



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

For the three months ended March 31, 2012 and 2011

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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 for the three months ended March 31, 2012 and the consolidated financial statements for the year ended December 31, 2011. Both the consolidated financial statements and the MD&A can be found at www.sedar.com. This MD&A is dated May 9, 2012.

The financial information contained herein has been prepared in accordance with International Financial Reporting Standards ("IFRS"). 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-IFRS Financial Measures" for information regarding the following Non-IFRS financial measures used in this MD&A: "funds from operations", "operating netback", "working capital (adjusted for the fair value of financial instruments)" and "net debt".

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

Forward-Looking Statements - Certain information regarding Tourmaline set forth in this document, 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, estimates or beliefs concerning, among other things, an outlook on the estimated amounts and timing of capital investment, anticipated future debt, production, 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 uncertainties and contingencies. Many factors could cause Tourmaline's actual results to differ materially from those expressed or implied in any forward-looking statements made by, or on behalf of, Tourmaline.

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 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; 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 laws; 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 in market prices for crude oil, NGL and natural gas; industry conditions; currency fluctuation; imprecision of reserve estimates; liabilities inherent in crude oil 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; changes in income tax laws or changes in tax laws and incentive programs relating to the oil and gas industry; hazards such as fire, explosion, blowouts, cratering, and spills, each 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 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: future commodity prices and royalty regimes; 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; and future operating costs.

Management has included the above summary of assumptions and risks related to forward-looking information provided in this MD&A in order to provide shareholders 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 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.

PRODUCTION

	Three Months Ended		
	March 31, 2012	March 31, 2011	Change
Natural Gas (<i>mcf</i>)	22,430,621	11,283,617	99%
Crude oil and NGL (<i>bbl</i>)	515,408	217,121	137%
Oil equivalent (<i>Boe</i>)	4,253,845	2,097,724	103%
Oil equivalent (<i>Boepd</i>)	46,746	23,308	101%

Production for the three months ended March 31, 2012, averaged 46,746 Boe/d, a 101% increase over the first quarter of 2011 average production of 23,308 Boe/d. Production was 88% natural gas weighted in the first quarter of 2012 compared to 90% natural gas weighted in the first quarter of 2011. The Company's significant production growth can be attributed to new wells that have been brought on-stream since March 31, 2011, as well as property and corporate acquisitions.

REVENUE

(000s)	Three Months Ended	
	March 31, 2012	March 31, 2011
Revenue from:		
Natural Gas	\$ 56,988	\$ 50,527
Oil and NGL	47,150	18,020
Total revenue from oil, NGL and gas sales	\$ 104,138	\$ 68,547

Revenue for the three months ended March 31, 2012, increased 52% to \$104.1 million from \$68.5 million for the same period of 2011. Revenue growth is consistent with the increased production over the same period, partially offset by lower natural gas prices. Revenue includes all petroleum, natural gas and NGL sales and realized gains on financial instruments.

TOURMALINE PRICES:

	Three Months Ended		
	March 31, 2012	March 31, 2011	Change
Natural Gas (\$/Mcf)	\$ 2.54	\$ 4.48	(43)%
Oil and NGL (\$/Bbl)	\$ 91.48	\$ 83.00	10%
Oil equivalent (\$/Boe)	\$ 24.48	\$ 32.68	(25)%

The realized average natural gas price for the first quarter of 2012 was \$2.54/Mcf compared to \$4.48/Mcf for the same quarter of 2011. Realized crude oil and NGL prices increased 10% to \$91.48/Bbl for the first quarter of 2012 compared to \$83.00/Bbl for the same quarter of 2011.

The realized natural gas price for the quarter ended March 31, 2012 was 20% (March 31, 2011 – 19%) higher than the AECO benchmark due to a combination of higher heat content in the Company's Alberta Deep Basin natural gas production and positive commodity contracts. Realized prices exclude the effect of unrealized gains or losses. Once these gains and losses are realized they are included in the per unit amounts.

BENCHMARK OIL AND GAS PRICES:

	Three Months Ended		
	March 31, 2012	March 31, 2011	Change
Natural Gas			
NYMEX Henry Hub (US\$/mcf)	\$ 2.50	\$ 4.20	(40)%
AECO (Cdn\$/mcf)	\$ 2.12	\$ 3.77	(44)%
Oil			
NYMEX (US\$/bbl)	\$ 103.03	\$ 94.60	9%
Edmonton Par (Cdn\$/bbl)	\$ 92.87	\$ 88.65	5%

RECONCILIATION OF AECO INDEX TO TOURMALINE'S REALIZED GAS PRICES:

(\$/mcf)	Three Months Ended		
	March 31, 2012	March 31, 2011	Change
AECO index	\$ 2.12	\$ 3.77	(44)%
Heat/quality differential	0.18	0.24	(25)%
Realized gain	0.24	0.47	(49)%
Tourmaline realized natural gas price	\$ 2.54	\$ 4.48	(43)%

CURRENCY – EXCHANGE RATES:

	Three Months Ended		
	March 31, 2012	March 31, 2011	Change
Cdn/US\$	\$ 0.9988	\$ 1.0145	(2)%

ROYALTIES

(000s)	Three Months Ended	
	March 31, 2012	March 31, 2011
Natural Gas	\$ 971	\$ 1,440
Oil and NGL	7,500	2,789
Total royalties	\$ 8,471	\$ 4,229

For the quarter ended March 31, 2012, the average effective royalty rate increased to 8.1% compared to 6.2% for the same quarter of 2011. The increased royalty rate can be attributed to royalty incentives reaching their maximum limit on some of the Company's high rate producing wells.

For 2012, the Company expects its overall royalty rate to be approximately 10% as an increased number of wells will no longer qualify for royalty incentive programs due to production maximums being reached and other wells will come off royalty holidays, thereby increasing the Company's overall royalty rate. The royalty rate is sensitive to commodity prices, however, and as such, lower prices will offset some of the effects of losing the above-noted incentives on certain wells.

