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**TORQUE ENERGY INC.**  
**CONSOLIDATED FINANCIAL STATEMENTS**  
For the years ending  
November 30, 2007 and 2006

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## AUDITORS' REPORT

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To the Shareholders of  
**Torque Energy Inc.**

We have audited the consolidated balance sheets of **Torque Energy Inc.** as at November 30, 2007 and the consolidated statements of operations and deficit, and cash flows for the years then ended. These financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on these financial statements based on our audits.

We conducted our audits in accordance with Canadian generally accepted auditing standards. Those standards require that we plan and perform an audit to obtain reasonable assurance whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation.

In our opinion, these consolidated financial statements present fairly, in all material respects, the financial position of the Company as at November 30, 2007 and November 30, 2006 and the results of its operations and its cash flows for the years then ended in accordance with Canadian generally accepted accounting principles.

The financial statements as at November 30, 2006 and for the year then ended were audited by other auditors who expressed an opinion without reservation on those statements in their report dated March 26, 2007.

London, Canada,  
March 5, 2008.

*Ernst & Young LLP*

Chartered Accountants  
Licensed Public Accountants



**Torque Energy Inc.**  
**Consolidated Balance Sheets**

As at November 30

2007

2006

**Assets**

**Current**

Cash	\$	7,455	\$	-
Accounts receivable		436,115		313,383
Prepaid expenses		92,547		60,209
		536,117		373,592

**Reclamation bonds** (Note 7) 70,000 70,000

**Property, plant and equipment, net of accumulated depletion and amortization** (Note 4) 10,478,761 10,877,515

**\$ 11,084,878** **\$ 11,321,107**

**Liabilities and Shareholders' Equity**

**Current**

Cheques issued in excess of bank deposits	\$	-	\$	137,173
Accounts payable and accrued liabilities		457,834		602,486
Bank loan		4,050,000		4,275,000
Current portion of obligations under capital lease		8,924		7,763
		4,516,758		5,022,422

**Obligations under capital lease** (Note 6) 2,433 11,357

**Asset retirement obligation** (Note 7) 574,469 665,852

**5,093,660** **5,699,631**

**Shareholders' Equity**

Share Capital	(Note 8)	12,143,910		12,143,910
Contributed Surplus	(Note 9)	510,241		510,241
Deficit		(6,662,933)		(7,032,675)
		5,991,218		5,621,476

**\$ 11,084,878** **\$ 11,321,107**

Approved on behalf of the Board:

"John F. Cowan" Director

"Paul W. Vandebosch" Director

**Torque Energy Inc.**  
**Consolidated Statements of Operations and Deficit**

<b>For the years ended November 30</b>	<b>2007</b>	<b>2006</b>
<b>Revenue</b>		
Oil and gas sales	\$ 3,512,953	\$ 3,377,403
Less royalties	(452,566)	(436,741)
	<u>3,060,387</u>	<u>2,940,662</u>
Other income	83,948	76,941
	<u>3,144,335</u>	<u>3,017,603</u>
<b>Expenses</b>		
Operating	747,992	804,179
Depletion, accretion and amortization	954,053	980,715
Amortization of deferred costs	-	141,985
General and administrative	714,902	673,984
Interest	324,693	366,827
Other expenses	32,953	-
Stock based compensation	-	105,241
	<u>2,774,593</u>	<u>3,072,931</u>
<b>Net income/(loss) for the year</b>	<b>\$ 369,742</b>	<b>\$ (55,328)</b>
<b>Deficit, beginning of year</b>	<b>(7,032,675)</b>	<b>(6,977,347)</b>
<b>Deficit, end of year</b>	<b>\$ (6,662,933)</b>	<b>\$ (7,032,675)</b>
Basic and diluted earnings per share - (Note 10)	\$ 0.03	\$ -

