



**MANAGEMENT'S DISCUSSION AND ANALYSIS  
FOR THE THREE MONTH  
PERIOD ENDED FEBRUARY 28, 2007**

**Form 51-102F1**

**April 26, 2007**

This Management's Discussion and Analysis ("MD&A") of financial conditions and operating results is prepared as of April 26, 2007 and should be read in conjunction with the unaudited interim financial statements for the three months ended February 28, 2007 together with the notes thereto and the audited financial statements and MD&A for the year ended November 30, 2006.

All data is presented in Canadian dollars. Barrels of oil equivalent ("BOE") have been calculated using an industry accepted conversion rate of six thousand cubic feet of natural gas to one barrel of oil. Analysis includes events that have occurred up to the date of the MD&A, February 28, 2007. Financial data has been prepared in accordance with Canadian generally accepted accounting principles generally accepted (GAAP).

This Management Discussion and Analysis may contain forward-looking statements including expectations of future capital programs and commodity prices. These statements are based on current expectations that involve a number of risks and uncertainties, which could cause actual results to differ from those anticipated. These risks include, but are not limited to: operational risk in development, exploration and production; delays or changes in plans with respect to exploration or development projects or capital expenditures; and commodity price and exchange rate fluctuation and uncertainties.

**Corporate Performance**

Torque is a Canadian energy company engaged in the business of exploration, development and production of crude oil and natural gas in Southwestern Ontario and Alberta. Its common shares are traded on the TSX Venture Exchange (TSX-V) under the symbol "TQE".

The Company realized a loss of \$50,587 (\$0.00 per share) for the three months ended February 28, 2007 compared to a loss of \$8,607 (\$0.00 per share) for the same period in 2006. Oil and gas revenues less royalties decreased to \$634,563 in 2007 versus \$743,391 in 2006, primarily due to field maintenance during the period, which had the Petrolia East field shut-in for a three week period.

General and administrative costs increased to \$181,075 in 2007 (including \$21,840 capitalized amounts) from \$126,891 over the same period in 2006 as a result of increases in salaries, audit fees, legal fees and taxes. Operating costs including transportation, for the three months ended February 2007 increased to \$234,902 compared to \$170,339 for the same period in 2006 as a result of the field work completed at the Petrolia East field combined with the carry over from field repairs and maintenance at the Dover East field.

Production for the period averaged 144 BOE per day compared to 150 BOE per day for the same period in 2006.

Property, plant and equipment decreased to \$10,762,278 at February 28, 2007 from \$10,877,515 at November 30, 2006 while its shareholders' equity decreased to \$5,570,889 at February 28, 2007 from \$5,621,476 at November 30, 2006.

These variations are not unexpected and reflect the variations normally encountered in the production and sale of oil and natural gas by companies of the size of Torque.

## Results of Operations

### Summary of Quarterly Results

#### Three months ended February 28

	2007	2006	2005
Revenues (net)	\$649,247	\$760,054	\$644,228
Net income (loss) in total	\$(50,587)	\$(8,607)	\$(65,719)
Per share basis	\$0.00	\$0.00	\$(0.01)
Diluted per share basis	\$0.00	\$0.00	\$(0.01)

In the three first quarters shown above, there were no discontinued operations or extraordinary items.

Net revenues decreased in the first quarter of 2007 as daily production volumes were down on a daily basis due to major field maintenance activity and cold weather related surface equipment problems over the period. The problem occurs on an annual basis and is typical of first quarter results. There were no extraordinary items or unusual year end adjustments during the period.