OTHER INCOME

For the quarter ended March 31, 2012, other income was \$1.5 million, which includes \$1.3 million in processing income, compared to \$0.5 million for the same quarter of 2011, of which \$0.4 million related to processing income. Tourmaline continues to build and acquire interests in facilities which have helped to generate increased third-party processing income.

OPERATING EXPENSES

(\$000s, except per unit amounts)	Three Months Ended	
	March 31, 2012	March 31, 2011
Operating expenses	\$ 22,081	\$ 12,100
Per Boe	\$ 5.19	\$ 5.77

Operating expenses include all periodic lease and field-level expenses and exclude income recoveries from processing third party volumes. Total operating expenses increased 82% from \$12.1 million in the first quarter of 2011 to \$22.1 million in the same quarter of 2012 attributable to the significant increase in production over the same period. On a per Boe basis, the costs decreased 10% from \$5.77/Boe for the first quarter of 2011 to \$5.19/Boe in the first quarter of 2012 due to operational efficiencies. Tourmaline's operating expenses in the first quarter of 2012 include third party processing, gathering and compression fees of approximately \$7.7 million or 35% of total operating costs (March 31, 2011- \$4.5 million or 37% of total operating costs).

The Company expects full year 2012 operating costs to average \$5.25 per Boe. Actual costs per Boe can change, however, depending on a number of factors including the Company's actual production levels.

TRANSPORTATION

Transportation costs for the three months ended March 31, 2012 were \$7.5 million or \$1.78 per Boe (March 31, 2011 - \$4.0 million or \$1.90 per Boe, respectively). The increase in total transportation costs can be attributed to increased production. On a per-Boe basis, transportation costs for the first quarter of 2012 are lower due to the expansion of the Company's owned-and-operated Sunrise plant in December 2011 whereby increased volumes are now going to this plant which is in closer proximity versus third party facilities.

GENERAL & ADMINISTRATIVE EXPENSES ("G&A")

(000s)	Three Months Ended	
	March 31, 2012	March 31, 2011
G&A expenses	\$ 6,840	\$ 5,607
Administrative and capital recovery	(189)	(808)
Capitalized G&A	(2,801)	(2,130)
Total G&A expenses	\$ 3,850	\$ 2,669
Per Boe	\$ 0.91	\$ 1.27

G&A expenses for the first quarter of 2012 were \$3.9 million compared to \$2.7 million for the same quarter of the prior year. The increase in G&A expenses in 2012 compared to 2011 is primarily due to office staff additions and

higher rent expense as the Company increased its head office space. The higher total G&A expenses result from the need to manage the larger production, reserve and land base. Notwithstanding this, the Company's G&A expenses per Boe continue to trend downward as Tourmaline's production base continues to grow faster than its accompanying G&A costs. G&A costs per Boe for the first quarter of 2012 decreased 28% down to \$0.91 per Boe, compared to \$1.27 per Boe for the same quarter of 2011.

G&A costs for 2012 are not expected to exceed \$1.00 per Boe. Actual costs per Boe can change, however, depending on a number of factors including the Company's actual production levels.

SHARE-BASED COMPENSATION

(000s)	Three Months Ended	
	March 31, 2012	March 31, 2011
Share-based payments	\$ 7,616	\$ 5,140
Capitalized share-based payments	(3,808)	(2,570)
Total share-based payments	\$ 3,808	\$ 2,570
Per Boe	\$ 0.90	\$ 1.23

Tourmaline uses the fair value method for the determination of all non-cash related share-based payments. During the first quarter of 2012, 50,000 stock options were granted to employees, officers, directors and key consultants at an exercise price of \$24.73, and 229,167 options were exercised, bringing \$1.9 million cash into treasury. The Company recognized \$3.8 million of share-based compensation expense in the first quarter of 2012 compared to \$2.6 million in the first quarter of 2011. Capitalized share-based payments for the first quarter of 2012 were \$3.8 million compared to \$2.6 for the same quarter of the prior year. The overall increase in share-based compensation reflects the increased number of employees due to increased activity.

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

(\$000s, except per unit amounts)	Three Months Ended	
	March 31, 2012	March 31, 2011
Depletion, depreciation and amortization	\$ 56,007	\$ 30,308
Per Boe	\$ 13.17	\$ 14.45

DD&A expense was \$56.0 million for the first quarter of 2012 compared to \$30.3 million for the same period of 2011 due to higher production volumes, as well as, a larger capital asset base being depleted. The per-unit DD&A rate for the first quarter of 2012 was \$13.17/Boe compared to \$14.45/Boe for the first quarter of 2011. The lower DD&A rate in 2012 reflects strong reserve additions derived from Tourmaline's exploration and production program.

FINANCE EXPENSES

Finance expenses for the first quarter of 2012 totalled \$2.1 million and are comprised of interest expense and accretion of provisions. Finance expenses for the first quarter of 2011 were \$0.7 million. The increased finance expenses are largely due to a \$1.5 million increase in interest expense resulting from a higher balance drawn on the credit facility in 2012.

CASH FLOW FROM OPERATIONS, FUNDS FROM OPERATIONS AND NET EARNINGS

	Three Months Ended		
	March 31, 2012	March 31, 2011	Change
Cash flow from operations per share ⁽¹⁾	\$ 0.36	\$ 0.33	9%
Funds from operations per share ^{(1) (2)}	\$ 0.38	\$ 0.32	19%
Earnings per share ⁽¹⁾	\$ 0.02	\$ 0.02	–%
Operating netback per Boe ⁽²⁾	\$ 15.52	\$ 22.99	(32)%

⁽¹⁾ Fully diluted

⁽²⁾ See “Non-IFRS Financial Measures”

Funds from operations for the three months ended March 31, 2012 were \$61.8 million or \$0.38 on a per-diluted-share basis compared to \$44.9 million or \$0.32 on a per-diluted share basis for the same period of 2011. The Company had after-tax earnings of \$3.0 million (\$0.02 per diluted share) for the quarter ended March 31, 2012, compared to after-tax earnings of \$2.7 million (\$0.02 per diluted share) for the same quarter of the previous year. The increase in both funds from operations and after tax earnings in 2012 compared to 2011 can be attributed to the increased production during the period partially offset by lower realized natural gas prices.