**Torque Energy Inc.**  
**Consolidated Statements of Cash Flows**

<b>For the years ended November 30</b>	<b>2007</b>	<b>2006</b>
<b>Cash flows from operating activities</b>		
Net income for the year	\$ 369,742	\$ (55,328)
Adjustments for:		
Amortization of deferred costs	-	141,985
Asset retirement obligations incurred	(55,044)	(138,020)
Depletion, accretion and amortization	954,053	980,715
Stock based compensation	-	105,241
	<u>1,268,751</u>	<u>1,034,593</u>
Change in non-cash working capital balances		
Accounts receivable	(122,732)	258,955
Prepaid expenses	(32,338)	(16,862)
Accounts payable and accrued liabilities	5,964	87,339
	<u>1,119,645</u>	<u>1,364,025</u>
<b>Cash flows from financing activities</b>		
Repayment of capital lease obligations	(7,763)	(5,186)
Financing fees paid	-	(87,188)
Proceeds from bank loan	-	5,890,000
Repayment of debenture	-	(4,000,000)
Cheques issued in excess of bank deposits	(137,173)	137,173
Repayment of bank loan	(225,000)	(3,855,000)
	<u>(369,936)</u>	<u>(1,920,201)</u>
<b>Cash flows from investing activities</b>		
Change in non-cash working capital balances related to investing activities	(150,616)	150,616
Acquisition of property, plant and equipment	(630,260)	(484,762)
Proceeds from sale of property, plant and equipment	38,622	-
	<u>(742,254)</u>	<u>(334,146)</u>
<b>Increase (decrease) in cash during the year</b>	<b>7,455</b>	<b>\$ (890,322)</b>
Cash, beginning of year	-	890,322
Cash, end of year	<u>7,455</u>	<u>\$ -</u>

**1. NATURE OF OPERATIONS**

The Company's principal business is the acquisition, exploration and development of oil and gas properties primarily in the provinces of Ontario and Alberta. The Company was created by amalgamation on June 1, 1993 in the province of British Columbia. In February 2003, the Company changed its name from Kinetic Energy Inc. to Torque Energy Inc.

**2. SIGNIFICANT ACCOUNTING POLICIES**

The consolidated financial statements of the Company have been prepared by management in accordance with Canadian generally accepted accounting principles. The preparation of consolidated financial statements in conformity with Canadian generally accepted accounting principles requires management to make estimates and assumptions that affect the amounts reported in the consolidated financial statements and accompanying notes. Actual results could differ from those estimates. The consolidated financial statements have, in management's opinion, been properly prepared using careful judgment with reasonable limits of materiality and within the framework of the significant accounting policies summarized below:

**Consolidation:**

The consolidated financial statements include the accounts of Torque Energy Inc. (the "Company") and its wholly owned subsidiary Reefex Corporation. Reefex Corporation is not considered a material component to the operations. All significant inter-company transactions have been eliminated. Some of the Company's petroleum and natural gas exploration activities are conducted jointly with others. These consolidated financial statements reflect only the Company's proportionate working interest in such activities.

**Property, plant and equipment:**

The Company follows the full cost method of accounting for oil and gas operations whereby all costs of exploring for and developing oil and gas reserves are initially capitalized. Such costs include land acquisition costs, geological and geophysical expenses, carrying charges on non-producing properties, costs of drilling and overhead charges directly related to acquisition and exploration activities.

Costs capitalized, together with the costs of production equipment, are depleted and amortized on the unit-of-production method based on the estimated gross proved reserves as determined by independent petroleum engineers. Petroleum products and reserves are converted to a common unit of measure, using 6 MCF of natural gas to 1 barrel of oil.

Costs of acquiring and evaluating unproved properties are initially excluded from depletion calculations. These unevaluated properties are assessed at least annually to ascertain whether impairment has occurred. When proved reserves are assigned or the property is considered to be impaired, the cost of the property or the amount of the impairment is added to costs subject to depletion calculations.

Proceeds from sale of petroleum and natural gas properties are applied against capitalized costs, with no gain or loss recognized, unless such a sale would significantly alter the rate of depletion by more than 20%.

**SIGNIFICANT ACCOUNTING POLICIES...continued**

The Company applies an impairment test ("ceiling test") to determine if capitalized costs are not recoverable and exceed their expected fair value. Capitalized costs are not recoverable if they are greater than estimated undiscounted cash flows from future production of proved reserves plus the cost (net of impairment) of unproved properties. Commodity prices used in calculating estimated cash inflows are based on quoted benchmark prices. Costs used in estimating cash outflows are based on expected future production and other costs and include abandonment and site restoration costs. An impairment loss is recognized if capitalized costs are greater than their recoverable amount. The impairment loss is measured as the amount by which capitalized costs exceed the fair value of proved and probable reserves plus the cost (net of impairment) of unproved properties. Fair value is determined based on the present value of future cash flows, after deducting abandonment and site restoration costs, discounted at a risk free interest rate. Any impairment loss is charged to earnings.

Office furniture, computer hardware, and software are recorded at cost and amortized using the declining balance basis at annual rates of 20%.

