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Interim Financial Statements

(Expressed in Canadian Dollars)

(Prepared in accordance with Canadian GAAP)

Three months ended February 28, 2007

The accompanying unaudited interim financial statements of Torque Energy Inc. for the three months ended February 28, 2007 have been prepared by management and approved by the Audit Committee and the Board of Directors of the Company. These statements have not been reviewed by the Company's external auditors.

Torque Energy Inc.
Consolidated Balance Sheet

	February 28 2007	November 30 2006
	(Unaudited)	(Audited)
Assets		
Current		
Accounts receivable	209,847	313,383
Prepaid expenses	61,453	60,209
	<u>271,300</u>	<u>373,592</u>
Reclamation bonds	70,000	70,000
Property, plant and equipment, net of accumulated depletion and amortization (Note 3)	<u>10,762,278</u>	<u>10,877,515</u>
	\$ 11,103,578	\$ 11,321,107
Liabilities and Shareholders' Equity		
Current		
Cheques issued in excess of bank deposit	66,439	\$ 137,173
Accounts payable and accrued liabilities	419,458	602,486
Bank loan (Note 4)	4,350,000	4,275,000
Current portion of obligations under capital lease	8,041	7,763
	<u>4,843,938</u>	<u>5,022,422</u>
Obligations under capital lease	9,244	11,357
Asset retirement obligation (Note 5)	<u>679,507</u>	<u>685,852</u>
	5,532,689	5,699,631
Shareholders' equity		
Share capital (Note 6)	12,143,910	12,143,910
Contributed surplus	510,241	510,241
Deficit	<u>(7,083,262)</u>	<u>(7,032,675)</u>
	5,570,889	5,621,476
	\$ 11,103,578	\$ 11,321,107

Approved on behalf of the Board:

(signed) John F. Cowan Director

(signed) Paul W. Vandebosch Director

Torque Energy Inc.
Consolidated Statements of Operations and Deficit

For the three months ended February 28	2007	2006
	(Unaudited)	(Unaudited)
Revenue		
Oil and gas sales	\$ 727,932	\$ 853,262
Less royalties	<u>(93,369)</u>	<u>(109,871)</u>
	634,563	743,391
Other income	<u>14,684</u>	<u>16,663</u>
	649,247	760,054
Expenses		
Operating	234,902	170,339
Depletion, amortization and accretion	221,237	238,211
Amortization of deferred costs	-	39,068
General and administrative	159,235	126,891
Interest on debentures and bank loan	84,460	88,911
Stock based compensation	-	105,241
	<u>699,834</u>	<u>768,661</u>
Loss for the period	(50,587)	(8,607)
Deficit, beginning of period	<u>(7,032,675)</u>	<u>(6,977,347)</u>
Deficit, end of period	\$ (7,083,262)	\$ (6,985,954)
Basic and diluted income per share	<u>\$ (0.00)</u>	<u>\$ (0.00)</u>
Weighted average number of basic common shares outstanding	<u>13,837,698</u>	<u>13,837,685</u>
Weighted average number of diluted common shares outstanding	14,194,482	13,837,698

Torque Energy Inc.
Consolidated Statements of Cash Flows

For the three months ended February 28	2007	2006
Cash flows from operating activities		
Loss for the period	\$ (50,587)	\$ (8,607)
Adjustments for:		
Depletion, amortization and accretion	221,237	238,211
Amortization of deferred costs	-	39,068
Stock based compensation	-	105,241
Asset retirement obligations incurred	(1,327)	(4,948)
	<u>169,323</u>	<u>368,965</u>
Changes in non-cash working capital balances		
Accounts receivable	103,536	59,918
Prepaid expenses	(1,244)	(43,754)
Accounts payable and accrued liabilities	(183,028)	145,234
Cash flow from operations	<u>88,587</u>	<u>530,363</u>
Cash flows from financing activities		
Repayment of capital lease obligation	(1,835)	-
Cheques issued in excess of bank deposit	(70,734)	-
Advances from/(Repayment of) bank loan	75,000	(210,000)
	<u>2,431</u>	<u>(210,000)</u>
Cash flows from investing activities		
Acquisition of property, plant and equipment	(91,018)	(45,020)
	<u>(91,018)</u>	<u>(45,020)</u>
Increase in cash during the period	-	275,343
Cash, beginning of period	-	890,322
Cash, end of period	\$ -	\$ 1,165,665

Torque Energy Inc.
Notes to Consolidated Financial Statements

February 28, 2007 (unaudited)

1. INTERIM FINANCIAL INFORMATION

These interim consolidated financial statements have been prepared in accordance with Canadian generally accepted accounting principles and use the same accounting policies and methods used in the preparation of the company's most recent consolidated financial statements. However, all disclosures required for annual financial statements have not been included in these financial statements. These interim consolidated financial statements should therefore be read in conjunction with the company's most recent annual consolidated financial statements.

The Company's principal business is the acquisition, exploration and development of oil and gas properties primarily in the province of Ontario and Alberta. The Company was created by amalgamation on June 1, 1993 in the province of British Columbia.

2. NEW ACCOUNTING STANDARDS

Effective December 1, 2006, the Company adopted Sections 1530 "Comprehensive Income", 3251 "Equity", 3855 "Financial Instruments – Recognition and Measurement" and 3865 "Hedges" issued by the Canadian Institute of Chartered Accountants. Therefore, the Company has recognized all of its financial assets and liabilities in the consolidated balance sheet according to those classifications.

These recommendations had no significant effect on the Company's consolidated financial statements.