CAPITAL EXPENDITURES

(000s)	Three Months Ended	
	March 31, 2012	March 31, 2011
Land and seismic	\$ 10,838	\$ 4,814
Drilling and completions	148,295	131,470
Facilities	66,007	72,763
Property acquisitions	916	14,776
Property dispositions	(12,518)	(7,008)
Other	2,886	738
Total cash capital expenditures	\$ 216,424	\$ 217,553

During the first quarter of 2012, the Company invested \$216.4 million of cash consideration, net of dispositions, compared to \$217.6 million for the same period of 2011. Expenditures on exploration and production were \$225.1 million compared to \$209.0 million in the same quarter of 2011, which is consistent with the Company’s aggressive growth strategy.

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

	Three Months Ended	
	March 31, 2012	
	Gross	Net
Drilled	24	19.93
Completed	29	24.15
Tied-in	22	18.13

LIQUIDITY AND CAPITAL RESOURCES

At March 31, 2012, Tourmaline had negative working capital of \$175.7 million, after adjusting for the fair value of financial instruments (the unadjusted working capital deficiency was \$176.0 million) (December 31, 2011 – \$146.6 million and \$146.3 million, respectively). Management believes the Company has sufficient liquidity and capital resources to fund the remainder of its 2012 and 2013 exploration and development program through expected cash flow from operations and its unutilized bank credit facilities.

On April 4, 2012, the Company issued 1,402,000 flow-through common shares at a price of \$28.80 per share for gross proceeds of \$40.4 million. The proceeds were used to temporarily reduce bank debt and will be used to fund the Company's 2012 capital exploration program.

As at March 31, 2012, the Company had \$206.7 million drawn on existing facilities (December 31, 2011 - \$81.7 million), and net debt of \$382.4 million (December 31, 2011 - \$228.3 million). The Company is currently in the process of renegotiating its credit facilities and anticipates a significant increase from the Company's current consolidated borrowing base of \$385 million.

SHARES OUTSTANDING

As at May 9, 2012, the Company has 160,228,753 common shares outstanding and 14,099,356 stock options granted and outstanding.

COMMITMENTS AND CONTRACTUAL OBLIGATIONS

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

Payments Due by Year (000s)	2012	2013	2014	2015	2016 and Thereafter	Total
Operating leases	\$ 1,909	\$ 2,266	\$ 2,121	\$ 526	\$ –	\$ 6,822
Flow-through obligations	41,777	–	–	–	–	41,777
Firm transportation agreements	20,532	28,524	19,863	10,445	484	79,848
Bank debt ⁽¹⁾	–	213,408	–	–	–	213,408
	\$ 64,218	\$ 244,198	\$ 21,984	\$ 10,971	\$ 484	\$ 341,855

⁽¹⁾ Includes interest expense at 3.26% being the rate applicable to outstanding bank debt at March 31, 2012.

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, 2011.

As at March 31, 2012, the Company has entered into certain financial derivative and physical delivery sales contracts in order to manage commodity risk. These instruments are not used for trading or speculative purposes. The Company has not designated its financial derivative contracts as effective accounting hedges, even though the Company considers all commodity contracts to be effective economic hedges. As a result, all such commodity contracts are recorded on the consolidated statement of financial position at fair value, with changes in the fair value being recognized as an unrealized gain or loss on the consolidated statement of income and comprehensive income. The contracts that the Company has entered into in the first quarter of 2012 are detailed in note 3 of the Company's interim condensed consolidated financial statements for the three months ended March 31, 2012.

The following table provides a summary of the unrealized gains and losses on financial instruments for the three months ended March 31, 2012:

(000s)	Three Months Ended	
	March 31, 2012	March 31, 2011
Unrealized loss on financial instruments	\$ (2,366)	\$ (2,751)
Unrealized loss on investments held for trading	(19)	(18)
Total	\$ (2,385)	\$ (2,769)

The Company has entered into physical contracts to manage commodity risk. These contracts are considered normal sales contracts and are not recorded at fair value in the consolidated financial statements. These contracts have been disclosed in note 3 of the Company's interim condensed consolidated financial statements for the three months ended March 31, 2012.

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 years ended December 31, 2011 and December 31, 2010.

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") to provide reasonable assurance that: (i) material information relating to the Company is made known to the Company's Chief Executive Officer and Chief Financial Officer by others, particularly during the periods in which the annual and interim filings are being prepared; and (ii) information required to be disclosed by the Company in its annual filings, interim filings or other reports filed or submitted by it under securities legislation is recorded, processed, summarized and reported within the time period specified in securities legislation. All control systems by their nature have inherent limitations and, therefore, the Company's DC&P are believed to provide reasonable, but not absolute, assurance that the objectives of the control systems are met.

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") 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 ICFR during the period beginning on January 1, 2012 and ended March 31, 2012 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.

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 NEW ENVIRONMENTAL REGULATIONS

Environmental legislation, including the Kyoto Accord, the federal government's "EcoACTION" plan and Alberta's Bill 3 - *Climate Change and Emissions Management Amendment Act*, is evolving in a manner expected to result in stricter standards and enforcement, larger fines and liability and potentially increased capital expenditures and operating costs. Given the evolving nature of the debate related to climate change and the resulting requirements, it is not possible to determine the operational or financial impact of those requirements on Tourmaline.

RECENT PRONOUNCEMENTS ISSUED

The following pronouncements from the IASB will become effective for financial reporting periods beginning on or after January 1, 2013 and have not yet been adopted by the Company. All of these new or revised standards permit early adoption with transitional arrangements depending upon the date of initial application.

IFRS 9 - Financial Instruments addresses the classification and measurement of financial assets.

IFRS 10 - Consolidated Financial Statements builds on existing principles and standards and identifies the concept of control as the determining factor in whether an entity should be included within the consolidated financial statements of the parent company.

