundy and Northeast BC.

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

	Six Months Ended June 30, 2019		Six Months Ended June 30, 2018	
	Gross	**Net**	**Gross**	**Net**
Drilled	**112**	**107.9**	94	85.45
Completed	**88**	**81.25**	86	75.42
Tied-in	**109**	**95.26**	84	74.46

Exploration and production capital expenditures in 2019 are forecast to be $1.125 billion which is $75.0 million lower than the guidance disclosed in the March 31, 2019 MD&A. The Company expects drilling and completions costs of approximately $810.0 million, facilities expenditures (including equipment, pipelines and tie-ins) of $310.0 million as well as land and seismic expenditures of $5.0 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 series of undeveloped assets across all three cash-generating units ("CGUs") for proceeds of approximately $71.2 million before customary adjustments.

On October 17, 2018, the Company acquired assets in the Peace River High area for total cash consideration of $21.2 million for producing properties, land and reserves.

LIQUIDITY AND CAPITAL RESOURCES

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 2019, the Company extended the maturity date of the revolving credit facility to June 2024. With the exception of the change in maturity date, the revolving credit facility was renewed under the same terms and conditions as those described in note 9 of the Company's consolidated financial statements for the year ended December 31, 2018. 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 facility can be drawn in either Canadian or U.S. funds and bears interest at the agent bank's prime lending rate, banker's acceptance rates or LIBOR (for U.S. borrowings), plus applicable margins.

The Company also has a $950.0 million term loan with a syndicate of banks. In May 2019, the Company extended the maturity date of the term loan to June 2024. With the exception of the change in maturity date, the term loan was renewed under the same terms and conditions as those described in note 9 of the Company's consolidated financial statements for the year ended December 31, 2018. The term loan can be drawn in either Canadian or U.S. funds and bears interest at the agent bank's prime lending rate, banker's acceptance rates or LIBOR (for U.S. borrowings), plus 150 basis points. The maturity date may, at the request of the Company and with consent of the lenders, be extended on an annual basis. The covenants for the term loan are the same as those under the Company's revolving credit facility and the term loan ranks equally with the revolving credit facility.

The Company has a covenant based, unsecured, operating credit facility with a Canadian bank in the amount of $50.0 million. In May 2019, the Company extended the maturity date of the operating credit facility to June 2021. With the exception of the change in maturity date, the operating credit facility was renewed under the same terms and conditions as those described in note 9 of the Company's consolidated financial statements for the year ended December 31, 2018. The maturity date may, at the request of the Company and with consent of the lender, be extended on an annual basis. The covenants are the same as the revolving credit facility.

Additionally, the Company has a letter of credit facility payable on demand in the amount of $50.0 million with a Canadian bank. Tourmaline has outstanding letters of credit in the amount of $10.6 million (December 31, 2018 - $9.5 million), which reduce the credit available on this facility.

The Company's aggregate borrowing capacity is $2.85 billion at June 30, 2019. As at, and for the quarter ending June 30, 2019, the Company is in compliance with all debt covenants.

As at June 30, 2019, the Company had negative adjusted working capital of $157.7 million, after adjusting for the fair value of financial instruments, lease liabilities and unrealized foreign exchange in working capital (the unadjusted working capital deficiency was $159.5 million) (December 31, 2018 – $242.8 million and $228.4 million, respectively). As at June 30, 2019, the Company had $947.7 million in term debt outstanding and $611.8 million drawn against the revolving credit facility for total bank debt of $1,559.5 million (net of debt issue costs) (December 31, 2018 - $1,476.1 million). Net debt at June 30, 2019 was $1,717.2 million, excluding the fair value of financial instruments, lease liabilities and unrealized foreign exchange in working capital (December 31, 2018 - $1,718.9 million).

For 2019, management intends to continue to diligently monitor and adjust the capital budget based on expected cash flow and as such management believes the Company has sufficient resources to fund its 2019 exploration and development program. Management is dedicated to keeping a strong balance sheet, which has proven to be very important, especially in times of depressed commodity prices.

During the three and six months ended June 30, 2019, the Company paid a cash dividend of $0.12 and $0.22 per common share totalling $32.6 million and $59.9 million, respectively, compared to $0.09 and $0.17 per common share totalling $24.5 million and $46.2 million, respectively, for the same periods of the prior year.

SHARES AND STOCK OPTIONS OUTSTANDING

As at July 31, 2019, the Company has 272,050,159 common shares and 19,412,334 stock options outstanding.