### Oil and Natural Gas Sales

#### Three months ended February 28

	2007 M\$	2006 M\$	2005 M\$	Q1 2006-2007 % Change
Gross oil and natural gas liquid sales	533.5	597.5	497.1	(11)%
Gross natural gas sales	194.4	255.8	224.7	(24)%
Royalties	93.4	109.9	92.4	(15)%
<b>Oil &amp; Gas Sales, Net of Royalties</b>	<b>634.5</b>	<b>743.4</b>	<b>629.4</b>	<b>(15)%</b>

M\$ = thousands of dollars

Oil and gas sales, net of royalties, decreased 15% in the first quarter of 2007 to \$634,563. Production volumes on a BOE basis decreased from 150 BOE per day (BOE/d) in Q1 2006 to 144 BOE/d in Q1 2007. The production decreases experienced were due to normal declines in production occurring during this period, combined with field maintenance that had the Petrolia East field shut in for a three week period. Lower gas prices in Q1 2007 also contributed to decreased revenues compared to Q1 2006. Commodity prices are expected to remain strong through the balance of 2007.

### Three Months ended February 28

	2007	2006	2005	Q1 2006-2007 % Change
Oil and natural gas liquids volumes - Mbbbl	8.9	10.2	10.9	(13)%
Oil and natural gas liquids price - \$/bbl	\$59.84	58.64	45.44	2%
Gross oil and natural gas liquids sales - M\$	533.5	597.4	497.1	(11)%
Natural gas volumes - MMcf	22.0	20.0	24.7	10%
Natural gas price - \$/Mcf	\$8.86	12.81	9.10	(31)%
Gross natural gas sales - M\$	\$194.4	255.8	224.7	(24)%

bbl = one barrel (of oil)

cf = cubic feet (of natural gas)

M = one thousand

MM = one million

### Production History Summary

	2006		2005		2005	
	Q1	\$/UNIT	Q1	\$/UNIT	Q1	\$/UNIT
<b>Volume:</b>						
Oil Production	8,916		10,188		10,941	
Gas Production	21,951		19,968		24,688	
BOE	12,575		13,516		15,056	
<b>Revenues:</b>						
Oil Production	\$533,509	\$59.84	\$597,441	\$58.64	\$497,118	\$45.44
Royalties	(\$69,881)	(\$7.84)	(\$78,732)	(\$7.73)	(\$64,860)	(\$5.93)
	\$463,628	\$52.00	\$518,709	\$50.91	\$432,258	\$39.51
Gas Production	\$194,423	\$8.86	\$255,821	\$12.81	\$224,688	\$9.10
Royalties	(\$23,488)	(\$1.07)	(\$31,139)	(\$1.56)	(\$27,568)	(\$1.12)
	\$170,935	\$7.79	\$224,682	\$11.25	\$197,120	\$7.98
<b>Gross Oil &amp; Gas Revenue</b>	<b>\$727,932</b>	<b>\$57.89</b>	<b>\$853,262</b>	<b>\$63.13</b>	<b>\$721,806</b>	<b>\$47.94</b>
<b>Net Revenue after Royalties</b>	<b>\$634,563</b>	<b>\$50.46</b>	<b>\$743,391</b>	<b>\$55.00</b>	<b>\$629,378</b>	<b>\$41.80</b>
<b>Expenses:</b>						
Operating	\$213,762	\$17.00	\$146,724	\$10.86	\$148,688	\$9.88
Transportation	21,140	\$1.68	\$23,615	\$1.75	\$21,346	\$1.42
	\$234,902	\$18.68	\$170,339	\$12.60	\$170,034	\$11.29
<b>Net Field Level Income</b>	<b>\$399,661</b>	<b>\$31.78</b>	<b>\$573,052</b>	<b>\$42.40</b>	<b>\$459,344</b>	<b>\$30.51</b>

### Royalties

	2007		2006		2005		Q1 2006-2007 % Change	
	Q1	\$/BOE	Q1	\$/BOE	Q1	\$/BOE	Costs	\$/BOE
Oil	\$69,881	\$5.56	\$78,732	\$5.83	\$64,860	\$4.31	(11)%	(5)%
Gas	23,488	1.87	31,139	2.30	27,568	1.83	(25)%	(19)%
Total	\$93,369	\$7.42	\$109,871	\$8.13	\$92,428	\$6.14	(15)%	(9)%

