



Suite 100, 360 Queens Ave., London, ON N6B 1X6

Telephone: 519-433-7710 Fax: 519-433-7588

www.torqueenergy.com

Interim Financial Statements

(Expressed in Canadian Dollars)

(Prepared in accordance with Canadian GAAP)

Nine months ended August 31, 2007

The accompanying unaudited interim financial statements of Torque Energy Inc. for the nine months ended August 31, 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 Sheets

	August 31, 2007	November 30, 2006
	(Unaudited)	(Audited)
Assets		
Current		
Cash	\$ 18,921	\$ -
Accounts receivable	411,117	313,383
Prepaid expenses	90,441	60,209
	520,479	373,592
Reclamation bonds	70,000	70,000
Property, plant and equipment, net of accumulated depletion and amortization	(Note 3) 10,626,627	10,877,515
	\$ 11,217,106	\$ 11,321,107
Liabilities and Shareholders' Equity		
Current		
Cheques issued in excess of bank deposits	\$ -	\$ 137,173
Accounts payable and accrued liabilities	329,313	602,486
Bank loan	(Note 4) 4,350,000	4,275,000
Current portion of obligations under capital lease	8,615	7,763
	4,687,928	5,022,422
Obligations under capital lease	4,781	11,357
Asset retirement obligation	(Note 5) 660,674	665,852
	5,353,383	5,699,631
Shareholders' Equity		
Share Capital	(Note 6) 12,143,910	12,143,910
Contributed Surplus	510,241	510,241
Deficit	(6,790,428)	(7,032,675)
	5,863,723	5,621,476
	\$ 11,217,106	\$ 11,321,107

Approved on behalf of the Board:

"John F. Cowan" Director

"Paul W. Vandenbosch" Director

Torque Energy Inc.
Consolidated Statements of Operations and Deficit

For the period ending	Three months ended Aug 31 (Unaudited)		Nine months ended Aug 31 (Unaudited)	
	2007	2006	2007	2006
Revenue				
Oil and gas sales	\$ 926,252	\$ 903,370	\$ 2,611,334	\$ 2,603,863
Less royalties	(120,217)	(117,872)	(336,358)	(337,865)
	<u>806,035</u>	<u>785,498</u>	<u>2,274,976</u>	<u>2,265,998</u>
Other income	34,963	20,339	64,957	51,552
	<u>840,998</u>	<u>805,837</u>	<u>2,339,933</u>	<u>2,317,550</u>
Expenses				
Operating	155,716	203,177	585,772	534,627
Depletion, accretion and amortization	243,657	243,078	721,243	722,936
Amortization of deferred costs	-	21,320	-	87,778
General and administrative	187,528	155,416	545,540	475,428
Interest	78,483	99,330	245,131	279,399
Stock based compensation	-	-	-	105,241
	<u>665,384</u>	<u>722,321</u>	<u>2,097,686</u>	<u>2,205,409</u>
Net income for the period	\$ 175,614	\$ 83,516	\$ 242,247	\$ 112,141
Deficit, beginning of period	(6,966,042)	(6,948,722)	(7,032,675)	(6,977,347)
Deficit, end of period	\$ (6,790,428)	\$ (6,865,206)	\$ (6,790,428)	\$ (6,865,206)
Basic and diluted share amounts				
Weighted average shares outstanding	13,837,698	13,837,698	13,837,698	13,837,698
Shares issuable pursuant to stock options	370,392	433,333	350,110	360,370
Weighted average diluted shares outstanding	<u>14,208,090</u>	<u>14,271,031</u>	<u>14,187,808</u>	<u>14,198,068</u>
Basic income per share	\$ 0.01	\$ 0.01	\$ 0.02	\$ 0.01
Fully diluted income per share	\$ 0.01	\$ 0.01	\$ 0.02	\$ 0.01

