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

For the three and six months ended June 30, 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 six months ended June 30, 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 August 2, 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			Six Months Ended		
	June 30, 2012	June 30, 2011	Change	**June 30, 2012**	June 30, 2011	Change
Natural Gas *(mcf/d)*	**266,771**	151,634	76%	**256,631**	138,576	85%
Crude oil and NGL *(bbl/d)*	**6,560**	2,991	119%	**6,112**	2,703	126%
Oil equivalent *(Boepd)*	**51,022**	28,263	81%	**48,884**	25,799	89%

Production for the three months ended June 30, 2012, averaged 51,022 Boe/d, an 81% increase over the average production for the same quarter of 2011 of 28,263 Boe/d. Production was 87% natural gas weighted in the second quarter of 2012 compared to 89% natural gas weighted in the second quarter of 2011.

For the six months ended June 30, 2012, production increased 89% to 48,884 Boe/d from 25,799 Boe/d for the same period of 2011.

The Company's significant production growth when compared to 2011 can be attributed to new wells that have been brought on-stream since June 30, 2011, as well as property and corporate acquisitions.

REVENUE

	Three Months Ended			Six Months Ended		
(000s)	**June 30, 2012**	June 30, 2011	Change	**June 30, 2012**	June 30, 2011	Change
Revenue from:						
Natural Gas	**$ 54,042**	$ 60,427	(11)%	**$ 111,030**	$ 110,964	–%
Oil and NGL	**46,419**	26,006	78%	**93,569**	44,016	113%
Total revenue from oil, NGL and gas sales	**$ 100,461**	$ 86,433	16%	**$ 204,599**	$ 154,980	32%

Revenue for the three months ended June 30, 2012, increased 16% to $100.5 million from $86.4 million for the same quarter of 2011. For the six months ended June 30, 2012, revenue was $204.6, a 32% increase over revenue of $155.0 million for the same period of 2011. Revenue growth is consistent with the increase in production over the same periods, partially offset by lower realized natural gas prices. Revenue includes all petroleum, natural gas and NGL sales and realized gains on financial instruments.

TOURMALINE PRICES:

	Three Months Ended			Six Months Ended		
	June 30, 2012	June 30, 2011	Change	**June 30, 2012**	June 30, 2011	Change
Natural Gas ($/mcf)	**$ 2.23**	$ 4.38	(49)%	**$ 2.38**	$ 4.42	(46)%
Oil and NGL ($/bbl)	**$ 77.75**	$ 95.54	(19)%	**$ 84.11**	$ 89.96	(7)%
Oil equivalent ($/Boe)	**$ 21.64**	$ 33.61	(36)%	**$ 23.00**	$ 33.19	(31)%

The realized average natural gas prices for the three and six months ended June 30, 2012 were 49% and 46%, respectively, lower than the same periods of the prior year. Realized crude oil and NGL prices decreased 19% and 7% for the three and six months ended June 30, 2012, respectively, compared to the same periods of 2011.

The realized natural gas price for the quarter ended June 30, 2012 was $2.23/mcf, which is 17% (June 30, 2011 – 12%) 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		
	June 30, 2012	June 30, 2011	Change
Natural Gas			
NYMEX Henry Hub (US$/mcf)	**$ 2.35**	$ 4.38	(46)%
AECO (Cdn$/mcf)	**$ 1.91**	$ 3.90	(51)%
Oil			
NYMEX (US$/bbl)	**$ 93.35**	$ 102.34	(9)%
Edmonton Par (Cdn$/bbl)	**$ 84.97**	$ 103.59	(18)%

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

	Three Months Ended		
($/mcf)	**June 30, 2012**	June 30, 2011	Change
AECO index	**$ 1.91**	$ 3.90	(51)%
Heat/quality differential	**0.15**	0.27	(44)%
Realized gain	**0.17**	0.21	(19)%
Tourmaline realized natural gas price	**$ 2.23**	$ 4.38	(49)%

***CURRENCY – EXCHANGE RATES*:**

	Three Months Ended		
	June 30, 2012	June 30, 2011	Change
Cdn/US$	**$ 0.9898**	$ 1.0334	(4)%

ROYALTIES

	Three Months Ended		Six Months Ended	
(000s)	**June 30, 2012**	June 30, 2011	**June 30, 2012**	June 30, 2011
Natural Gas	**$ (3,072)**	$ 169	**$ (2,101)**	$ 1,609
Oil and NGL	**6,471**	3,332	**13,971**	6,121
Total royalties	**$ 3,399**	$ 3,501	**$ 11,870**	$ 7,730
Royalties as a percentage of revenue	**3.4%**	4.1%	**5.8%**	5.0%

For the quarter ended June 30, 2012, the average effective royalty rate decreased to 3.4% compared to 4.1% for the same quarter of 2011. For the six months ended June 30, 2012, the average effective royalty was 5.8% compared to 5.0% for the same period of 2011. Natural gas royalties for both the three and six months ended June 30, 2012, reflect positive GCA adjustments recorded in the second quarter of 2012, as well as, additional royalty incentives on some of the Company's producing wells which were not recorded until approved by the Government.

As a result of the above noted royalty credits received in the second quarter of 2012, the Company now expects its royalty rate for 2012 to be approximately 7% versus the previously forecasted rate of 10%. The royalty rate is sensitive to commodity prices, however, and as such, a change in commodity prices will impact the actual rate.