## Production Expenses

	2007		2006		2005		Q1 2006-2007 % Change	
	Q1	\$/BOE	Q1	\$/BOE	Q1	\$/BOE	Costs	\$/BOE
<b>Expenses:</b>								
Operating	\$213,762	\$17.00	\$146,724	\$10.86	\$148,688	\$9.88	46%	57%
Transportation	21,140	\$1.68	\$23,615	\$1.75	\$21,346	\$1.42	(10)%	(4)%
<b>Total</b>	<b>\$234,902</b>	<b>\$18.68</b>	<b>\$170,339</b>	<b>\$12.60</b>	<b>\$170,034</b>	<b>\$11.29</b>	<b>38%</b>	<b>48%</b>

Operating expenses increased by 46% during the first quarter of 2007 to \$213,762 compared to \$146,724 in 2006. Operating expenses, including transportation costs, increased 38% during Q1 2007 compared to the same period in 2006 as a result of the field work completed at the Petrolia East field combined with the carry over from field repairs and maintenance at the Dover East field.

## General and Administrative (G&A) Expenses

Net general and administrative expenses increased 25% to \$159,235 in the first quarter of 2007. This increase was attributable to additional audit and legal fees.

### Three Months ended February 28

	2007	2006	2005	Q1 2006-2007 % Change
<b>Gross General &amp; Administrative Expenses</b>	\$181,075	\$126,891	\$140,655	43%
Recoveries	0	0	0	0
Capitalized amounts	21,840	0	0	100%
<b>Net General &amp; Administrative Expenses</b>	<b>\$159,235</b>	<b>\$126,891</b>	<b>\$140,655</b>	<b>25%</b>

### Three Months ended February 28

	2007 (/BOE)	2006 (/BOE)	2005 (/BOE)	Q1 2006-2007 % Change
<b>Gross General &amp; Administrative Expenses</b>	\$14.40	\$9.39	\$9.34	53%
Recoveries	0	0	0	0
Capitalized amounts	1.74	0	0	100%
<b>Net General &amp; Administrative Expenses</b>	<b>\$12.66</b>	<b>\$9.39</b>	<b>\$9.34</b>	<b>35%</b>

## Depletion, Depreciation and Accretion Expenses

	Q1 2007		Q1 2006		Q1 2005		Q1 2006-2007 % Change	
	\$000's	\$/BOE	\$000's	\$/BOE	\$000's	\$/BOE	\$000's	\$/BOE
Depletion and depreciation	\$206	\$16.40	\$222	\$16.42	\$232	\$15.41	(7)%	0%
Accretion - ARO	15	1.19	16	1.18	18	1.20	(6)%	1%
<b>Total</b>	<b>\$221</b>	<b>\$17.59</b>	<b>\$238</b>	<b>\$17.61</b>	<b>\$250</b>	<b>\$16.61</b>	<b>(7)%</b>	<b>0%</b>

Depletion, depreciation and accretion decreased to \$221 thousand in the first quarter of 2007. On a BOE basis, depletion, depreciation and accretion decreased slightly from \$17.61 to \$17.59.

### Asset retirement obligation (ARO)

The fair values of asset retirement obligations are recorded as liabilities on a discounted basis when they are incurred, which is typically when the related assets are acquired or installed. Amounts recorded for the related assets are increased by the amount of these obligations. Over time the liabilities will be accreted for the change in their present value and the initial capitalized costs will be depleted and amortized over the useful lives of the related assets. There are no asset retirement liabilities set up for those assets which have an indeterminate useful life.

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, 2007:

Asset retirement obligation, beginning of period	\$685,852
Asset retirement cost incurred	(1,327)
Current period accretion expense	14,982
Asset retirement obligation, end of period	\$679,507

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.