IFRS 11 - Joint Arrangements establishes the principles for financial reporting by entities when they have an interest in arrangements that are jointly controlled.

IFRS 12 - Disclosure of Interest in Other Entities provides the disclosure requirements for interests held in other entities including joint arrangements, associates, special purpose entities and other off balance sheet entities.

IFRS 13 - Fair Value Measurement defines fair value, requires disclosure about fair value measurements and provides a framework for measuring fair value when it is required or permitted within the IFRS standards.

IAS 19 - Employee Benefits revises the existing standard to eliminate options to defer the recognition of gains and losses in defined benefit plans, requires re-measurements of a defined benefit plan's assets and liabilities to be presented in other comprehensive income and increases disclosure.

IAS 27 - Separate Financial Statements revised the existing standard which addresses the presentation of parent company financial statements that are not consolidated financial statements.

IAS 28 - Investments in Associate and Joint Ventures revised the existing standard and prescribes the accounting for investments and sets out the requirements for the application of the equity method when accounting for investments in associates and joint ventures.

The IASB also issued Presentation of Items of Other Comprehensive Income, an amendment to IAS 1 Financial Statement Presentation. The amendment addresses the presentation of other comprehensive income and requires the grouping of items within other comprehensive income that might eventually be reclassified to the profit and loss section of the income statement. The change becomes effective for financial years after July 1, 2012 with earlier adoption permitted.

The Company has not completed its evaluation of the effect of adopting these standards on its financial statements.

NON-IFRS FINANCIAL MEASURES

This MD&A includes references to financial measures commonly used in the oil and gas industry such as “funds from operations”, “operating netback”, “working capital (adjusted for the fair value of financial instruments)” and “net debt”, which do not have any standardized meaning prescribed by IFRS. Management believes that in addition to net income and cash flow from operating activities; funds from operations, operating netback, net debt

and working capital (adjusted for the fair value of financial instruments) are useful supplemental measures in assessing Tourmaline's ability to generate the cash necessary to repay debt or fund future growth through capital investment. Readers are cautioned, however, that these measures should not be construed as an alternative to net income or cash flow from operating activities determined in accordance with IFRS as an indication of Tourmaline's performance. Tourmaline's method of calculating these measures may differ from other companies and accordingly, they may not be comparable to measures used by other companies. For these purposes, Tourmaline defines funds from operations as cash provided by operations before changes in non-cash operating working capital, defines operating netback as revenue (excluding processing income) less royalties, transportation costs and operating expenses and defines working capital (adjusted for the fair value of financial instruments) as working capital adjusted for the fair value of financial instruments. Net debt is defined as long-term bank debt plus working capital (adjusted for the fair value of financial instruments).

Funds from Operations

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

(000s)	Three Months Ended	
	March 31, 2012	March 31, 2011
Cash flow from operating activities	\$ 59,527	\$ 46,886
Change in non-cash working capital	2,309	(1,946)
Funds from operations	\$ 61,836	\$ 44,940

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	
	March 31, 2012	March 31, 2011
Revenue, excluding processing fee income	\$ 24.48	\$ 32.68
Royalties	(1.99)	(2.02)
Transportation costs	(1.78)	(1.90)
Operating expenses	(5.19)	(5.77)
Operating netback	\$ 15.52	\$ 22.99

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:

(000s)	As at	
	March 31, 2012	December 31, 2011
Working capital/(deficit)	\$ (176,029)	\$ (146,317)
Fair value of financial instruments – short-term (asset)/liability	333	(276)
Working capital/(deficit) (adjusted for the fair value of financial instruments)	\$ (175,696)	\$ (146,593)

Net Debt

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

(000s)		As at March 31, 2012		As at December 31, 2011
Bank debt	\$	(206,670)	\$	(81,749)
Working capital/(deficit)		(176,029)		(146,317)
Fair value of financial instruments – short-term (asset)/liability		333		(276)
Net debt	\$	(382,366)	\$	(228,342)

SELECTED QUARTERLY INFORMATION

(\$000s, unless otherwise noted)	2012	2011				2010		
	Q1	Q4	Q3	Q2	Q1	Q4	Q3	Q2
PRODUCTION								
Crude oil and NGL(bbls)	515,408	415,074	316,890	272,184	217,121	236,502	147,997	178,787
Gas (mcf)	22,430,621	18,437,079	17,058,132	13,798,653	11,283,617	11,251,067	9,502,337	8,693,492
Oil equivalent (Boe)	4,253,845	3,487,920	3,159,912	2,571,959	2,097,724	2,111,680	1,731,720	1,627,702
Crude oil and NGL (bbls/d)	5,664	4,512	3,444	2,991	2,412	2,571	1,609	1,965
Gas (mcf/d)	246,490	200,403	185,414	151,634	125,374	122,294	103,286	95,533
Oil equivalent (Boe/d)	46,746	37,912	34,347	28,263	23,308	22,953	18,823	17,887
FINANCIAL								
Gross revenue, net of royalties	94,781	98,309	98,225	87,551	62,019	63,340	46,822	50,310
Cash flow from operating activities	59,527	61,801	77,622	42,112	46,886	46,109	40,685	34,623
Funds from operations ⁽¹⁾	61,836	73,311	62,686	60,415	44,940	44,940	31,250	33,925
Per diluted share	0.38	0.45	0.40	0.41	0.32	0.34	0.25	0.27
Net earnings	2,976	16,074	8,688	15,192	2,727	5,865	428	1,700
Per diluted share	0.02	0.10	0.06	0.10	0.02	0.04	0.00	0.01
Total assets	2,878,261	2,711,024	2,517,607	2,030,285	1,936,836	1,816,043	1,546,820	1,412,776
Working capital	(176,029)	(146,317)	(120,080)	(31,963)	(139,138)	(49,642)	(78,205)	(21,672)
Working capital (adjusted for the fair value of financial instruments) ⁽¹⁾	(175,696)	(146,593)	(123,858)	(31,592)	(136,933)	(49,170)	(78,314)	(22,075)
Capital expenditures	216,424	232,167	249,162	130,075	217,553	217,064	151,944	286,808
Basic outstanding shares (000s)	158,807	158,578	151,906	145,215	138,124	136,191	123,841	122,691
PER UNIT								
Gas (\$/mcf)	2.54	3.76	4.25	4.38	4.48	4.17	4.36	4.61
Crude oil and NGL (\$/bbl)	91.48	93.05	87.01	95.54	83.00	75.94	70.49	72.49
Revenue (\$/Boe)	24.48	30.95	31.67	33.61	32.68	30.74	29.94	32.58
Operating netback (\$/Boe)	15.52	21.39	21.21	24.52	22.99	22.66	19.12	21.82

⁽¹⁾ See Non-IFRS Financial Measures.