OTHER INCOME

For the quarter ended June 30, 2012, other income was $1.2 million, which includes $0.7 million in processing income, compared to $1.6 million for the same quarter of 2011, of which $1.2 million related to processing income. For the six months ended June 30, 2012, other income was $2.7 million compared to $2.0 million for the same period of the prior year. Tourmaline continues to build and acquire interests in facilities which have helped to generate increased third-party processing income.

OPERATING EXPENSES

	Three Months Ended			Six Months Ended		
($000s, except per unit amounts)	**June 30, 2012**	June 30, 2011	Change	**June 30, 2012**	June 30, 2011	Change
Operating expenses	**$ 22,419**	$ 14,762	52%	**$ 44,500**	$ 26,862	66%
Per Boe	**$ 4.83**	$ 5.74	(16)%	**$ 5.00**	$ 5.75	(13)%

Operating expenses include all periodic lease and field-level expenses and exclude income recoveries from processing third-party volumes. For the second quarter of 2012, total operating expenses increased 52% from $14.8 million in the second quarter of 2011 to $22.4 million in 2012 attributable to the significant increase in production over the same period. On a per Boe basis, the costs decreased 16% from $5.74/Boe for the second quarter of 2011 to $4.83/Boe in the second quarter of 2012 due to increased production and the impact of redirecting natural gas from third-party facilities to Tourmaline owned-and-operated infrastructure. Tourmaline's operating expenses in the second quarter of 2012 include third-party processing, gathering and compression fees of approximately $4.0 million or 18% of total operating costs (June 30, 2011- $3.2 million or 22% of total operating costs).

For the six months ended June 30, 2012, total operating expenses were $44.5 million, or $5.00/Boe, compared to $26.9 million, or $5.75/Boe for the same period of 2011. Although total operating expenses increased commensurate with production, the costs per Boe decreased 13% reflecting increased operational efficiencies.

The Company now expects its full year 2012 operating costs to average approximately $5.00 per Boe, which is a reduction from its previous guidance of $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 June 30, 2012 were $8.6 million or $1.85 per Boe (three months ended June 30, 2011 - $5.1 million or $1.98 per Boe, respectively). Transportation costs for the six months ended June 30, 2012 were $16.2 million or $1.82 per Boe (six months ended June 30, 2011 - $9.1 million or $1.94 per Boe, respectively). The increase in total transportation costs can be attributed to increased production. On a per-Boe basis, transportation costs for the three and six months ended June 30, 2012 are lower primarily 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 previous third-party facilities.

GENERAL & ADMINISTRATIVE EXPENSES ("G&A")

	Three Months Ended			Six Months Ended		
(000s)	**June 30, 2012**	June 30, 2011	Change	**June 30, 2012**	June 30, 2011	Change
G&A expenses	**$ 6,043**	$ 5,898	2%	**$ 12,883**	$ 11,505	12%
Administrative and capital recovery	**(149)**	(780)	(81)%	**(338)**	(1,588)	(79)%
Capitalized G&A	**(2,698)**	(2,139)	26%	**(5,499)**	(4,269)	29%
Total G&A expenses	**$ 3,196**	$ 2,979	7%	**$ 7,046**	$ 5,648	25%
Per Boe	**$ 0.69**	$ 1.16	(41)%	**$ 0.79**	$ 1.21	(35)%

G&A expenses for the second quarter of 2012 were $3.2 million compared to $3.0 million for the same quarter of the prior year. G&A costs per Boe for the second quarter of 2012 decreased 41% down to $0.69 per Boe, compared to $1.16 per Boe for the same quarter of 2011.

For the six months ended June 30, 2012, G&A expenses were $7.0 million or $0.79/Boe compared to $5.6 million or $1.21/Boe for the same period of 2011. 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 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

	Three Months Ended		Six Months Ended	
(000s)	**June 30, 2012**	June 30, 2011	**June 30, 2012**	June 30, 2011
Share-based payments	**$ 7,416**	$ 5,448	**$ 15,032**	$ 10,588
Capitalized share-based payments	**(3,708)**	(2,724)	**(7,516)**	(5,294)
Total share-based payments	**$ 3,708**	$ 2,724	**$ 7,516**	$ 5,294
Per Boe	**$ 0.80**	$ 1.06	**$ 0.84**	$ 1.13

Tourmaline uses the fair value method for the determination of all non-cash related share-based payments. During the second quarter of 2012, 855,000 stock options were granted to employees, officers, directors and key consultants at a weighted-average exercise price of $23.03, and 250,534 options were exercised, bringing $2.3 million of cash into treasury. The Company recognized $3.7 million of share-based compensation expense in the second quarter of 2012 compared to $2.7 million in the second quarter of 2011. Capitalized share-based payments for the second quarter of 2012 were $3.7 million compared to $2.7 million for the same quarter of the prior year.

For the six months ended June 30, 2012, share-based compensation expense totalled $7.5 million and capitalized share-based payments were $7.5 million (2011-$5.3 million and $5.3 million, respectively). The

increase in share-based compensation in 2012 compared to 2011 reflects the increased number of employees due to increased activity.

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

	Three Months Ended		Six Months Ended	
($000s, except per unit amounts)	**June 30, 2012**	June 30, 2011	**June 30, 2012**	June 30, 2011
Depletion, depreciation and amortization	**$ 61,790**	$ 38,561	**$ 117,797**	$ 68,869
Per Boe	**$ 13.31**	$ 15.00	**$ 13.24**	$ 14.75

DD&A expense was $61.8 million for the second quarter of 2012 compared to $38.6 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 second quarter of 2012 was $13.31/Boe compared to $15.00/Boe for the second quarter of 2011.