## 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.

## Capital Expenditures

Net capital expenditures totalled \$91,018 in Q1 2007 compared to \$45,020 in Q1 2006. The capital expenditures for the first quarter of 2005, 2006 and 2007 are summarized below:

### Three Months ended February 28

	2007 (\$000's)	2006 (\$000's)	2005 (\$000's)	Q1 2006-2007 % Change
<b>Canadian expenditures:</b>				
Lease and land acquisitions	\$8	\$ 27	\$ 31	
Geological & geophysical	29	0	0	
Drilling, completion and workovers	29	7	0	
Equipping and facilities		8	40	
Capitalized amounts and other	25	3	0	
<b>Subtotal</b>	<b>\$91</b>	<b>\$ 45</b>	<b>\$ 71</b>	<b>102%</b>
Asset retirement obligation adjustment	0	0	0	
Disposition of oil and gas properties	0	0	33	
<b>Net Canadian Expenditures</b>	<b>\$91</b>	<b>\$ 45</b>	<b>\$ 38</b>	<b>102%</b>

## Summary of Quarterly Results

Fiscal Year	2007	2006				2005		
Quarter	Q1	Q4	Q3	Q2	Q1	Q4	Q3	Q2
Revenues (net)	\$649,247	\$700,053	\$805,837	\$751,659	\$760,054	\$901,840	\$853,113	\$759,285
Net income (loss) in total	(\$50,587)	(\$167,469)	\$83,516	\$37,232	(\$8,607)	\$174,805	\$163,406	\$57,269
Per share basis	\$0.00	(\$0.01)	\$0.01	\$0.00	\$0.00	\$0.02	\$0.01	\$0.00
Diluted per share basis	\$0.00	\$0.00	\$0.01	(\$0.01)	\$0.00	n/a	n/a	n/a

In the eight quarters shown above, there were no discontinued operations or extraordinary items.

The variations over the last eight quarters are not unusual and reflect the variations normally encountered in the production and sale of oil and natural gas by companies of the size of Torque.

## 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

<b>Common shares</b>	<b>Number of Shares</b>	<b>Amount</b>
<b>Balance, beginning and end of period</b>	13,837,688	\$12,143,910
<b>Balance as of the date of this MD&amp;A</b>	13,837,688	\$12,143,910

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

## Stock Options

The continuity of the Company's common share options is as follows:

	<b>Effective date</b>	<b>Common Shares</b>	<b>Option Price</b>	<b>Weighted Average Exercise Price</b>	<b>Expiry date</b>
Options outstanding beginning of year		271,875	\$0.80	\$0.80	10-Jan-2007
New stock options granted	27-Jan-06	1,100,000	\$0.10	\$0.10	26-Jan-2011
Forfeiture of options granted 27-Jan-06	10-Sep-06	( 60,000 )	\$( 0.10 )	\$( 0.10 )	26-Jan-2011
Forfeiture of options granted 10-Jan-02	10-Sep-06	( 6,250 )	\$( 0.80 )	\$( 0.80 )	10-Jan-2007
Forfeiture of options granted 10-Jan-02	19-Sep-06	( 265,625 )	\$( 0.80 )	\$( 0.80 )	10-Jan-2007
New stock options granted	20-Oct-06	140,000	\$0.13	\$0.13	19-Oct-2011
Options outstanding end of year		1,180,000	\$0.10	\$0.10	

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

## Liquidity and Capital Resources

In the first quarter of 2007, Torque funded its capital expenditure program from cash flow from operations and existing credit facility. It expects to be able to continue to do so during the short term.

Torque is committed to leased office premises and office equipment with future lease payments, plus common costs, as follows:

Year	Amount
2007	\$44,829
2008	44,829
2009	44,829
2010	44,829
2011	12,142

The current 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.

At February 28, 2007, \$4,350,000 of funds had been drawn against the facility.

The bank has not waived its right to demand repayment of the outstanding principal balance and consequently the entire balance has been shown as a current liability.

In accordance with the terms and conditions, Torque is required to reduce the facility by \$75,000 per month. At February 28, 2007, the credit facility is \$6,175,000 and the available credit is \$1,900,000.

