



**MANAGEMENT'S DISCUSSION AND ANALYSIS  
NINE MONTH PERIOD ENDED  
AUGUST 31, 2007**

**FORM 51-102F1**

**OCTOBER 29, 2007**

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".

This Management Discussion and Analysis ("MD&A") of financial conditions and operating results should be read in conjunction with Torque's unaudited interim financial statements for the nine months ended August 31, 2007 together with the notes thereto and the audited financial statements and MD&A for the year ended November 30, 2006. The Company's interim financial statements were not reviewed by Torque's external auditors.

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 this MD&A, October 29, 2007. Financial data has been prepared in accordance with Canadian generally accepted accounting principles (GAAP).

#### **Non-GAAP Measures**

Included in the MD&A are references to the term "field level cash flow". This term is not defined by Generally Accepted Accounting Principles ("GAAP") in Canada and consequently is referred to as a non-GAAP measure.

Field level cash flow refers to oil and gas sales revenue less royalties, and less operating expenses. It does not include other income or any of the other company expenses that are used to calculate net income. Reported amounts may not be comparable to similarly titled measures reported by other companies.

This MD&A 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 realized a profit of \$175,614 (\$0.01 per share) for the three months ended August 31, 2007 compared to a profit of \$83,516 (\$0.01 per share) for the same period in 2006 and a profit of \$242,247 (\$0.02 per share) for the nine month period ended August 31, 2007 compared to a profit of \$112,141 (\$0.01 per share) for the same period in 2006. The increase in profit for the current quarter and year-to-date compared to the profit for the same period in 2006 is primarily due to higher production sales volumes.

Oil and gas revenues less royalties, increased to \$806,035 for the three months ended August 31, 2007 versus \$785,498 in 2006. For the year-to-date, the revenues less royalties increased to \$2,274,976 compared to \$2,265,998 in 2006, mainly due to higher production sales volumes in 2007.

General and administrative costs increased to \$187,528 for the three months ended August 31, 2007 from \$155,416 over the same period in 2006. For the year-to-date, these costs increased from \$475,428 in 2006 to \$545,540 in 2007. The increase in these costs is a result of increased professional fees and audit related costs.

Operating costs including transportation, for the three months ended August 31, 2007 decreased to \$155,716 compared to \$203,177 for the same period in 2006. For the year-to-date, these costs increased to \$585,772 in 2007 compared to \$534,627 in 2006 due to additional work at the non-operated Dover Field. Torque produced an average of 156 BOE per day for the three months ended August 31, 2007 compared to 150 BOE per day for the same period in 2006 and 155 BOE per day for the nine month period ended August 31, 2007 compared to 150 BOE per day for the same period in 2006.

Torque's property, plant and equipment decreased to \$10,626,627 at August 31, 2007 from \$10,877,515 at November 30, 2006 while its shareholders' equity increased to \$5,863,723 at August 31, 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.

There are no known trends, demands, commitments, events or uncertainties that are reasonably likely to have an effect on Torque's business as otherwise disclosed.

## Results of Operations

### Summary of Results for Quarter and Year-to-date

	Three months ended August 31		Nine months ended August 31	
	2007	2006	2007	2006
Revenues (net)	\$840,998	\$805,837	\$2,339,933	\$2,317,550
Net income	\$175,614	\$83,516	\$242,247	\$112,141
Per share basis	\$0.01	0.01	\$0.02	0.01
Diluted per share basis	\$0.01	0.01	\$0.02	0.01

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

Net revenues increased in the third quarter as gas prices increased; and production volumes were up on a daily basis due to the positive results of repairs and maintenance at various locations during the period. There were no extraordinary items or unusual adjustments during the period nor are there any commitments, events, risks or uncertainties that the Company reasonably believes will materially affect its future performance as otherwise disclosed.