For the six months ended June 30, 2012, DD&A expense was $117.8 million (June 30, 2011 - $68.9 million) with an effective rate of $13.24/Boe (June 30, 2011 - $14.75/Boe). The lower DD&A rate, for both the three and six months ended June 30, 2012 compared to the same periods of 2011, reflects strong reserve additions derived from Tourmaline's exploration and production program.

FINANCE EXPENSES

Finance expenses for the three and six months ended June 30, 2012, totalled $2.8 million and $4.9 million and are comprised of interest expense and accretion of provisions (June 30, 2011 - $1.3 million and $2.0 million, respectively). The increased finance expenses are largely due to higher 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			Six Months Ended		
	June 30, 2012	June 30, 2011	Change	**June 30, 2012**	June 30, 2011	Change
Cash flow from operating activities	**$ 42,566**	$ 42,112	1%	**$ 102,093**	$ 88,998	15%
Funds from operations [2]	**$ 61,121**	$ 60,415	1%	**$ 122,957**	$ 105,355	17%
Funds from operations per share [1] [2]	**$ 0.37**	$ 0.41	(10)%	**$ 0.75**	$ 0.73	3%
Net earnings	**$ 1,012**	$ 15,192	(93)%	**$ 3,988**	$ 17,919	(78)%
Earnings per share [1]	**$ 0.01**	$ 0.10	(90)%	**$ 0.02**	$ 0.12	(83)%
Operating netback per Boe [2]	**$ 14.22**	$ 24.52	(42)%	**$ 14.84**	$ 23.84	(38)%

[1] *Fully diluted*
[2] *See "Non-IFRS Financial Measures"*

Funds from operations for the three months ended June 30, 2012 were $61.1 million or $0.37 per diluted share compared to $60.4 million or $0.41 per diluted share for the same period of 2011. For the six months ended June 30, 2012, funds from operations were $123.0 million or $0.75 per diluted share, which is slightly higher than the June 30, 2011, funds from operations of $105.4 million or $0.73 per diluted share. Funds from operations in 2012 reflect increased production over 2011 offset by lower realized natural gas prices.

After-tax earnings for both the three and six months ended June 30, 2012 are lower at $1.0 million ($0.01 per diluted share) and $4.0 million ($0.02 per diluted share), respectively, compared to $15.2 million ($0.10 per diluted share) and $17.9 million ($0.12 per diluted share), respectively, for the same periods of 2011. Although, the after-tax earnings for the first six months of 2012, compared to 2011, reflect increased production, as well as, a gain on divestitures of $7.3 million, they have been impacted by significantly lower realized natural gas prices, as well as, higher depletion, operating and transportation expenses recorded in 2012.

CAPITAL EXPENDITURES

	Three Months Ended		Six Months Ended	
(000s)	**June 30, 2012**	June 30, 2011	**June 30, 2012**	June 30, 2011
Land and seismic	**$ 4,461**	$ 19,446	**$ 15,299**	$ 24,260
Drilling and completions	**24,490**	34,347	**172,785**	165,817
Facilities	**22,149**	44,569	**88,156**	117,332
Property acquisitions	**58**	27,972	**974**	42,748
Property dispositions	**(50)**	–	**(12,568)**	(7,009)
Other	**2,723**	3,741	**5,609**	4,479
Total cash capital expenditures	**$ 53,831**	$ 130,075	**$ 270,255**	$ 347,627

During the second quarter of 2012, the Company invested $53.8 million of cash consideration, net of dispositions, compared to $130.1 million for the same period of 2011. Expenditures on exploration and production were $51.1 million compared to $98.4 million for the same quarter of 2011. The lower expenditures in 2012 are a result of a reduced capital budget due to lower commodity prices realized in 2012.

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

	Six Months Ended	
	June 30, 2012	
	Gross	**Net**
Drilled	**25**	**20.93**
Completed	**32**	**27.15**
Tied-in	**24**	**20.13**

LIQUIDITY AND CAPITAL RESOURCES

On April 4, 2012, the Company issued 1.4 million 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.

In June 2012, the Company amended and restated its bank credit facility to be a covenant-based facility rather than a borrowing base facility. This facility is a 3-year extendible revolving facility in the amount of $550 million plus a $25 million operating revolver from a syndicate of six lenders with an initial maturity date of June, 2015. The maturity date may, at the request of the Company and with the consent of the lenders, be extended on an annual basis. The facility is secured by a first ranking floating charge over all assets of the Company and its material subsidiaries. The facility can be drawn in either Canadian or U.S. funds and bears interest at the bank's prime lending rate, bankers' acceptance rates or LIBOR (for U.S. borrowings), plus applicable margins. The facility will provide the Company with greater flexibility by providing access to an additional $200 million over the previous facility.

Under the terms of the bank credit facility, Tourmaline has provided its covenant that, on a rolling four quarter basis: (i) the ratio of EBITDA to interest expense shall equal or exceed 3.5:1, (ii) the ratio of senior debt to EBITDA shall not exceed 3:1, (iii) the ratio of total debt to EBITDA shall not exceed 4:1, and (iv) the ratio of senior debt to total capitalization shall not exceed 0.5:1. As at June 30, 2012, the Company is in compliance with all debt covenants.