**Royalties:**

The Company's production is subject to royalties. Royalties are recorded using rates in effect under the terms and conditions of Operating Agreements at the time of production. Royalties are generally 12% to 13% of sales (net of transportation costs).

**Financial instruments:**

The Company carries various financial instruments. It is management's opinion that the Company is not exposed to significant interest, currency or credit risks arising from these financial instruments except as disclosed. The fair values of these financial instruments approximate their carrying values, unless otherwise noted. The Company has classified all financial instruments as held-for-trading, available-for-sale, held-to-maturity, loans and receivables, and or other financial liabilities. Initial and subsequent recognition and measurement of changes in the value of financial instruments depends on their initial classification.

Financial assets and liabilities held-for-trading are measured at fair value with changes in those fair values recognized in net income.

Available-for-sale financial assets are measured at fair value. Revaluation gains and losses are included in other comprehensive income until the assets are removed from the balance sheet.

Financial assets held-to-maturity, loans and receivables and other financial liabilities are measured at amortized costs using the effective interest method of amortization.

Investments in equity instruments classified as available-for-sale that do not have quoted market prices in an active market are measured at cost.

The Company has implemented the following classifications:

Accounts receivables are classified as loans and receivables. After their initial fair value measurement, they are measured at amortized cost.

**SIGNIFICANT ACCOUNTING POLICIES...continued**

Cash, asset retirement obligation and capital lease obligation are classified as held-to-maturity and are measured at amortized cost using the effective interest method of amortization.

Accounts payable and accrued liabilities and the bank loan are classified as other financial liabilities. After their initial fair value measurement, they are measured at amortized cost.

**Measurement uncertainty:**

The amounts recorded for depletion of property, plant and equipment and the provision for asset retirement obligation are based on estimates of future costs and salvage values. The ceiling test is based on estimates of proved reserves, production rates, oil and gas prices, future costs and other relevant assumptions. The amounts estimated for stock based compensation are based on estimates of the future volatility of the company's share price, expected lives of the options, expected dividends and other relevant assumptions. By their nature, these estimates are subject to measurement uncertainty and the effect on the financial statements of changes and estimates in future periods is undeterminable.

**Future income taxes:**

The asset and liability method is used in accounting for income taxes. Under this method, future tax assets and liabilities are determined based on differences between financial reporting and tax bases of assets and liabilities, and measured using substantially enacted tax rates and laws that will be in effect when the differences are expected to reverse. Future tax assets are recognized when their realization is considered to be likely.

**Revenue recognition:**

Revenue associated with the sale of crude oil, natural gas and natural liquids is recognized when the title passes to the customer. Revenue from crude oil and natural gas production from which the Company has an interest with other producers is recognized on the basis of the Company's net working interest. Transportation costs are not netted against revenues but included with production costs as they are not material to separately disclose.

**Earnings per share:**

Basic earnings per common share is calculated on the basis of income attributable to holders of common shares, divided by the weighted average number of common shares outstanding during the year. Diluted per share amounts reflect the potential dilution that could occur if securities or other contracts to issue common shares were exercised or converted to common shares. The treasury stock method is used to determine the dilutive effect of stock options and other dilutive instruments. The treasury stock method assumes that proceeds received from the exercise of the in-the-money stock options plus future period compensation expense for options granted on or after November 1, 2003, are used to repurchase common shares at the prevailing market rate.

**Stock-based compensation plan:**

The Company has a stock option plan that will grant options to employees, consultants, officers and directors. All options issued by the Company permit the holder to purchase one common share of the Company at the stated exercise price. Option exercise prices approximate the market price for the common shares on the date the options are granted. The fair value of each option granted is estimated on the date of grant and a provision for the costs is provided for as contributed surplus at the date of grant. During the year, no new options were granted. Forfeitures are accounted for as they occur, which could result in recoveries of the compensation expense.

**Asset retirement obligations:**

The fair value of statutory, contractual or legal liability associated with the retirement and reclamation of tangible long-lived assets is recorded when the related assets are put into use, with a corresponding increase to the carrying amount of the related assets. 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.

**Cash:**

Cash represents cash on deposit and or, short-term investments with maturities less than three (3) months.

**Joint venture accounting:**

The Company conducts substantially all of its crude oil and natural gas exploration and production activities in accordance with joint venture agreements and the accounts reflect only the Company's proportionate working interest in such activities.