Banking Facility as at:	
Mar-24-06: Authorized credit facility	\$ 7,000,000
Nov-30-07: Monthly reductions to credit facility	(600,000)
Nov-30-07: Bank loan	(4,275,000)
Nov-30-07: Available credit	2,125,000
Feb-28-07: Monthly reductions to credit facility	(750,000)
Feb-28-07: Bank loan	(4,350,000)
Feb-28-07: Available credit	1,900,000
Apr-18-07: Authorized credit	6,100,000
Apr-18-07: Bank loan	(4,575,000)
Apr-18-07: Available credit	1,525,000

On April 18, 2007, the Company agreed to the terms of a revised credit facility in the amount of \$6,100,000 with its bank, to be used for general corporate purposes including capital expenditures.

The revised credit facility provides Torque with a revolving demand loan bearing interest payable monthly at prime plus 1.00% (a reduction of 0.5% from the initial facility). At the date of the approval, the bank's prime rate was 6.0%. 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.

## **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.

## **Outlook**

The Company is pursuing a number of exploration and development opportunities in Ontario. Discussions are underway to consider the possibility of future business ventures and acquisitions.

The Company is participating in three project areas within southwestern Ontario. In the Dunwich project area, the Company has completed the shooting of 10.5 kilometres of two-dimensional seismic and this data has been processed and interpreted. An exploratory drilling location has been identified and drilling will commence in the second quarter of 2007 upon the removal of township road bans.

In the Sombra project area, the Company participated in the drilling of an exploratory test well under the terms of a Farmout Agreement with Liberty Oil and Gas Ltd. by paying forty percent of the cost to drill, complete and equip the well. Torque earned a twenty-five percent interest in the test well. The location was defined by a three-dimensional seismic program. Drilling was completed in January 2007 and the well was dry and has been abandoned.

In the Maidstone area, the Company acquired an 800 acre block of petroleum and natural gas rights and acquired 11 kms of trade seismic as it continues to develop this prospect.

The Company elected to participate in the completion of an existing well in the Mikwan area of Alberta. The Company pays 35% of the costs to earn a 25% working interest. The well has been completed for gas production and is waiting on notification from the operator of the well for the timing of equipping and tie-in. The actual volume of daily production has not been determined at this time however the volume will not significantly affect the Company's current daily production volumes.

All activities will be funded with existing cash flow and the Company continues to develop exploratory plays and prospects in Ontario.

## **Off-Balance Sheet Arrangements**

Torque does not have any off-balance sheet arrangements that have, or are reasonably likely to have, a current or future effect on the results of its operations or financial condition including, without limitation, such considerations as liquidity and capital resources.

### **Proposed Transactions**

There are no asset or business acquisitions or dispositions currently proposed by Torque which will or are expected to have a material effect on its financial condition, results of operations or cash flows.

### **Controls and Procedures**

The President and General Manager (as the Company's *de facto* chief financial officer) evaluated the effectiveness of the Company's disclosure controls and procedures and internal controls over financial reporting as of the period ended February 28, 2007. They concluded that, as at February 28, 2007, weaknesses existed in the design of internal control over financial reporting due to, firstly, the limited number of staff located in London, Ontario and the Chief Executive Officer being located in Vancouver, British Columbia, and secondly, the lack of adequate segregation of duties between:

- (a) the recording, review and reconciliation of purchases;
- (b) the recording of cash receipts and the reconciliation of bank accounts;  
and
- (c) the lack of professionally qualified in-house accounting staff.

The President and General Manager have concluded and the board has agreed that, taking into account the present stage of the Company's development and the best interests of its shareholders, the Company does not have sufficient size and scale to warrant the hiring of additional staff to correct the lack of adequate segregation of duties at this time. To mitigate the weakness associated with lack of professionally qualified in-house accounting staff, the Company has engaged an arms length consultant to assist in the preparation of financial statements.

During the three months ended February 28, 2007, there were no changes to internal controls over financial reporting that have materially affected, or are reasonably likely to materially affect, the Company's internal controls over financial reporting.

### **Additional Information**

Additional information relating to Torque is on SEDAR at [www.sedar.com](http://www.sedar.com) and [www.torqueenergy.com](http://www.torqueenergy.com).