At June 30, 2012, Tourmaline had negative working capital of $19.8 million, after adjusting for the fair value of financial instruments (the unadjusted working capital deficiency was $15.3 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 facility. As at June 30, 2012, the Company's bank debt balance was $315.1 million (December 31, 2011 - $81.7 million), and net debt of $334.9 million (December 31, 2011 - $228.3 million).

SHARES OUTSTANDING

As at August 2, 2012, the Company has 160,481,746 common shares outstanding and 14,616,363 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	$ 1,273	$ 2,266	$ 2,121	$ 526	$ –	$ 6,186
Flow-through obligations	41,177	40,378	–	–	–	81,555
Firm transportation agreements	13,796	29,257	20,842	11,427	718	76,040
Bank debt[1]	–	–	–	348,024	–	348,024
	$ 56,246	$ 71,901	$ 22,963	$ 359,977	$ 718	$ 511,805

[1] *Includes interest expense at an annual rate of 3.33% being the rate applicable to outstanding bank debt at June 30, 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 June 30, 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 half of 2012 are detailed in note 3 of the Company's interim condensed consolidated financial statements for the three and six months ended June 30, 2012.

The following table provides a summary of the unrealized gains and losses on financial instruments for the three and six months ended June 30, 2012:

	Three Months Ended		Six Months Ended	
(000s)	**June 30, 2012**	June 30, 2011	**June 30, 2012**	June 30, 2011
Unrealized gain on financial instruments	**$ 7,343**	$ 3,122	**$ 4,977**	$ 371
Unrealized (loss) on investments held for trading	**(84)**	(68)	**(103)**	(86)
Total	**$ 7,259**	$ 3,054	**$ 4,874**	$ 285

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 and six months ended June 30, 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 year ended December 31, 2011.

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 March 31, 2012 and ending on June 30, 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:

	Three Months Ended		Six Months Ended	
(000s)	**June 30, 2012**	June 30, 2011	**June 30, 2012**	June 30, 2011
Cash flow from operating activities	**$ 42,566**	$ 42,112	**$ 102,093**	$ 88,998
Change in non-cash working capital	**18,555**	18,303	**20,864**	16,357
Funds from operations	**$ 61,121**	$ 60,415	**$ 122,957**	$ 105,355

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:

	Three Months Ended		Six Months Ended	
($/Boe)	**June 30, 2012**	June 30, 2011	**June 30, 2012**	June 30, 2011
Revenue, excluding processing income	**$ 21.64**	$ 33.60	**$ 23.00**	$ 33.19
Royalties	**(0.73)**	(1.36)	**(1.33)**	(1.66)
Transportation costs	**(1.85)**	(1.98)	**(1.82)**	(1.94)
Operating expenses	**(4.83)**	(5.74)	**(5.00)**	(5.75)
Operating netback [1]	**$ 14.22**	$ 24.52	**$ 14.84**	$ 23.84

(1) *May not add due to rounding.*

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 **June 30, 2012**		As at December 31, 2011
Working capital/(deficit)	**$**	**(15,311)**	$	(146,317)
Fair value of financial instruments – short-term (asset)/liability		**(4,498)**		(276)
Working capital/(deficit) (adjusted for the fair value of financial instruments)	**$**	**(19,809)**	$	(146,593)

Net Debt

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

(000s)		As at **June 30, 2012**		As at December 31, 2011
Bank debt	**$**	**(315,058)**	$	(81,749)
Working capital/(deficit)		**(15,311)**		(146,317)
Fair value of financial instruments – short-term (asset)/liability		**(4,498)**		(276)
Net debt	**$**	**(334,867)**	$	(228,342)

SELECTED QUARTERLY INFORMATION

	2012		2011				2010	
($000s, unless otherwise noted)	**Q2**	Q1	Q4	Q3	Q2	Q1	Q4	Q3
PRODUCTION								
Crude oil and NGL(bbls)	**596,992**	515,408	415,074	316,890	272,184	217,121	236,502	147,997
Gas (mcf)	**24,276,149**	22,430,621	18,437,079	17,058,132	13,798,653	11,283,617	11,251,067	9,502,337
Oil equivalent (Boe)	**4,643,016**	4,253,845	3,487,920	3,159,912	2,571,959	2,097,724	2,111,680	1,731,720
Crude oil and NGL (bbls/d)	**6,560**	5,664	4,512	3,444	2,991	2,412	2,571	1,609
Gas (mcf/d)	**266,771**	246,490	200,403	185,414	151,634	125,374	122,294	103,286
Oil equivalent (Boe/d)	**51,022**	46,746	37,912	34,347	28,263	23,308	22,953	18,823
FINANCIAL								
Gross revenue, net of royalties	**105,567**	94,781	98,309	98,225	87,551	62,019	63,340	46,822
Cash flow from operating activities	**42,566**	59,527	61,801	77,622	42,112	46,886	46,109	40,685
Funds from operations [(1)]	**61,121**	61,836	73,311	62,686	60,415	44,940	44,940	31,250
Per diluted share	**0.37**	0.38	0.45	0.40	0.41	0.32	0.34	0.25
Net earnings	**1,012**	2,976	16,074	8,688	15,192	2,727	5,865	428
Per basic share	**0.01**	0.02	0.10	0.06	0.11	0.02	0.05	0.00
Per diluted share	**0.01**	0.02	0.10	0.06	0.10	0.02	0.04	0.00
Total assets	**2,862,502**	2,878,261	2,711,024	2,517,607	2,030,285	1,936,836	1,816,043	1,546,820
Working capital	**(15,311)**	(176,029)	(146,317)	(120,080)	(31,963)	(139,138)	(49,642)	(78,205)
Working capital (adjusted for the fair value of financial instruments) [(1)]	**(19,809)**	(175,696)	(146,593)	(123,858)	(31,592)	(136,933)	(49,170)	(78,314)
Capital expenditures	**53,831**	216,424	232,167	249,162	130,075	217,553	217,064	151,944
Total outstanding shares (000s)	**160,459**	158,807	158,578	151,906	145,215	138,124	136,191	123,841
PER UNIT								
Gas ($/mcf)	**2.23**	2.54	3.76	4.25	4.38	4.48	4.17	4.36
Crude oil and NGL ($/bbl)	**77.75**	91.48	93.05	87.01	95.54	83.00	75.94	70.49
Revenue ($/Boe)	**21.64**	24.48	30.95	31.67	33.61	32.68	30.74	29.94
Operating netback ($/Boe) [(1)]	**14.22**	15.52	21.39	21.21	24.52	22.99	22.66	19.12