The oil and gas exploration and production industry is cyclical in nature. The Company's financial position, results of operations and cash flows are principally impacted by production levels, and commodity prices, particularly natural gas prices. The Company has had continued growth over the last eight quarters summarized in the table above. The Company's average annual production has increased from 17,856 Boe per day in 2010 to 31,007 Boe per day in 2011, and 46,746 Boe per day in the first quarter of 2012, with cash flows from operating activities increasing from \$143.3 million in 2010 to \$228.4 million in 2011. The production growth can be attributed to both the Company's exploration and development activities, as well as, from acquisitions of producing properties. Over the same period, natural gas prices have declined. Commodity price changes can indirectly impact expected production by changing the amount of funds available to reinvest in exploration, development and acquisition activities in the future. Decreases in commodity prices not only reduce revenues and cash flows available for exploration, they may also challenge the economics of potential capital projects by reducing the quantities of reserves that are commercially recoverable. The Company's capital program is dependent on cash flows generated from operations and access to capital markets.

CONSOLIDATED FINANCIAL STATEMENTS

CONSOLIDATED STATEMENTS OF FINANCIAL POSITION

(000s) (unaudited) March 31, 2012 December 31, 2011

Assets

Current assets:

Accounts receivable	\$ 55,265	\$ 60,799
Prepaid expenses and deposits	5,422	5,313
Fair value of financial instruments (note 3)	–	276

60,687 66,388

Investments (note 2) 214 233

Exploration and evaluation assets (note 4) 627,484 620,515

Property, plant and equipment (note 5) 2,189,876 2,023,888

\$ 2,878,261 \$ 2,711,024

Liabilities and Shareholders' Equity

Current liabilities:

Accounts payable and accrued liabilities	\$ 236,383	\$ 212,705
Fair value of financial instruments (note 3)	333	–

236,716 212,705

Bank debt 206,670 81,749

Decommissioning obligations (note 6) 52,269 50,463

Long-term obligation 9,933 10,864

Fair value of financial instruments (note 3) 1,831 74

Deferred premium on flow-through shares 8,631 11,316

Deferred taxes 113,725 107,977

Shareholders' equity:

Share capital (note 8)	2,143,016	2,140,660
Non-controlling interest (note 7)	15,491	15,079
Contributed surplus	54,642	47,776
Retained earnings	35,337	32,361

2,248,486 2,235,876

\$ 2,878,261 \$ 2,711,024

Commitments (note 11)

Subsequent events (notes 3 and 12)

See accompanying notes to the interim condensed consolidated financial statements.

CONSOLIDATED STATEMENTS OF INCOME AND COMPREHENSIVE INCOME

(000s) except per-share amounts (unaudited)	Three Months Ended	
	March 31, 2012	March 31, 2011
Revenue:		
Oil and natural gas sales	\$ 98,773	\$ 63,281
Royalties	(8,471)	(4,229)
	90,302	59,052
Realized gain on financial instruments	5,365	5,266
Unrealized (loss) on financial instruments (note 3)	(2,385)	(2,769)
Other income	1,499	470
	94,781	62,019
Expenses:		
Operating	22,081	12,100
Transportation	7,548	3,980
General and administration	3,850	2,669
Share-based payments	3,808	2,570
(Gain)/loss on divestitures	(7,206)	3,630
Depletion, depreciation and amortization	56,007	30,308
	86,088	55,257
Results from Operating Activities	8,693	6,762
Finance expenses	2,131	729
Income before taxes	6,562	6,033
Deferred taxes	3,174	3,131
Net income and comprehensive income for the period before non-controlling interest	3,388	2,902
Net income and comprehensive income attributable to:		
Shareholders of the Company	2,976	2,727
Non-controlling interest (note 7)	412	175
	\$ 3,388	\$ 2,902
Income per share attributable to common shareholders (note 9)		
Basic	\$ 0.02	\$ 0.02
Diluted	\$ 0.02	\$ 0.02

See accompanying notes to the interim condensed consolidated financial statements.

CONSOLIDATED STATEMENTS OF CHANGES IN EQUITY

(000s) except per-share amounts (unaudited)

	Share Capital	Contributed Surplus	Retained Earnings	Non- Controlling Interest	Total Equity
Balance at December 31, 2011	\$ 2,140,660	\$ 47,776	\$ 32,361	\$ 15,079	\$ 2,235,876
Share issue costs, net of tax	(334)	–	–	–	(334)
Share-based payments	–	3,808	–	–	3,808
Capitalized share-based payments	–	3,808	–	–	3,808
Options exercised (note 8)	2,690	(750)	–	–	1,940
Income attributable to common shareholders	–	–	2,976	–	2,976
Income attributable to non-controlling interest	–	–	–	412	412
Balance at March 31, 2012	\$ 2,143,016	\$ 54,642	\$ 35,337	\$ 15,491	\$ 2,248,486

(000s) except per-share amounts (unaudited)

	Share Capital	Contributed Surplus	Retained Earnings/(Deficit)	Non- Controlling Interest	Total Equity
Balance at December 31, 2010	\$ 1,508,052	\$ 29,262	\$ (10,320)	\$ 13,909	\$ 1,540,903
Issue of common shares	39,659	–	–	–	39,659
Share issue costs, net of tax	(1,869)	–	–	–	(1,869)
Share-based payments	–	2,570	–	–	2,570
Capitalized share-based payments	–	2,570	–	–	2,570
Options exercised	3,981	(1,110)	–	–	2,871
Income attributable to common shareholders	–	–	2,727	–	2,727
Income attributable to non-controlling interest	–	–	–	175	175
Balance at March 31, 2011	\$ 1,549,823	\$ 33,292	\$ (7,593)	\$ 14,084	\$ 1,589,606

See accompanying notes to the interim condensed consolidated financial statements.