**3. 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.

The CICA has issued the following new Handbook Sections that will become effective for the Company on December 01, 2007:

- CICA Handbook Section 3862, "Financial Instruments - Disclosures"
- CICA Handbook Section 3863, "Financial Instruments - Presentation"
- CICA Handbook Section 1535, "Capital Disclosures"
- CICA Handbook Section 3031, "Inventories"

November 30, 2007 and 2006

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CICA Handbook Section 3862 modifies the disclosure requirements for CICA Handbook Section 3861, "Financial Instruments - Disclosure and Presentation", including required disclosure for the assessment of the significance of financial instruments for an entity's financial position and performance and of the extent of risks arising from financial instruments to which the Company is exposed and how the Company manages those risks. CICA Handbook Section 3863 carries forward the presentation requirements of CICA Handbook Section 3861.

CICA Handbook Section 1535 establishes standards for disclosing information about an entity's capital and how it is managed. The entity's disclosure should include information about its objectives, policies and processes for managing capital and disclose whether or not it has complied with any capital requirements to which it is subject and the consequences of non-compliance.

CICA Handbook Section 3031 provides more guidance on the measurement and disclosure requirements for inventories than the previous CICA Handbook Section 3030.

#### 4. PROPERTY, PLANT AND EQUIPMENT

<b>November 30, 2007</b>	<b>Cost</b>	<b>Accumulated depletion and amortization</b>	<b>Net book value</b>
Petroleum and natural gas properties and equipment	\$ 17,282,221	\$ 6,838,551	\$ 10,443,670
Furniture and equipment	142,020	106,929	35,091
	<b>\$ 17,424,241</b>	<b>\$ 6,945,480</b>	<b>\$ 10,478,761</b>

<b>November 30, 2006</b>	<b>Cost</b>	<b>Accumulated depletion and amortization</b>	<b>Net book value</b>
Petroleum and natural gas properties and equipment	\$ 16,786,888	\$ 5,949,812	\$ 10,837,076
Furniture and equipment	138,814	98,375	40,439
	<b>\$ 16,925,702</b>	<b>\$ 6,048,187</b>	<b>\$ 10,877,515</b>

During 2007, the Company capitalized \$107,360 (2006 - \$114,000) of general and administration expenses related to geology and the development of oil and gas properties. Costs of \$ 803,981 (2006 - \$ 604,959) 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 (2006 - \$24,307) and accumulated amortization of \$6,320 (2006 - \$1,823).

An impairment calculation was performed on the Company's property, plant and equipment at November 30, 2007 in which the estimated undiscounted future net cash flows associated with the proved reserves exceeded the carrying amount of the Company's property, plant and equipment.

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**Torque Energy Inc.**

## Notes to Consolidated Financial Statements

November 30, 2007 and 2006

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The following table summarizes benchmark prices used in the impairment test:

<b>Year</b>	<b>Oil</b>	<b>Gas</b>
	Cdn \$/bbl Edmonton Par	Cdn \$/MMbtu Henry Hub
2008	86.58	8.18
2009	79.58	8.38
2010	64.31	7.80
2011	63.44	7.96
2012	64.71	8.08
2013 thereafter escalated at 2%	66.01	8.20

**5. BANK LOAN**

On April 10, 2007 the Company renewed its total credit facility in the amount of \$6,100,000 to be used for general corporate purposes including capital expenditures.

The loan facility provides Torque with a revolving demand loan bearing interest payable monthly at the bank's prime lending rate plus 1.00%. The bank's prime lending rate in effect at the date of approval was 6.00%. Presently, the bank's prime lending rate is 6.25%. 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 November 30, 2007, \$4,050,000 of funds had been drawn against the facility as follows:

	<b><u>2007</u></b>	<b><u>2006</u></b>
Opening balance	\$4,275,000	
Funds drawn to repay former bank loan	-	\$1,890,000
Funds drawn to repay debentures	-	4,000,000
Repaid to November 30	(225,000)	(1,615,000)
Ending balance	<u>\$4,050,000</u>	<u>\$4,275,000</u>

The bank has not waived its right to demand repayment of the outstanding principal balance prior to November 30, 2007 and consequently the entire balance has been shown as a current liability.

In accordance with the terms and conditions of the renewed credit facility, Torque is not required to reduce the facility with monthly instalments. At November 30, 2007, the credit facility is \$6,100,000 and, the available credit is \$2,050,000 (2006 - \$2,125,000).