[(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 48,884 Boe per day in the first half of 2012. 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, with the largest declines occurring in 2012. The Company's cash flows from operating activities were $143.3 million in 2010, $228.4 million in 2011, and 2012 estimated cash flows (based on the first six months annualized) of $204.2 million. The 2012 estimated cash flows reflect the effects of the lower realized natural gas prices in 2012. 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)		June 30, 2012		December 31, 2011
Assets				
Current assets:				
Accounts receivable	$	**40,790**	$	60,799
Prepaid expenses and deposits		**3,082**		5,313
Fair value of financial instruments (note 3)		**4,498**		276
		48,370		66,388
Investments		–		233
Fair value of financial instruments (note 3)		**681**		–
Exploration and evaluation assets (note 4)		**617,899**		620,515
Property, plant and equipment (note 5)		**2,195,552**		2,023,888
	$	**2,862,502**	$	2,711,024
Liabilities and Shareholders' Equity				
Current liabilities:				
Accounts payable and accrued liabilities	$	**63,681**	$	212,705
		63,681		212,705
Bank debt (note 7)		**315,058**		81,749
Decommissioning obligations (note 6)		**52,427**		50,463
Long-term obligation		**9,001**		10,864
Fair value of financial instruments (note 3)		–		74
Deferred premium on flow-through shares		**17,017**		11,316
Deferred taxes		**115,205**		107,977
Shareholders' equity:				
Share capital (note 9)		**2,176,790**		2,140,660
Non-controlling interest (note 8)		**15,802**		15,079
Contributed surplus		**61,172**		47,776
Retained earnings		**36,349**		32,361
		2,290,113		2,235,876
	$	**2,862,502**	$	2,711,024

Commitments (note 12)
Subsequent events (note 3)
See accompanying notes to the interim condensed consolidated financial statements.

CONSOLIDATED STATEMENTS OF INCOME AND COMPREHENSIVE INCOME

	Three Months Ended				Six Months Ended			
(000s) except per-share amounts (unaudited)		**June 30, 2012**		June 30, 2011		**June 30, 2012**		June 30, 2011
Revenue:								
Oil and natural gas sales	**$**	**96,324**	$	83,705	**$**	**195,097**	$	146,986
Royalties		**(3,399)**		(3,501)		**(11,870)**		(7,730)
		92,925		80,204		**183,227**		139,256
Realized gain on financial instruments		**4,137**		2,728		**9,502**		7,994
Unrealized gain on financial instruments (note 3)		**7,259**		3,054		**4,874**		285
Other income		**1,246**		1,565		**2,745**		2,035
		105,567		87,551		**200,348**		149,570
Expenses:								
Operating		**22,419**		14,762		**44,500**		26,862
Transportation		**8,611**		5,103		**16,159**		9,083
General and administration		**3,196**		2,979		**7,046**		5,648
Share-based payments		**3,708**		2,724		**7,516**		5,294
(Gain)/loss on divestitures		**(66)**		–		**(7,272)**		3,630
Depletion, depreciation and amortization		**61,790**		38,561		**117,797**		68,869
		99,658		64,129		**185,746**		119,386
Results from Operating Activities		**5,909**		23,422		**14,602**		30,184
Finance expenses		**2,805**		1,304		**4,936**		2,033
Income before taxes		**3,104**		22,118		**9,666**		28,151
Deferred taxes		**1,781**		6,655		**4,955**		9,786
Net income and comprehensive income for the period before non-controlling interest		**1,323**		15,463		**4,711**		18,365
Net income and comprehensive income attributable to:								
Shareholders of the Company		**1,012**		15,192		**3,988**		17,919
Non-controlling interest (note 8)		**311**		271		**723**		446
	$	**1,323**	**$**	15,463	**$**	**4,711**	$	18,365
Income per share attributable to common shareholders (note 10)								
Basic	**$**	**0.01**	$	0.11	**$**	**0.03**	$	0.13
Diluted	**$**	**0.01**	$	0.10	**$**	**0.02**	$	0.12