### Oil and Natural Gas Sales

	Three months ended August 31		Q3 2006-2007	Nine months ended August 31		YTD Q3 2006-2007
	2007	2006	%	2007	2006	%
	M\$	M\$	Change	M\$	M\$	Change
Gross oil and natural gas liquid sales	740.6	741.5	0%	2,028.8	2,009.1	1%
Gross natural gas sales	185.7	161.9	15%	582.5	594.8	(2)%
Royalties	120.2	117.9	2%	336.4	337.9	0%
Oil & Gas Sales, Net of Royalties	806.1	785.5	3%	2,274.9	2,266.0	0%

"M\$" means thousands of dollars

Oil and gas sales, net of royalties, increased 3% in Q3 2007 to \$806,035. Production volumes on a BOE basis increased from 150 BOE per day (BOE/d) in Q3 2006 to 156 BOE/d in Q3 2007. The production increases experienced by Torque were due to positive results from repairs and maintenance during the first two quarters. Higher gas prices in Q3 2007 also contributed to the increased revenues.

	Three months ended August 31		Q3 2006-2007	Nine months ended August 31		YTD Q3 2006-2007
	2007	2006	% Change	2007	2006	% Change
Oil and natural gas liquids volumes - Mbbbl	10.5	10.3	2%	31.2	30.7	2%
Oil and natural gas liquids price - \$/bbl	70.76	72.28	(2)%	65.02	65.42	(1)%
Gross oil and natural gas liquids sales - M\$	740.6	741.5	0%	2,028.8	2,009.1	1%
Natural gas volumes - MMcf	23.4	21.5	9%	66.8	62.7	7%
Natural gas price - \$/Mcf	7.92	7.52	5%	8.71	9.49	(8)%
Gross natural gas sales - M\$	185.7	161.9	15%	582.5	594.8	(2)%

bbbl = one barrel (of oil)  
M = one thousand

cf = cubic feet (of natural gas)  
MM = one million

Oil and natural gas volumes on a BOE/d basis increased 4% in Q3 2007 from Q3 2006. Gross oil and natural gas sales revenues increased 3% in Q3 2007 from Q3 2006. These higher revenues were enhanced by a 5% increase in gas price together with the increase in production volumes.

## Production History Summary

	Three months ended August 31				Nine months ended August 31			
	2007		2006		2007		2006	
	Q3	\$/UNIT	Q3	\$/UNIT	YTD Q3	\$/UNIT	YTD Q3	\$/UNIT
<b>VOLUME</b>								
Oil Production - Mbbl	10.5		10.3		31.2		30.7	
Gas Production - MMcf	23.4		21.5		66.8		62.7	
MBOE	14.4		13.8		42.3		41.2	
<b>REVENUES</b>	<b>M\$</b>	<b>\$</b>	<b>M\$</b>	<b>\$</b>	<b>M\$</b>	<b>\$</b>	<b>M\$</b>	<b>\$</b>
Oil Production	740.6	70.76	741.5	72.28	2028.8	65.02	2,009.1	65.42
Oil Royalties	(97.8)	(9.35)	(98.4)	(9.59)	(266.0)	(8.52)	(265.9)	(8.66)
Net Oil Revenue	642.8	61.41	643.1	62.68	1762.8	56.50	1743.2	56.76
Gas Production	185.7	7.92	161.9	7.52	582.5	8.71	594.8	9.49
Gas Royalties	(22.4)	(0.95)	(19.5)	(0.90)	(70.4)	(1.05)	(72.0)	(1.15)
Net Gas Revenue	163.3	6.97	142.4	6.62	512.1	7.66	522.8	8.34
<b>Gross Oil &amp; Gas Revenue</b>	<b>926.3</b>	<b>64.45</b>	<b>903.4</b>	<b>65.24</b>	<b>2611.3</b>	<b>61.67</b>	<b>2,603.9</b>	<b>63.27</b>
<b>Net Revenue after Royalties</b>	<b>806.1</b>	<b>56.08</b>	<b>785.5</b>	<b>56.73</b>	<b>2274.9</b>	<b>53.72</b>	<b>2,266.0</b>	<b>55.06</b>
<b>EXPENSES</b>								
Operating	130.1	9.05	179.0	12.93	512.3	12.10	463.1	11.25
Transportation	25.6	1.78	24.2	1.75	73.5	1.73	71.5	1.74
Total Operating Expense	155.7	10.83	203.2	14.67	585.8	13.83	534.6	12.99
<b>NET FIELD LEVEL INCOME</b>	<b>650.4</b>	<b>45.25</b>	<b>582.3</b>	<b>42.06</b>	<b>1689.1</b>	<b>39.89</b>	<b>1,731.4</b>	<b>42.07</b>