	<b><u>2007</u></b>	<b><u>2006</u></b>
Authorized	\$6,100,000	\$7,000,000
Monthly reductions to credit facility		(600,000)
Bank loan at November 30	4,050,000	4,275,000
Available credit at November 30	<u>\$2,050,000</u>	<u>\$2,125,000</u>

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**Torque Energy Inc.**

## Notes to Consolidated Financial Statements

November 30, 2007 and 2006

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**6. OBLIGATIONS UNDER CAPITAL LEASE**

During the year ended November 30, 2006, the Company entered into a 36 month lease agreement for the purchase of computer equipment as follows:

	<u>2007</u>	<u>2006</u>
Cost of assets under capital lease	\$24,307	\$24,307
Less: accumulated principal reduction	(12,950)	(5,187)
	11,357	19,120
Less: current portion due in 1 year	(8,924)	(7,763)
Balance at November 30	<u>\$2,433</u>	<u>\$11,357</u>

The lease expires in February 2009 with the Company having an option to purchase the equipment for a nominal amount.

Equal monthly payments of \$830 including interest at the rate of 14% commenced March 2006 with annual commitments as follows:

<u>Year</u>	<u>Amount</u>
2008	\$ 8,924
2009	\$ 2,433

**7. ASSET RETIREMENT OBLIGATION**

The undiscounted amount of expected cash flows required to settle the asset retirement obligations is estimated at \$1,920,279 (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 (2.0% - 2006).

	<u>2007</u>	<u>2006</u>
Asset retirement obligation, beginning of year	\$665,852	\$722,423
Change in estimate	(93,099)	18,662
Liabilities settled	32,953	(2,229)
Asset retirement costs incurred	(87,997)	(138,020)
Accretion	56,760	65,016
Asset retirement obligation, end of year	<u>\$574,469</u>	<u>\$665,852</u>

Costs attributable to these commitments and contingencies are expected to be incurred over an extended period of time and are to be funded primarily from the Company's cash provided by operating activities. Over the next 5 years, approximately 29% 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.

In respect of future abandonment commitments, the Company is required by statute to establish a bond in favour of the Ontario Ministry of Natural Resources. As at November 30, 2007, sufficient funds were on deposit with a Trustee, relating to a Trust Agreement with the Ontario Ministry of Natural Resources as beneficiary.

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**Torque Energy Inc.**

## Notes to Consolidated Financial Statements

November 30, 2007 and 2006

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**8. SHARE CAPITAL**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

Issued and outstanding

	<u>2007</u>		<u>2006</u>	
	Shares	Amount	Shares	Amount
Common shares outstanding	13,837,698	\$12,143,910	13,837,698	\$12,143,910

Stock Options

The Company has a stock option plan (the "Plan") for its directors, officers, employees and consultants to purchase common shares. Under the terms of the Plan, the Board of Directors may authorize the granting of options to purchase common shares. The option price per common share granted under the plan may not be less than the closing market price on the date the option is granted less allowable discounts as permitted under the policies of the TSX Venture Exchange.

The maximum term of any option is five years from the date the option is granted. Options may be immediately exercisable upon grant.

The status of the Company's common share purchase option plan is as follows:

	Effective date	Common Shares	Option Price	Weighted average exercise price	Expiry date
<b>Options outstanding, November 30, 2005</b>		271,875	\$0.80	\$0.80	10-Jan-07
Options granted during the year	27-Jan-07	1,100,000	\$0.10	\$0.10	26-Jan-11
Options forfeited during the year	10-Sep-06	(60,000)	\$0.10	\$0.10	26-Jan-11
Options forfeited during the year	10-Sep-06	(6,250)	\$0.80	\$0.80	10-Jan-07
Options forfeited during the year	19-Sep-06	(265,625)	\$0.80	\$0.80	10-Jan-07
Options granted during the year	20-Oct-06	140,000	\$0.13	\$0.13	19-Oct-11
<b>Options outstanding, November 30, 2006</b>		1,180,000	\$0.10	\$0.10	
<b>Options outstanding, November 30, 2007</b>		1,180,000	\$0.10	\$0.10	

In 2007, there were no new stock purchase options granted, exercised or forfeited.