Torque Energy Inc.
Consolidated Statements of Cash Flows

For the period ending	Three months ended Aug 31 (Unaudited)		Nine months ended Aug 31 (Unaudited)	
	2007	2006	2007	2006
Cash flows from operating activities				
Net income for the period	\$ 175,614	\$ 83,516	\$ 242,247	\$ 112,141
Adjustments for:				
Depletion, accretion and amortization	243,657	243,078	721,243	722,936
Amortization of deferred costs	-	21,320	-	87,778
Stock based compensation	-	-	-	105,241
Asset retirement obligations incurred	(43,826)	(82,662)	(47,748)	(88,891)
	<u>375,445</u>	<u>265,252</u>	<u>915,742</u>	<u>939,205</u>
Change in non-cash working capital balances				
Accounts receivable	(64,742)	19,667	(97,734)	119,940
Prepaid expenses	(30,586)	9,361	(30,232)	(28,096)
Accounts payable and accrued liabilities	(95,842)	194,786	(273,172)	114,588
	<u>184,275</u>	<u>489,066</u>	<u>514,604</u>	<u>1,145,637</u>
Cash flows from financing activities				
Repayment of capital lease obligations	(1,969)	(1,711)	(5,724)	(2,787)
Financing fees paid	-	(17,188)	-	(87,188)
Proceeds from bank loan	-	-	-	5,960,000
Repayment of debenture	-	-	-	(4,000,000)
Advances from/(repayment) of bank loan	-	(975,000)	75,000	(3,625,000)
	<u>(1,969)</u>	<u>(993,899)</u>	<u>69,276</u>	<u>(1,754,975)</u>
Cash flows from investing activities				
Acquisition of property, plant and equipment	(211,355)	(106,438)	(434,142)	(246,267)
Proceeds from sale of property, plant and equipment	6,356	-	6,356	23,476
	<u>(204,999)</u>	<u>(106,438)</u>	<u>(427,786)</u>	<u>(222,791)</u>
Increase (decrease) in cash during the period	(22,693)	\$ (611,271)	156,094	\$ (832,129)
Cash, beginning of period	<u>41,614</u>	<u>669,464</u>	<u>(137,173)</u>	<u>890,322</u>
Cash, end of period	<u>18,921</u>	<u>\$ 58,193</u>	<u>18,921</u>	<u>\$ 58,193</u>

Torque Energy Inc.
Notes to Consolidated Financial Statements

August 31, 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, except as disclosed. 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	\$ 17,213,115	\$ 6,622,083	\$ 10,591,032
Furniture and equipment	140,372	104,777	35,595
	<u>\$ 17,353,487</u>	<u>\$ 6,726,860</u>	<u>\$ 10,626,627</u>

During the period ending August 31, 2007, the Company capitalized \$65,520 of general and administration expenses related to geology and the development of oil and gas properties. Costs of approximately \$733,000 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 \$5,196.

Torque Energy Inc.
Notes to Consolidated Financial Statements

August 31, 2007 (unaudited)

4. BANK LOAN

The loan facility provides Torque with a revolving demand loan bearing interest payable monthly at the bank's prime lending rate plus 1.00%. Presently, the bank's prime lending rate is 6.25%, representing an increase of 0.25% during the quarter. 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 August 31, 2007, \$4,350,000 of funds had been drawn against the credit facility of \$6,100,000, leaving an available credit of \$1,750,000.

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.

5. ASSET RETIREMENT OBLIGATION

The undiscounted amount of expected cash flows required to settle the asset retirement obligations is estimated at \$1,627,442 (2006 - \$1,675,190). 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 August 31, 2007:

	<u>2007</u>
Asset retirement obligation, beginning of year	<u>\$ 665,852</u>
Liabilities accrued (reduced)	-
Asset retirement costs incurred	<u>(47,748)</u>
Accretion expense	<u>42,570</u>
Asset retirement obligation, end of year	<u><u>\$ 660,674</u></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 2056. 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.

Torque Energy Inc.
Notes to Consolidated Financial Statements

August 31, 2007 (unaudited)

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>

Stock Options:

As at August 31 2007, all options to purchase 1,180,000 shares have been issued and are fully vested and exercisable at a weighted average price of \$0.10 per share. There have been no options granted in the nine months ending August 31, 2007.

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 TRANSACTION

During the nine months ended August 31, 2007, \$22,500 (2006 - \$22,500) was paid for office facilities and administrative services to a company related by virtue of a common director.

During the nine months ended August 31, 2007 \$81,900 (2006 - \$81,900) was paid to an officer of the Company for management fees. Approximately \$65,520 is included in property and equipment expenses. At August 31, 2007, \$19,460 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.

August 31, 2007 (unaudited)

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 August 31, 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 - \$43,000). 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 85% of accounts receivable are from these two customers (2006 – 85% were from these same two customers).