## Royalties

	Three months ended August 31						Nine months ended August 31					
	2007		2006		Q3 2006 - 2007 % Change		2007		2006		YTD Q3 2006 - 2007 % Change	
	M\$	\$/BOE	M\$	\$/BOE	Costs	\$/BOE	M\$	\$/BOE	M\$	\$/BOE	Costs	\$/BOE
Oil	97.8	9.35	98.4	9.59	(1)%	(3)%	266.0	8.52	265.9	8.66	0%	(2)%
Gas	22.4	0.95	19.5	0.90	15%	6%	70.4	1.05	72.0	1.15	(2)%	(9)%
Total	120.2	10.30	117.9	10.49	2%	(2)%	336.4	9.57	337.9	9.81	0%	(2)%

## Production Expenses

EXPENSES	Three months ended August 31						Nine months ended August 31					
	2007		2006		Q3 2006 - 2007 % Change		2007		2006		YTD Q3 2006 - 2007 % Change	
	M\$	\$/BOE	M\$	\$/BOE	Costs	\$/BOE	M\$	\$/BOE	M\$	\$/BOE	Costs	\$/BOE
Operating	130.1	9.05	179.0	12.93	(27)%	(30)%	512.3	12.10	463.1	11.25	11%	8%
Transportation	25.6	1.78	24.2	1.75	6%	2%	73.5	1.73	71.5	1.74	3%	(1)%
Total	155.7	10.83	203.2	14.68	(23)%	(26)%	585.8	13.83	534.6	12.99	10%	6%

Operating expenses decreased by 23% during the third quarter of 2007 to \$155,716 compared to \$203,177 in 2006. This decrease was a result of fewer site maintenance and upgrades on well and facility locations during the quarter.

## General and Administrative (G & A) Expenses

Net general and administrative expenses increased 21% to \$187,528 compared to \$155,416 in the third quarter of 2006. The majority of the increase in G & A costs is due to an increase in professional fees and audit related costs. The Company has capitalized a total of \$65,790 of general and administrative expenses related to geology and the development of oil and gas properties in the first nine months of 2007 versus \$0.00 in the first nine months of 2006.

	Three months ended August 31		Nine months ended August 31		Q3 2006-2007
	2007	2006	2007	2006	% Change
Gross General & Administrative Expenses	\$209,368	\$155,416	\$611,060	\$475,428	35%
Recoveries	0	0	0	0	0%
Capitalized Amounts	21,840	0	65,520	0	100%
Net General & Administrative Expenses	\$187,528	\$155,416	\$545,540	\$475,428	21%

(/BOE)	Three months ended August 31		Nine months ended August 31		Q3 2006-2007
	2007	2006	2007	2006	% Change
Gross General & Administrative Expenses	\$14.57	\$11.22	\$14.43	\$11.55	30%
Recoveries	0	0	0	0	0
Capitalized Amounts	1.52	0	1.55	0	100%
Net General & Administrative Expenses	\$13.05	\$11.22	\$12.88	\$11.55	16%

## Depletion, Amortization and Accretion Expenses

	Three months ended August 31				Nine months ended August 31				Q3 2006-2007	
	2007		2006		2007		2006		% Change	
	\$000's	\$/BOE	\$000's	\$/BOE	\$000's	\$/BOE	\$000's	\$/BOE	\$000's	\$/BOE
Depletion and amortization	231	16.08	227	16.38	679	16.03	674	16.38	2%	(2)%
Accretion - ARO	13	0.88	16	1.17	43	1.01	49	1.18	(19)%	(25)%
Total	244	16.96	243	17.55	722	17.04	723	17.56	0%	(3)%

Depletion, amortization and accretion slightly increased to \$243,657 in the third quarter of 2007. On a BOE basis, depletion, amortization and accretion decreased 3.0% from \$17.56 in Q3 2006 to \$16.96 in Q3 2007.