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
Issue of common shares (note 9)	31,867	–	–	–	31,867
Share issue costs, net of tax	(1,608)	–	–	–	(1,608)
Share-based payments	–	7,516	–	–	7,516
Capitalized share-based payments	–	7,516	–	–	7,516
Options exercised (note 9)	5,871	(1,636)	–	–	4,235
Income attributable to common shareholders	–	–	3,988	–	3,988
Income attributable to non-controlling interest	–	–	–	723	723
Balance at June 30, 2012	$ 2,176,790	$ 61,172	$ 36,349	$ 15,802	$ 2,290,113

(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	213,695	–	–	–	213,695
Share issue costs, net of tax	(7,568)	–	–	–	(7,568)
Share-based payments	–	5,294	–	–	5,294
Capitalized share-based payments	–	5,294	–	–	5,294
Options exercised	7,694	(2,148)	–	–	5,546
Income attributable to common shareholders	–	–	17,919	–	17,919
Income attributable to non-controlling interest	–	–	–	446	446
Balance at June 30, 2011	$ 1,721,873	$ 37,702	$ 7,599	$ 14,355	$ 1,781,529

See accompanying notes to the interim condensed consolidated financial statements.

CONSOLIDATED STATEMENTS OF CASH FLOW

	Three Months Ended		Six Months Ended	
(000s) (unaudited)	**June 30, 2012**	June 30, 2011	**June 30, 2012**	June 30, 2011
Cash provided by (used in):				
Operations:				
Net income	**$ 1,012**	$ 15,192	**$ 3,988**	$ 17,919
Items not involving cash:				
Depletion and depreciation	**61,790**	38,561	**117,797**	68,869
Accretion	**308**	341	**615**	674
Share-based payments	**3,708**	2,724	**7,516**	5,294
Deferred taxes	**1,781**	6,655	**4,955**	9,786
Unrealized (gain) on financial instruments (note 3)	**(7,259)**	(3,054)	**(4,874)**	(285)
Realized (gain) on sale of investments	**(38)**	–	**(38)**	–
(Gain)/loss on divestitures	**(66)**	–	**(7,272)**	3,630
Non-controlling interest	**311**	271	**723**	446
Decommissioning expenditures	**(426)**	(275)	**(453)**	(978)
Changes in non-cash operating working capital	**(18,555)**	(18,303)	**(20,864)**	(16,357)
	42,566	42,112	**102,093**	88,998
Financing:				
Issue of common shares	**42,673**	176,712	**44,613**	226,984
Share issue costs	**(1,700)**	(7,590)	**(2,145)**	(10,054)
Increase in bank debt	**108,388**	6,810	**233,309**	44,445
	149,361	175,932	**275,777**	261,375
Investing:				
Exploration and evaluation	**(8,413)**	(55,709)	**(34,031)**	(107,928)
Property, plant and equipment	**(45,410)**	(46,394)	**(247,818)**	(203,960)
Property acquisitions	**(58)**	(27,972)	**(974)**	(42,748)
Proceeds from divestitures	**50**	–	**12,568**	7,009
Proceeds from sale of investments	**168**	–	**168**	338
Repayment of long-term obligation	**(932)**	(931)	**(1,863)**	(1,863)
Changes in non-cash investing working capital	**(137,332)**	(87,038)	**(105,920)**	(66,381)
	(191,927)	(218,044)	**(377,870)**	(415,533)
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 and six months ended June 30, 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 August 2, 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.

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 June 30, 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 financial derivative contracts since December 31, 2011 to June 30, 2012:

Type of Contract	Quantity	Time Period	Contract Price	Fair Value
Financial Swap	100 bbls/d	July 2012 – June 2013	US$100.10/bbl	478
Financial Swap	100 bbls/d	August 2012 – July 2013	US$101.10/bbl	503
Financial Swap	100 bbls/d	August 2012 – December 2013	US$100.60/bbl	672
Financial Swap	100 bbls/d	January 2013 – December 2013	US$101.05/bbl	468
Financial Swap	100 bbls/d	July 2012 – March 2013	US$103.30/bbl	461
Financial Swap	100 bbls/d	January 2013 – December 2013	US$101.45/bbl	483
Financial Swap	100 bbls/d	January 2013 – December 2013	US$103.40/bbl	555
Financial Swap(1)	400 bbls/d	April 2012 – December 2012	US$109.00/bbl	1,711
Swaption(1)	400 bbls/d	January 2013 – December 2013	US$108.00/bbl	(186)

(1) This is a combined transaction (European swaption) whereby 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.

The following contracts were entered into subsequent to June 30, 2012:

Type of Contract	Quantity	Time Period	Contract Price
Financial Swap[(1)]	100 bbls/d	July 2013 – December 2013	US$99.00/bbl
Swaption[(1)]	100 bbls/d	January 2014 – December 2014	US$100.00/bbl
Financial Swap[(1)]	100 bbls/d	July 2013 – December 2013	US$97.50/bbl
Swaption[(1)]	100 bbls/d	January 2014 – December 2014	US$100.00/bbl
Financial Swap[(2)]	10,000 MMbtu/d	January 2013 – December 2013	US$4.15/MMbtu
Swaption[(2)]	10,000 Mmbtu/d	January 2014 – December 2014	US$4.15/MMbtu

(1) This is a combined transaction (European swaption) whereby the Company provided the option to extend an oil swap into 2014 to realize a higher price on an oil swap in 2013. The option to extend can only be exercised on December 31, 2013.