CONSOLIDATED STATEMENTS OF CASH FLOW

(000s) (unaudited)	Three Months Ended	
	March 31, 2012	March 31, 2011
Cash provided by (used in):		
Operations:		
Net income	\$ 2,976	\$ 2,727
Items not involving cash:		
Depletion and depreciation	56,007	30,308
Accretion	307	333
Share-based payments	3,808	2,570
Deferred taxes	3,174	3,131
Unrealized loss on financial instruments (note 3)	2,385	2,769
(Gain)/loss on divestitures	(7,206)	3,630
Non-controlling interest	412	175
Decommissioning expenditures	(27)	(703)
Changes in non-cash operating working capital	(2,309)	1,946
	59,527	46,886
Financing:		
Issue of common shares	1,940	50,272
Share issue costs	(445)	(2,464)
Increase in bank debt	124,921	37,635
	126,416	85,443
Investing:		
Exploration and evaluation	(25,618)	(5,493)
Property, plant and equipment	(202,408)	(204,292)
Property acquisitions	(916)	(14,776)
Proceeds from divestitures	12,518	7,008
Proceeds from sale of investments	–	338
Repayment of long-term obligation	(931)	(931)
Change in non-cash investing working capital	31,412	20,657
	(185,943)	(197,489)
Changes in cash	–	(65,160)
Cash, beginning of period	–	65,160
Cash, end of period	\$ –	\$ –

Cash is defined as cash and cash equivalents.

See accompanying notes to the interim condensed consolidated financial statements.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the three months ended March 31, 2012 and 2011

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

Incorporation:

Tourmaline Oil Corp. (the "Company") was incorporated under the laws of the Province of Alberta on July 21, 2008. The Company is engaged in the acquisition, exploration, development and production of petroleum and natural gas properties. The Company is engaged in the exploration for, and development and production of, oil and natural gas and conducts many of its activities jointly with others. These consolidated financial statements reflect only the Company's proportionate interest in such activities.

The Company's registered office is located at 3700, 250 – 6th Avenue S.W., Calgary, Alberta, Canada T2P 3H7.

1. BASIS OF PREPARATION

These unaudited interim condensed consolidated financial statements have been prepared in accordance with International Accounting Standard ("IAS") 34, "Interim Financial Reporting". These unaudited interim condensed consolidated financial statements do not include all of the information and disclosure required in the annual financial statements and should be read in conjunction with the Company's audited consolidated financial statements for the year ended December 31, 2011.

The accounting policies and significant accounting judgments, estimates, and assumptions used in these unaudited interim condensed consolidated financial statements are consistent with those described in Notes 1 and 2 of the Company's audited consolidated financial statements for the year ended December 31, 2011.

The unaudited interim condensed consolidated financial statements were authorized for issue by the Board of Directors on May 9, 2012.

2. DETERMINATION OF FAIR VALUE

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

Measurement:

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

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

- Level 2 – Pricing inputs are other than quoted prices in active markets included in Level 1. Prices are either directly or indirectly observable as of the reporting date. Level 2 valuations are based on inputs, including quoted forward prices for commodities, time value and volatility factors, which can be substantially observed or corroborated in the marketplace.
- Level 3 – Valuations in this level are those with inputs for the asset or liability that are not based on observable market data.

The following tables provide fair value measurement information for financial assets and liabilities as of March 31, 2012 and December 31, 2011. The carrying value of trade and other receivables and trade and other payables included in the interim condensed consolidated statement of financial position approximate fair value due to the short-term nature of those instruments. These assets and liabilities are not included in the following tables:

March 31, 2012	Carrying Amount	Fair Value	Level 1	Level 2	Level 3
Financial assets:					
Investments	\$ 214	\$ 214	\$ 214	\$ –	–
Financial liabilities:					
Bank debt	206,670	206,670	206,670	–	–
Commodity price risk contracts	2,164	2,164	–	2,164	–

December 31, 2011	Carrying Amount	Fair Value	Level 1	Level 2	Level 3
Financial assets:					
Investments	\$ 233	\$ 233	\$ 233	\$ –	–
Commodity price risk contracts	276	276	–	276	–
Financial liabilities:					
Bank debt	81,749	81,749	81,749	–	–
Commodity price risk contracts	74	74	–	74	–

3. FINANCIAL RISK MANAGEMENT

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

The Company's risk management policies are established to identify and analyze the risks faced by the Company, to set appropriate risk limits and controls, and to monitor risks and adherence to market conditions and the Company's activities. The Company's financial risks are consistent with those discussed in note 5 of the Company's audited consolidated financial statements for the year ended December 31, 2011.

As at March 31, 2012, the Company has entered into certain financial derivative and physical delivery sales contracts in order to manage commodity risk. These instruments are not used for trading or speculative

purposes. The Company has not designated its financial derivative contracts as effective accounting hedges, even though the Company considers all commodity contracts to be effective economic hedges. As a result, all such commodity contracts are recorded on the interim condensed consolidated statement of financial position at fair value, with changes in the fair value being recognized as an unrealized gain or loss on the interim condensed consolidated statement of income and comprehensive income.