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**Torque Energy Inc.**

## Notes to Consolidated Financial Statements

November 30, 2007 and 2006

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**9. CONTRIBUTED SURPLUS**

The Company records stock-based compensation expense when stock options are granted. The fair value of the options is determined using the Black-Scholes option-pricing model that takes into consideration, as of the grant date: exercise price, expected life, current price, anticipated volatility and risk free interest rates. The assumptions used in the computation of the fair value of the stock options are as follows:

Options granted	27-Jan-2006	20-Oct-2006
Exercise price	\$0.10	\$0.13
Expected life	5 years	5 years
Volatility	124%	143%
Risk free interest rate	3.9%	4.1%
Grant date fair value	\$0.085	\$0.112

In 2007, non-cash compensation expense related to stock options was nil, (2006 - \$105,241)

	2007	2006
Contributed surplus, beginning of year	\$510,241	\$405,000
Stock based compensation during the year	-	105,241
Contributed surplus, end of year	\$510,241	\$510,241

**10. BASIC AND DILUTED SHARE AMOUNTS**

The weighted average diluted common shares outstanding include all stock options in the money from the date of grant or, the beginning of the year.

	2007	2006
Weighted average number of shares outstanding	13,837,698	13,837,698
Shares issuable pursuant to stock options	340,136	331,500
Weighted average number of diluted shares outstanding	14,177,834	14,169,198

**11. INCOME TAXES**

The effective rate of income tax varies from the statutory rate as follows:

	2007	2006
	36%	38%
Expected income tax at statutory rate	\$143,919	\$(21,036)
Recognition of benefit of oil and gas property pools	(143,919)	-
Resource related adjustments	-	(51,523)
Stock based compensation	-	39,992
Other	-	32,567
Actual income tax provision	\$ -	\$ -

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**Torque Energy Inc.**

## Notes to Consolidated Financial Statements

November 30, 2007 and 2006

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The Company has the following available tax pools:

November 30	2007	2006
Canadian oil and gas property expenses	5,938,000	\$6,346,000
Canadian development expenses	657,000	496,000
Canadian exploration expenses	1,278,000	1,219,000
Undepreciated capital cost allowances	1,467,000	1,949,000
Loan financing fees	108,000	154,000
Non capital losses	-	17,000

In addition, the Company has various successor pools in the amount of \$6,492,412 (2006 - \$6,492,412) which may be utilized under certain circumstances against certain future taxable resource income earned in Ontario.

The potential income tax benefits associated with unutilized tax pools have been recognized to the extent of reducing future tax liabilities.

The Company has not recognized future income tax assets related to available and successor tax pools.

**12. RELATED PARTY TRANSACTIONS**

During the year ended November 30, 2007, \$31,878 (2006 - \$32,142) was paid for office facilities and administrative services to a company related by virtue of a common director.

During the year ended November 30, 2007, \$133,750 (2006 - \$130,200) was paid to an officer of the Company for management fees. Of this amount, \$107,360 (2006 - \$103,360) is included in petroleum and natural gas properties and equipment. At November 30, 2007, \$18,479 (2006 - \$15,156) 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.

**13. COMMITMENTS**

The Company is committed to leased office premises and office equipment with future lease payments as follows:

2008	44,829
2009	44,829
2010	44,829
2011	12,142

**Other Indemnifications**

In the ordinary course of business, the Company and its subsidiaries enter into contracts which contain indemnification provisions, such as loan agreements, purchase contracts, service agreements, licensing agreements, asset purchase and sale agreements, joint venture agreements, operating agreements, leasing agreements, land use agreements, and others. In such contracts, the Company may indemnify counterparties to the contracts if certain events occur. These indemnification provisions vary on an agreement by agreement basis. In some cases, there are no pre-determined amounts or limits included in the indemnification provisions and the occurrence of contingent events that will trigger payment under them is difficult to predict. Therefore, the maximum potential future amount that the Company could be required to pay cannot be estimated.

**14. FINANCIAL INSTRUMENTS**

As disclosed in Note 3, 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.

**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 November 30, 2007, the increase or decrease in net earnings before taxes for each 1% change in interest rates on floating rate debt amounts to approximately \$40,050 annually (2006 - \$43,000). The related disclosures regarding this debt instrument are included in Note 5 of these financial statements.

**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 82% of accounts receivable are from these two customers (2006 - 85% were from these same two customers).

**15. STATEMENTS OF CASH FLOWS**

The income taxes paid in 2007 were Nil (2006 - Nil).

The total interest paid in 2007 was \$324,693 (2006 - \$366,827).

During 2007 and 2006, the Company had no additional non-cash transactions other than those disclosed elsewhere in these financial statements.