COMMITMENTS AND CONTRACTUAL OBLIGATIONS

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

PAYMENTS DUE BY YEAR

(000s)	1 Year	2-3 Years	4-5 Years	>5 Years	Total
Operating commitments (1)	$ 1,787	$ 3,575	$ 3,530	$ 4,817	$ 13,709
Firm transportation and processing agreements	463,959	894,993	788,552	2,111,736	4,259,240
Capital commitments (2)	200,712	405,353	9,349	79,062	694,476
Credit facility (3)	–	–	729,646	–	729,646
Term debt (4)	32,949	65,899	1,013,348	–	1,112,196
	$ 699,407	$ 1,369,820	$ 2,544,425	$ 2,195,615	$ 6,809,267

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

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

(3) Includes interest expense at an annual rate of 3.44% being the rate applicable to outstanding debt on the credit facility at June 30, 2019.

(4) Includes interest expense at an annual rate of 3.47% being the fixed rate on the term debt at June 30, 2019.

OFF-BALANCE SHEET ARRANGEMENTS

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

FINANCIAL RISK MANAGEMENT

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

The Company's risk management policies are established to identify and analyze the risks faced by the Company, to set appropriate risk limits and controls, and to monitor risks and adherence to market conditions and the Company's activities. The Company's financial risks are discussed in note 5 of the Company's audited consolidated financial statements for the year ended December 31, 2018.

As at June 30, 2019, 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 (loss) on the consolidated statement of income and comprehensive income. The contracts that the Company has in place at June 30, 2019 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, 2019 and 2018.

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, 2019 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, 2019 and 2018.

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, 2018.

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, 2019 and ending on June 30, 2019 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 standard as issued by the International Accounting Standards Board ("IASB") has been adopted by the Company effective January 1, 2019.

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*. The new standard was adopted using the modified retrospective approach and the Company used the following practical expedients when applying IFRS 16 to leases previously classified as operating leases under IAS 17:

- Applied the exemption not to recognize right-of-use assets and liabilities with less than 12 months of lease term, and
- Excluded initial direct costs from measuring the right-of-use asset at the date of initial application.

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 $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.

As a result of adopting IFRS 16, the Company's accounting policies for leased assets are now:

Leased assets:

At inception of a contract, the Company assesses whether a contract is, or contains, a lease. A contract is, or contains, a lease if the contract conveys the right to control the use of an identified asset for a period of time in exchange for consideration. This policy is applied to contracts in effect, or changed, on or after January 1, 2019.

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

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

The lease liability is initially measured at the present value of the minimum lease payments that are not yet paid at the commencement date, discounted using the interest rate implicit in the lease or, if that rate cannot be readily determined, the Company's incremental borrowing rate for that asset. Generally, the Company uses its incremental borrowing rate as the discount rate.

The lease liability is subsequently increased by the interest cost on the lease liability and decreased by lease payments made. It is remeasured when there is a change in future lease payments arising from a change in an index or rate, a change in estimate of the amount expected to be payable under a residual value guarantee, changes in the assessment of whether a purchase or extension option is reasonably certain to be exercised or a termination option is reasonably certain not to be exercised.

The following table outlines the financial impact on the Company's consolidated statements of income and comprehensive income for the six months ended June 30, 2019, due to the adoption of IFRS 16.

(000s)	**Six Months Ended June 30, 2019 pre-IFRS 16**	**IFRS 16 impact**	**Six Months Ended June 30, 2019**
Other income	$ 16,629	$ 22	$ 16,651
Operating expense	180,687	(59)	180,628
G&A expense	27,152	(2,396)	24,756
DD&A expense	428,442	2,407	430,849
Finance expense	28,356	119	28,475
Net income	242,698	(48)	242,650
Cash flow	$ 643,222	$ 2,478	$ 645,700

NON-GAAP FINANCIAL MEASURES

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

Cash Flow

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

	Three Months Ended June 30,		**Six Months Ended June 30,**	
(000s)	**2019**	**2018**	**2019**	**2018**
Cash flow from operating activities (per GAAP)	**$ 298,282**	$ 283,155	**$ 681,402**	$ 625,303
Change in non-cash working capital	**(71,824)**	(10,894)	**(35,702)**	(794)
Cash flow	**$ 226,458**	$ 272,261	**$ 645,700**	$ 624,509

Operating Netback

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

	Three Months Ended June 30,		Six Months Ended June 30,	
($/boe)	**2019**	**2018**	**2019**	**2018**
Revenue from commodity sales and realized gains (losses) on risk management activities and financial instruments	**$ 17.37**	$ 19.53	**$ 21.33**	$ 21.16
Royalties	**(0.63)**	(0.84)	**(0.92)**	(0.84)
Transportation costs	**(3.67)**	(3.41)	**(3.74)**	(3.37)
Operating expenses	**(3.47)**	(3.18)	**(3.48)**	(3.27)
Operating netback	**$ 9.60**	$ 12.10	**$ 13.19**	$ 13.68