## 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.

The undiscounted amount of expected cash flows required to settle the asset retirement obligation 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 reconciliation of Torque's liability for the period ended August 31, 2007:

Asset retirement obligation, beginning of period	\$665,852
Asset retirement cost incurred	(47,748)
Accretion expense	42,570
Asset retirement obligation, end of period	\$660,674

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 natural gas tax pools.

## Capital Expenditures

Net capital expenditures totalled \$204,999 which was net of \$6,356 in disposal proceeds in Q3 2007 compared to \$106,438 which was net of \$0 in disposal proceeds in Q3 2006.

Torque's capital expenditures increased in the third quarter of 2007 as the Company continued an exploration program primarily related to the acquisition of petroleum and natural gas rights, geological and geophysical costs and the drilling of an exploratory well in the Dunwich prospect.

## Summary of Quarterly Results

	2007			2006
	Q3	Q2	Q1	Q4
Revenues (net)	\$840,998	\$849,688	\$649,247	\$700,053
Net income (loss)	\$175,614	\$117,220	(\$50,587)	(\$167,469)
Per share basis	\$0.01	\$0.01	\$0.00	(\$0.01)
Diluted per share basis	\$0.01	\$0.01	\$0.00	\$0.00
	2006			2005
	Q3	Q2	Q1	Q4
Revenues (net)	\$805,837	\$751,659	\$760,054	\$901,840
Net income (loss) in total	\$83,516	\$37,232	\$(8,607)	\$174,805
Per share basis	\$0.01	\$0.00	\$0.00	\$0.02
Diluted per share basis	\$0.01	(\$0.00)	\$0.00	\$0.00

There were no discontinued operations or extraordinary items during the periods shown.

## 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

Common shares	Number of Shares	Amount
Balance, beginning and end of period	13,837,698	\$12,143,910
Balance as of the date of this MD&A	13,837,698	\$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:

	Effective date	Common Shares	Option Price	Weighted Average Exercise Price	Expiry date
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 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.

## Liquidity and Capital Resources

In the third 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

On April 18, 2007, the Company established 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.

At August 31, 2007, \$4,350,000 of funds had been drawn against the credit facility of \$6,100,000 and the available credit was \$1,750,000. Presently the bank's prime lending rate is 6.25%.

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.

## Related Party Transactions

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.

## 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 two 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 commenced on July 12, 2007. The exploratory well has been drilled showing signs of hydrocarbons however not in commercial quantities. A second exploratory well is planned for the Dunwich prospect and currently the Company is reviewing the technical data obtained from the first well in order to enhance the target for the second exploratory location.

In the Maidstone area, the Company acquired an 800 acre block of petroleum and natural gas rights and acquired 11 kilometres of trade seismic as it continues to develop this prospect. The Company is currently seeking partners to participate in the drilling of this prospect.

Additionally, new prospect areas within Elgin County, Ontario are currently being developed. The Company has acquired a total of 12,729 acres of petroleum and natural gas rights at 100% working interest over these prospect areas and will continue to develop these projects over the next quarter period.

The Company elected to participate in the completion of an existing well in the Mikwan area of Alberta and the Company is paying 35% of the costs to earn a 25% working interest. The well has been completed for gas production and the Company has been notified that the well will be frac'd after break-up in an attempt to increase the daily gas volumes from the producing horizon. 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**

During the three months ended August 31, 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).