3. PROPERTY, PLANT AND EQUIPMENT

	Cost	Accumulated depletion and amortization	Net Book Value
Petroleum and natural gas properties and equipment	\$ 16,876,348	\$ 6,153,967	\$ 10,722,381
Furniture and equipment	140,372	100,475	39,897
	<u>\$ 17,016,720</u>	<u>\$ 6,254,412</u>	<u>\$ 10,762,278</u>

During the period ending February 28, 2007, the Company capitalized \$21,840 of general and administration expenses related to geology and the development of oil and gas properties. Costs of approximately \$611,000 relating to unproved reserves have been excluded from the calculation of depletion.

Included in furniture and equipment are assets under capital lease with a cost of \$24,307 and accumulated amortization of \$3,525.

4. BANK LOAN

The loan facility provides Torque with a revolving reducing demand loan bearing interest payable monthly at the bank's prime lending rate plus 1.50%. Presently, the bank's prime lending rate is 6.00%. The loan is collateralized by a General Assignment of Book Debts together with a fixed and floating \$20,000,000 debenture over all Torque's assets. The credit facility at November 30, 2006 year end was \$6,175,000 and the available credit was \$2,125,000.

At February 28, 2007, \$4,350,000 of funds had been drawn against the facility and the available credit is \$1,900,000.

Torque Energy Inc.
Notes to Consolidated Financial Statements

February 28, 2007 (unaudited)

On April 18, 2007, the Company agreed to the terms of a revised revolving demand credit facility in the amount of \$6,100,000 bearing interest payable monthly at prime plus 1.00% to be used for general corporate purposes including capital expenditures. At the date of approval, the bank's prime rate was 6.0% and the available credit is \$1,525,000.

5. ASSET RETIREMENT OBLIGATION

The undiscounted amount of expected cash flows required to settle the asset retirement obligations is estimated at \$1,675,190 (2005 - \$1,550,255). The liability for the expected cash flows, as reflected in the consolidated financial statements, has been discounted at 9% and includes a 2.0% inflation factor.

The schedule below is a continuity of the Company's liability for the period ended February 28:

	<u>2007</u>
Asset retirement obligation, beginning of year	<u>\$ 685,852</u>
Liabilities accrued (reduced)	-
Asset retirement costs incurred	<u>(1,327)</u>
Accretion expense	<u>14,982</u>
Asset retirement obligation, end of year	<u>\$ 679,507</u>

Costs attributable to these commitments and contingencies are expected to be incurred over an extended period of time and are to be funded mainly from the Company's cash provided by operating activities. Over the next 5 years, approximately 40% of the costs will be incurred and the remainder from 2013 to 2055. Although the ultimate impact of these matters on operations cannot be determined at this time, it could be material for any one quarter or year.

6. SHARE CAPITAL

a) Authorized

Unlimited common voting shares without par value
100,000,000 Class 'A' preference shares, par value \$10
100,000,000 Class 'B' preference shares, par value \$50

b) Issued and outstanding

	<u>2007</u>	
Common shares	<u>Shares</u>	<u>Amount</u>
Balance, beginning of period	<u>13,837,698</u>	<u>\$ 12,143,910</u>
Share issued during the period	-	-
Balance, end of period	<u>13,837,698</u>	<u>\$ 12,143,910</u>

On January 24, 2007 escrowed shares were released and no further shares are subject to the escrow agreement.

Stock Options:

As at February 28, 2007, all 1,180,000 options have been issued and are fully vested and exercisable at a weighted average price of \$0.10.

February 28, 2007 (unaudited)

7. INCOME TAXES

The Company has not recognized tax expense for the period due to the expected benefit related to claiming certain oil and gas tax pools.

8. RELATED PARTY TRANSACTIONS

During the three months ended February 28, 2007, \$7,500 (2006 - \$7,500) was paid for office facilities and administrative services to a company related by virtue of a common director.

During the three months ended February 28, 2007 \$47,300 (2006 - \$47,300) was paid to an officer of the Company for management fees. Approximately \$22,000 is included in property and equipment expenses. At February 28, 2007, \$14,857 was included in accounts receivable and prepaid expenses related to these transactions. The transactions are in the normal course of business and have been recognized at the agreed to exchange amounts.

9. FINANCIAL INSTRUMENTS

As disclosed, the Company holds various forms of financial instruments. The nature of these instruments and the Company's operations expose the Company to interest rate risk and industry credit risk. The Company manages its exposure to these risks by operating in a manner that minimizes its exposure to the extent practical.

(a) Interest rate risk management

The Company's bank borrowings are subject to floating rates. The floating rate debt is subject to interest rate cash flow risk, as the required cash flows to service the debt will fluctuate as a result of changes in market rates.

As at February 28, 2007, the increase or decrease in net earnings before taxes for each 1% change in interest rates on floating rate debt amounts to approximately \$43,000 annually (2006 - \$20,000). The related disclosures regarding this debt instrument are included in Note 4 of these financial statements.

(b) Industry risks

The Company's trade accounts receivable are from companies in the oil and gas industry, and as such the Company is exposed to all the risks associated with that industry. The Company does not manage price risk on its production by entering into forward sales and fixed price contracts.

Substantially all of the Company's oil revenues are from one customer and all of the Company's gas revenues are from one other customer. Approximately 89% of accounts receivable are from these two customers (2006 – 55% were from these same two customers).

February 28, 2007 (unaudited)

10. SUBSEQUENT EVENT

On April 18, 2007, the Company agreed to the terms of a revised revolving demand credit facility in the amount of \$6,100,000 bearing interest payable monthly at prime plus 1.00% to be used for general corporate purposes including capital expenditures. At the date of approval, the bank's prime rate was 6.0% and the available credit is \$1,525,000.

The revised loan is secured by a General Assignment of Book Debts together with a fixed and floating \$20,000,000 debenture over all Torque's assets.