Adjusted Working Capital

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

(000s)	**As at June 30, 2019**	**As at December 31, 2018**
Working capital (deficit)	**$ (159,480)**	$ (228,403)
Fair value of financial instruments – short-term (asset)	**(3,469)**	(13,640)
Lease liabilities – short-term	**2,848**	–
Unrealized foreign exchange in working capital - (asset) liability	**2,393**	(784)
Adjusted working capital (deficit)	**$ (157,708)**	$ (242,827)

Net Debt

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

(000s)	**As at June 30, 2019**	**As at December 31, 2018**
Bank debt	**$ (1,559,474)**	$(1,476,099)
Adjusted working capital	**(157,708)**	(242,827)
Net debt	**$ (1,717,182)**	$(1,718,926)

SELECTED QUARTERLY INFORMATION

	2019		2018				2017	
($000s, unless otherwise noted)	**Q2**	**Q1**	**Q4**	**Q3**	**Q2**	**Q1**	**Q4**	**Q3**
PRODUCTION								
Natural gas *(mcf)*	**124,790,550**	129,529,098	123,995,544	115,321,116	117,429,708	119,585,930	120,238,014	109,246,506
Oil and NGL (*bbls)*	**4,731,375**	4,820,850	4,778,286	4,164,796	4,172,997	4,236,320	4,184,707	3,587,572
Oil equivalent *(boe)*	**25,529,800**	26,409,060	25,444,210	23,384,982	23,744,615	24,167,308	24,224,376	21,795,323
Natural gas *(mcf/d)*	**1,371,325**	1,439,212	1,347,778	1,253,490	1,290,436	1,328,733	1,306,935	1,187,462
Oil and NGL *(bbls/d)*	**51,993**	53,565	51,938	45,270	45,857	47,070	45,486	38,995
Oil equivalent *(boe/d)*	**280,547**	293,434	276,568	254,185	260,930	268,526	263,309	236,905
FINANCIAL								
Total revenue from commodity sales and realized gains (losses) on risk management activities and financial instruments	**443,359**	664,301	595,487	496,711	463,845	550,166	527,106	410,591
Cash flow from operating activities	**298,282**	383,120	329,997	314,191	283,155	342,148	299,793	266,525
Per diluted share	**1.10**	1.41	1.21	1.15	1.04	1.26	1.11	0.99
Cash flow (1)	**226,458**	419,242	391,532	287,421	272,261	352,248	348,227	251,327
Per diluted share	**0.83**	1.54	1.44	1.06	1.00	1.30	1.29	0.93
Net earnings	**154,940**	87,710	190,895	55,296	25,639	129,588	88,079	50,580
Per basic share	**0.57**	0.32	0.70	0.20	0.09	0.48	0.33	0.19
Per diluted share	**0.57**	0.32	0.70	0.20	0.09	0.48	0.33	0.19
Total assets	**10,836,576**	10,924,480	10,732,457	10,429,505	10,186,188	10,212,446	10,181,528	9,916,804
Working capital (deficit)	**(159,480)**	(272,500)	(228,403)	(411,687)	(192,116)	(232,695)	(219,168)	(352,068)
Adjusted working capital (deficit) (1)	**(160,101)**	(245,285)	(242,043)	(341,960)	(130,834)	(206,988)	(202,484)	(350,112)
Cash capital expenditures	**198,179**	384,384	395,194	409,919	191,773	217,551	352,233	465,466
Dividends paid	**32,646**	27,204	27,304	27,103	24,488	21,687	–	–
Total outstanding shares *(000s)*	**272,050**	272,050	272,043	272,043	272,084	271,084	271,084	269,784
PER UNIT								
Natural *gas ($/mcf)*	**2.07**	3.59	3.13	2.54	2.25	2.97	2.70	2.52
Oil and NGL *($/bbl)*	**39.08**	41.43	43.40	48.91	47.93	46.08	48.31	37.63
Revenue *($/boe)*	**17.37**	25.15	23.40	21.24	19.53	22.76	21.76	18.84
Operating netback *($/boe)* (1)	**9.60**	16.65	15.82	13.15	12.10	15.25	14.80	12.27

(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 242,325 boe per day in 2017 to 265,044 boe per day in 2018 and 286,955 boe per day in the first six months of 2019. The production growth can be attributed primarily to the Company's exploration and development activities, and from acquisitions of producing properties.

The Company's cash flow was $1,205.8 million in 2017, $1,303.5 million in 2018 and forecast 2019 cash flow is $1,354.2 million. The forecast cash flow in 2019 reflects the increase in forecast annual average production over 2018 which is partially offset by slightly lower commodity prices in 2019. 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.