The Company has entered into the following derivative contracts since December 31, 2011 to March 31, 2012:

Type of Contract	Quantity	Time Period	Contract Price	Fair Value
Financial Swap	100 bbls/d	July 2012 – June 2013	US\$100.10/bbl	(171)
Financial Swap	100 bbls/d	August 2012 – July 2013	US\$101.10/bbl	(131)
Financial Swap	100 bbls/d	August 2012 – December 2013	US\$100.60/bbl	(176)
Financial Swap	100 bbls/d	January 2013 – December 2013	US\$101.05/bbl	(92)
Financial Swap	100 bbls/d	July 2012 – March 2013	US\$103.30/bbl	(47)
Financial Swap	100 bbls/d	January 2013 – December 2013	US\$101.45/bbl	(77)
Financial Swap	100 bbls/d	January 2013 – December 2013	US\$103.40/bbl	(7)
Financial Swap	400 bbls/d	April 2012 – December 2012	US\$109.00/bbl	489
Swaption ⁽¹⁾	400 bbls/d	January 2013 – December 2013	US\$108.00/bbl	(969)

⁽¹⁾ This is a European swaption which is part of a paired transaction in which the Company provided the option to extend an oil swap into 2013 to realize a higher price on an oil swap in 2012. The option to extend can only be exercised on December 31, 2012.

No contracts have been entered into subsequent to March 31, 2012.

The following table provides a summary of the unrealized gains and losses on financial instruments for the periods ended March 31, 2012 and 2011:

(000s)	Three Months Ended	
	March 31, 2012	March 31, 2011
Unrealized loss on financial instruments	\$ (2,366)	\$ (2,751)
Unrealized loss on investments held for trading	(19)	(18)
Total	\$ (2,385)	\$ (2,769)

As at March 31, 2012, if the future strip prices for oil were \$1.00 per bbl higher, with all other variables held constant, before-tax earnings for the period would have been \$0.7 million (March 31, 2011 - \$0.4 million) lower. An equal and opposite impact would have occurred to before-tax earnings and the fair value of the derivative contracts liability oil prices \$1.00 per bbl lower. In addition to the financial commodity contracts discussed above, the Company has entered into physical contracts to manage commodity risk. These contracts are considered normal sales contracts and are not recorded at fair value in the consolidated financial statements.

The Company has entered into the following physical contracts since December 31, 2011 to March 31, 2012:

Type of Contract	Quantity	Time Period	Contract Price
AECO/Nymex Differential Swap	6,000 MMBtu/d ⁽¹⁾	February 2012 – December 2012	Nymex less USD\$0.42/MMbtu
AECO/Nymex Differential Swap	5,000 MMBtu/d	February 2012 – December 2012	Nymex less USD\$0.325/MMbtu
AECO/Nymex Differential Swap	7,000 MMBtu/d	February 2012 – December 2012	Nymex less USD\$0.44/MMbtu

⁽¹⁾ This is a restructuring of a previously held contract whereby the volumes, contract price and time period of the contract were amended subsequent to December 31, 2011.

The following contracts were entered into subsequent to March 31, 2012:

Type of Contract	Quantity	Time Period	Contract Price
AECO/Nymex Differential Swap	5,000 MMBtu/d	November 2012 – March 2013	Nymex less USD\$0.405/MMbtu
AECO/Nymex Differential Swap	5,000 MMBtu/d	November 2012 – October 2013	Nymex less USD\$0.45/MMbtu

4. EXPLORATION AND EVALUATION ASSETS

(000s)

As at December 31, 2011	\$	620,515
Capital expenditures		27,200
Transfers to property, plant and equipment (note 5)		(18,459)
Acquisitions		200
Divestitures		(1,972)
As at March 31, 2012	\$	627,484

General and administrative expenditures for the three months ended March 31, 2012 of \$1.4 million (December 31, 2011 — \$8.2 million) have been capitalized and included as exploration and evaluation assets. Non-cash share-based payments in the amount of \$1.6 million (December 31, 2011 - \$9.4 million) were also capitalized and included in exploration and evaluation assets.

5. PROPERTY, PLANT AND EQUIPMENT

Cost

(000s)

As at December 31, 2011	\$	2,276,303
Capital expenditures		204,634
Transfers from exploration and evaluation (note 4)		18,459
Change in decommissioning liabilities (note 6)		1,655
Acquisitions		716
Divestitures		(3,469)
As at March 31, 2012	\$	2,498,298

Accumulated Depletion, Depreciation and Amortization

(000s)

As at December 31, 2011	\$	252,415
Depletion, depreciation and amortization		56,007
As at March 31, 2012	\$	308,422

Net Book Value

(000s)

As at December 31, 2011	\$	2,023,888
As at March 31, 2012	\$	2,189,876

General and administrative expenditures for the three months ended March 31, 2012 of \$1.4 million (December 31, 2011 – \$1.8 million) have been capitalized and included as costs of oil and natural gas properties. Also included in oil and natural gas properties are non-cash share-based payments of \$2.2 million (December 31, 2011 - \$2.3 million).

Future development costs for the three months ended March 31, 2012 of \$1,606 million (December 31, 2010 - \$1,539 million) were included in the depletion calculation.

6. DECOMMISSIONING OBLIGATIONS

The Company's decommissioning obligations result from net ownership interests in petroleum and natural gas assets including well sites, gathering systems and processing facilities. The Company estimates the total undiscounted amount of cash flow required to settle its decommissioning obligations is approximately \$73.3 million (December 31, 2011 – \$72.5 million), which will be incurred between 2024 and 2029. A risk-free rate of 2.49% (December 31, 2011 – 2.49%) and an inflation rate of 2% (December 31, 2011 – 2%) were used to calculate the fair value of the decommissioning obligations.

(000s)	Three Months Ended		Year Ended
	March 31, 2012		December 31, 2011
Balance, beginning of period	\$	50,463	\$ 35,279
Obligation incurred		1,655	6,048
Obligation incurred on corporate acquisitions		–	2,430
Obligation incurred on property acquisitions		–	1,845
Obligation divested		(129)	(481)
Obligation settled		(27)	(1,047)
Accretion expense		307	1,315
Change in future estimated cash outlays		–	5,074
Balance, end of period	\$	52,269	\$ 50,463

7. NON-CONTROLLING INTEREST

On November 10, 2009, Tourmaline acquired 90.6 percent of Exshaw Oil Corp., a private company engaged in oil and gas exploration in Canada.