(2) This is a combined transaction (European swaption) whereby the Company provided the option to extend a natural gas swap into 2014 to realize a higher price on a natural gas swap in 2013. The option to extend can only be exercised on December 23, 2013.

On May 29, 2012, the Company entered into an interest rate swap. The following table outlines the realized and unrealized losses on the interest rate contract recorded on the consolidated statement of income and comprehensive income for the three and six months ended June 30, 2012:

(000s)

Term	Type (Floating to Fixed)	Amount	Company Fixed Interest Rate (%)	Counter Party Floating Rate Index	Realized (Loss)	Unrealized (Loss)
May 29, 2012- May 29, 2014	Swap	$150,000	1.35%	Floating Rate	$ (16)	$ (607)

The following table provides a summary of the unrealized gains/(losses) on financial instruments for the three and six months ended June 30, 2012 and 2011:

	Three Months Ended		Six Months Ended	
(000s)	**June 30, 2012**	June 30, 2011	**June 30, 2012**	June 30, 2011
Unrealized gain on financial instruments	**$ 7,343**	$ 3,122	**$ 4,977**	$ 371
Unrealized (loss) on investments held for trading	**(84)**	(68)	**(103)**	(86)
Total	**$ 7,259**	$ 3,054	**$ 4,874**	$ 285

As at June 30, 2012, if the future strip prices for oil were $1.00 per bbl higher, with all other variables held constant, before-tax earnings would have been $0.6 million (June 30, 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 if oil prices were $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 June 30, 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
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$0.445/MMbtu
AECO/Nymex Differential Swap	10,000 MMbtu/d	November 2012 – October 2013	Nymex less USD$0.3975/MMbtu
AECO Costless Collar	5,000 Gjs/d	July 2012 – December 2012	$1.70/GJ floor – $2.15/GJ ceiling
AECO Costless Collar	5,000 Gjs/d	July 2012 – December 2012	$1.80/GJ floor – $2.25/GJ ceiling

(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 June 30, 2012:

Type of Contract	Quantity	Time Period	Contract Price
AECO/Nymex Differential Swap	5,000 MMbtu/d	November 2012 – December 2013	Nymex less USD$0.425/MMbtu
AECO/Nymex Differential Swap	10,000 MMbtu/d	January 2013 – December 2013	Nymex less USD$0.4575/MMbtu
AECO/Nymex Differential Swap	10,000 MMbtu/d	January 2014 – December 2014	Nymex less USD$0.415/MMbtu

4. EXPLORATION AND EVALUATION ASSETS

(000s)		
As at December 31, 2011	$	620,515
Capital expenditures		37,123
Transfers to property, plant and equipment (note 5)		(37,968)
Acquisitions		199
Divestitures		(1,970)
As at June 30, 2012	$	617,899

General and administrative expenditures for the six months ended June 30, 2012 of $2.7 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 $3.1 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		252,242
Transfers from exploration and evaluation (note 4)		37,968
Change in decommissioning liabilities (note 6)		1,946
Acquisitions		775
Divestitures		(3,470)
As at June 30, 2012	$	2,565,764

Accumulated Depletion, Depreciation and Amortization

(000s)		
As at December 31, 2011	$	252,415
Depletion, depreciation and amortization		117,797
As at June 30, 2012	$	370,212

Net Book Value

(000s)		
As at December 31, 2011	$	2,023,888
As at June 30, 2012	$	2,195,552

General and administrative expenditures for the six months ended June 30, 2012 of $2.8 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 $4.4 million (December 31, 2011 - $2.3 million).

Future development costs for the six months ended June 30, 2012 of $1,596 million (December 31, 2011 - $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), with some abandonments expected to commence in 2021. A risk-free rate of 2.49% (December 31, 2011 – 2.49%) and an inflation rate of 2.0% (December 31, 2011 – 2.0%) were used to calculate the fair value of the decommissioning obligations.

(000s)	Six Months Ended June 30, 2012	Year Ended December 31, 2011
Balance, beginning of period	**$ 50,463**	$ 35,279
Obligation incurred	**1,946**	6,048
Obligation incurred on corporate acquisitions	**–**	2,430
Obligation incurred on property acquisitions	**–**	1,845
Obligation divested	**(144)**	(481)
Obligation settled	**(453)**	(1,047)
Accretion expense	**615**	1,315
Change in future estimated cash outlays	**–**	5,074
Balance, end of period	$ **52,427**	**$** 50,463

7. BANK DEBT

In June 2012, the Company amended and restated its bank credit facility to a covenant-based facility rather than a borrowing base facility. This facility is a three-year extendible revolving facility in the amount of $550 million plus a $25 million operating revolver from a syndicate of lenders with an initial maturity date of June 2015. The maturity date may, at the request of the Company and with the consent of the lenders, be extended on an annual basis. The facility is secured by a first ranking floating charge over all assets of the Company and its material subsidiaries. The facility can be drawn in either Canadian or U.S. funds and bears interest at the bank's prime lending rate, bankers' acceptance rates or LIBOR (for U.S. borrowings), plus applicable margins, which range from 2.00 to 3.25 percent over bankers' acceptance rates depending on the Company's senior debt to EBITDA ratio.