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

(000s)	Three Months Ended		Year Ended
	March 31, 2012		December 31, 2011
Balance, beginning of period	\$	15,079	\$ 13,909
Share of subsidiary's net income for the period		412	1,170
Balance, end of period	\$	15,491	\$ 15,079

8. SHARE CAPITAL

(a) Authorized

Unlimited number of Common Shares without par value.

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

(b) Common Shares Issued

(\$000s)	Three Months Ended March 31, 2012		Year Ended December 31, 2011	
	Number of Shares	Amount	Number of Shares	Amount
Balance, beginning of period	158,577,586	\$ 2,140,660	136,191,061	\$ 1,508,052
For cash on public offering of common shares	–	–	11,725,000	335,737
For cash on public offering of flow-through common shares ⁽¹⁾	–	–	1,361,500	44,290
For cash on private placement of flow-through common shares	–	–	1,580,000	39,658
Issued on corporate acquisitions	–	–	6,363,523	210,124
For cash on exercise of stock options	229,167	1,940	1,356,502	12,532
Contributed surplus on exercise of stock options	–	750	–	4,856
Share issue costs	–	(445)	–	(19,329)
Tax effect of share issue costs	–	111	–	4,740
Balance, end of period	158,806,753	\$ 2,143,016	158,577,586	\$ 2,140,660

⁽¹⁾ On December 1, 2011, the Company issued 1.36 million flow-through shares at \$41.00 per share for total gross proceeds of \$55.8 million. The implied premium on the flow-through shares was determined to be \$11.5 million or \$8.47 per share. A total of 0.16 million shares were purchased by insiders. As at March 31, 2012, the Company is committed to spending the remaining unspent amount of \$41.8 million on qualified exploration and development expenditures by December 31, 2012. The expenditures were renounced to investors in February 2012, with an effective date of renunciation of December 31, 2011.

9. EARNINGS PER SHARE

Basic earnings-per-share was calculated as follows:

	Three Months Ended	
	March 31, 2012	March 31, 2011
Net earnings for the period (000s)	\$ 2,976	\$ 2,727
Weighted average number of common shares - basic	158,616,377	136,873,117
Earnings per share – basic	\$ 0.02	\$ 0.02

Diluted earnings-per-share was calculated as follows:

	Three Months Ended	
	March 31, 2012	March 31, 2011
Net earnings for the period (000s)	\$ 2,976	\$ 2,727
Weighted average number of common shares - diluted	163,296,191	142,057,697
Earnings per share – fully diluted	\$ 0.02	\$ 0.02

There were 3,818,024 options excluded from the weighted-average share calculation for the three months ended March 31, 2012 because they were anti-dilutive (March 31, 2011 – 575,000).

10. SHARE-BASED PAYMENTS

The Company has a rolling stock option plan. Under the employee stock option plan, the Company may grant options to its employees up to 15,880,675 shares of common stock. The exercise price of each option equals the volume-weighted average market price for the five days preceding the issue date of the Company's stock on the date of grant and the option's maximum term is five years. Options are granted throughout the year and vest 1/3 on each of the first, second and third anniversaries from the date of grant.

	As at March 31, 2012		As at March 31, 2011	
	Number of Options	Weighted Average Exercise Price	Number of Options	Weighted Average Exercise Price
Stock options outstanding, beginning of period	14,213,523	\$ 16.82	11,997,000	\$ 12.24
Granted	50,000	24.73	350,000	24.17
Exercised	(229,167)	8.47	(353,334)	8.13
Forfeited	–	–	(179,999)	13.64
Stock options outstanding, end of period	14,034,356	\$ 16.98	11,813,667	\$ 12.69

The following table summarizes stock options outstanding and exercisable at March 31, 2012:

Range of Exercise Price	Number Outstanding at Period End	Weighted Average Remaining Contractual Life	Weighted Average Exercise Price	Number Exercisable at Period End	Weighted Average Exercise Price
\$7.00 - \$8.00	2,856,167	1.65	\$ 7.08	2,856,167	\$ 7.08
\$10.00 - \$15.00	4,634,332	2.45	12.83	2,950,443	12.86
\$16.68 - \$32.78	6,543,857	4.04	24.24	1,017,833	18.91
	14,034,356	3.00	\$ 16.98	6,824,443	\$ 11.34

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

	March 31, 2012	March 31, 2011
Fair value of options granted (weighted average)	\$ 8.58	\$ 9.40
Risk-free interest rate	2.59%	2.62%
Estimated hold period prior to exercise	4 years	5 years
Expected volatility	40%	40%
Forfeiture rate	2%	2%
Dividend per share	\$ 0.00	\$ 0.00

11.COMMITMENTS

On December 1, 2011, the Company issued 1.36 million common shares on a flow-through basis at a price of \$41 per share for total gross proceeds of \$55.8 million. As of March 31, 2012, the Company has spent \$14.0 million on eligible expenditures and is committed to spend the remainder of \$41.8 million before December 31, 2012.

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

Payments Due by Year (000s)	2012	2013	2014	2015	2016 and Thereafter	Total
Operating leases	\$ 1,909	\$ 2,266	\$ 2,121	\$ 526	\$ –	\$ 6,822
Flow-through obligations	41,777	–	–	–	–	41,777
Firm transportation agreements	20,532	28,524	19,863	10,445	484	79,848
Bank debt ⁽¹⁾	–	213,408	–	–	–	213,408
	\$ 64,218	\$ 244,198	\$ 21,984	\$ 10,971	\$ 484	\$ 341,855

⁽¹⁾ Includes interest expense at 3.26% being the rate applicable at March 31, 2012.

12. SUBSEQUENT EVENT

On April 4, 2012, the Company closed a private placement flow-through common share financing. The Company issued 1,402,000 common shares at a price of \$28.80 per share for gross proceeds of \$40.4 million, including 152,000 shares which were issued to insiders. The proceeds will be used to fund the Company's 2012 capital exploration program. The Company is committed to spend \$40.4 million on qualified exploration expenditures by December 31, 2013.