Under the terms of the bank credit facility, Tourmaline has provided its covenant that, on a rolling four quarter basis: (i) the ratio of EBITDA to interest expense shall equal or exceed 3.5:1, (ii) the ratio of senior debt to EBITDA shall not exceed 3:1, (iii) the ratio of total debt to EBITDA shall not exceed 4:1, and (iv) the ratio of senior debt to total capitalization shall not exceed 0.5:1. As at June 30, 2012, the Company is in compliance with all debt covenants.

As at June 30, 2012, Tourmaline's bank debt balance was $315.1 million (December 31, 2011 - $81.7 million). Included in the Company's bank debt balance is $319.2 million in draws on the credit facility, predominantly through bankers' acceptances, partially offset by prepaid credit facility renewal fees of $1.5 million, as well as, prepaid interest on bankers' acceptances of $2.6 million. In addition, Tourmaline has outstanding letters of credit of $4.1 million (December 31, 2011 - $3.6 million), which reduce the credit available on the facility.

8. NON-CONTROLLING INTEREST

Tourmaline owns 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)		**Six Months Ended June 30, 2012**		Year Ended December 31, 2011
Balance, beginning of period	**$**	**15,079**	$	13,909
Share of subsidiary's net income for the period		**723**		1,170
Balance, end of period	**$**	**15,802**	$	15,079

9. 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

	Six Months Ended June 30, 2012			Year Ended December 31, 2011		
($000s)	**Number of Shares**		**Amount**	Number of Shares		Amount
Balance, beginning of period	**158,577,586**	**$**	**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) (2)]	**1,402,000**		**31,867**	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	**479,701**		**4,235**	1,356,502		12,532
Contributed surplus on exercise of stock options	–		**1,636**	–		4,856
Share issue costs	–		**(2,145)**	–		(19,329)
Tax effect of share issue costs	–		**537**	–		4,740
Balance, end of period	**160,459,287**	**$**	**2,176,790**	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 June 30, 2012, the Company is committed to spending the remaining unspent amount of $41.2 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.

[(2)] On April 4, 2012, the Company issued 1.4 million flow-through shares at $28.80 per share for total gross proceeds of $40.4 million. The implied premium on the flow-through shares was determined to be $8.5 million or $6.07 per share. A total of 0.15 million shares were purchased by insiders. The expenditures will be renounced to investors with an effective renunciation date of December 31, 2012. The Company is committed to spending the entire $40.4 million on qualified exploration and development expenditures by December 31, 2013.

10. EARNINGS PER SHARE

Basic earnings-per-share was calculated as follows:

	Three Months Ended		Six Months Ended	
	June 30, 2012	June 30, 2011	**June 30, 2012**	June 30, 2011
Net earnings for the period (000s)	**$ 1,012**	$ 15,192	**$ 3,988**	$ 17,919
Weighted average number of common shares - basic	**160,236,254**	141,619,564	**159,426,316**	139,259,452
Earnings per share – basic	**$ 0.01**	$ 0.11	**$ 0.03**	$ 0.13

Diluted earnings-per-share was calculated as follows:

	Three Months Ended		Six Months Ended	
	June 30, 2012	June 30, 2011	**June 30, 2012**	June 30, 2011
Net earnings for the period (000s)	**$ 1,012**	$ 15,192	**$ 3,988**	$ 17,919
Weighted average number of common shares - diluted	**164,627,751**	147,338,844	**163,921,951**	144,601,769
Earnings per share – fully diluted	**$ 0.01**	$ 0.10	**$ 0.02**	$ 0.12

There were 4,673,024 options excluded from the weighted-average share calculation for the six months ended June 30, 2012 because they were anti-dilutive (June 30, 2011 – 1,320,000).

11. 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 16,045,929 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.

	Six Months Ended			
	June 30, 2012		June 30, 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	**905,000**	**23.13**	1,175,000	27.79
Exercised	**(479,701)**	**8.83**	(619,335)	8.96
Forfeited	–	–	(179,999)	13.64
Stock options outstanding, end of period	**14,638,822**	**$ 17.47**	12,372,666	$ 13.86

The following table summarizes stock options outstanding and exercisable at June 30, 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	2,700,967	1.40	$ 7.09	2,700,967	$ 7.09
$10.00 - $15.00	4,543,998	2.21	12.84	3,528,998	12.33
$16.68 - $32.78	7,393,857	3.89	24.11	1,429,500	20.82
	14,638,822	2.91	$ 17.47	7,659,465	$ 12.07

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

	June 30, 2012	June 30, 2011
Fair value of options granted (weighted average)	**$ 7.95**	$ 10.67
Risk-free interest rate	**2.37%**	2.36%
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

12. 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 June 30, 2012, the Company has spent $14.6 million on eligible expenditures and is committed to spend the remainder of $41.2 million before December 31, 2012.

On April 4, 2012, the Company issued 1.4 million common shares on a flow-through basis at a price of $28.80 per share for gross proceeds of $40.4 million. The Company is committed to spend the entire $40.4 million on qualified exploration expenditures by December 31, 2013.

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	$ 1,273	$ 2,266	$ 2,121	$ 526	$ –	$ 6,186
Flow-through obligations	41,177	40,378	–	–	–	81,555
Firm transportation agreements	13,796	29,257	20,842	11,427	718	76,040
Bank debt[1]	–	–	–	348,024	–	348,024
	$ 56,246	$ 71,901	$ 22,963	$ 359,977	$ 718	$ 511,805

[1] Includes interest expense at an annual rate of 3.33% being the rate applicable at June 30, 2012.