



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, 2008

The accompanying unaudited interim financial statements of Torque Energy Inc. for the nine months ended August 31, 2008 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 2008 | November 30 2007 |
|--|---------------------------|-----------------------------|
| | (Unaudited) | (Audited) |
| Assets | | |
| Current | | |
| Cash | \$ - | \$ 7,455 |
| Accounts receivable | 522,867 | 436,115 |
| Prepaid expenses | 285,165 | 92,547 |
| | 808,032 | 536,117 |
| Reclamation bonds (Note 6) | 70,000 | 70,000 |
| Property, plant and equipment, net of accumulated depletion and amortization (Note 3) | 10,571,390 | 10,478,761 |
| | \$ 11,449,422 | \$ 11,084,878 |
| Liabilities and Shareholders' Equity | | |
| Current | | |
| Cheques issued in excess of bank deposits | \$ 184,665 | \$ - |
| Accounts payable and accrued liabilities | 481,434 | 457,834 |
| Bank loan (Note 4) | 2,700,000 | 4,050,000 |
| Current portion of obligations under capital lease | 4,781 | 8,924 |
| | 3,370,880 | 4,516,758 |
| Obligations under capital lease (Note 5) | - | 2,433 |
| Asset retirement obligation (Note 6) | 584,819 | 574,469 |
| | 3,955,699 | 5,093,660 |
| Shareholders' Equity | | |
| Share Capital (Note 7) | 12,143,910 | 12,143,910 |
| Contributed Surplus | 510,241 | 510,241 |
| Deficit | (5,160,428) | (6,662,933) |
| | 7,493,723 | 5,991,218 |
| | \$ 11,449,422 | \$ 11,084,878 |

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 August 31 (Unaudited) | | Nine months ended August 31 (Unaudited) | |
|---|--|--------------------|---|--------------------|
| | 2008 | 2007 | 2008 | 2007 |
| | \$ | \$ | \$ | \$ |
| Revenue | | | | |
| Oil and gas sales | 1,399,713 | 926,252 | 3,603,839 | 2,611,334 |
| Less royalties | <u>(185,848)</u> | <u>(120,217)</u> | <u>(473,311)</u> | <u>(336,358)</u> |
| | 1,213,865 | 806,035 | 3,130,528 | 2,274,976 |
| Other income | 21,171 | 34,963 | 57,800 | 64,957 |
| | <u>1,235,036</u> | <u>840,998</u> | <u>3,188,328</u> | <u>2,339,933</u> |
| Expenses | | | | |
| Operating | 178,053 | 155,716 | 479,200 | 585,772 |
| Depletion, accretion and amortization | 181,511 | 243,657 | 540,306 | 721,243 |
| General and administrative | 170,781 | 187,528 | 497,634 | 545,540 |
| Interest | 45,573 | 78,483 | 168,683 | 245,131 |
| | <u>575,918</u> | <u>665,384</u> | <u>1,685,823</u> | <u>2,097,686</u> |
| Net income for the period | 659,118 | 175,614 | 1,502,505 | 242,247 |
| Deficit, beginning of period | (5,819,546) | (6,966,042) | (6,662,933) | (7,032,675) |
| Deficit, end of period | (5,160,428) | (6,790,428) | (5,160,428) | (6,790,428) |
| Basic and diluted earnings per share - (Note 8) | 0.05 | 0.01 | 0.11 | 0.02 |

Torque Energy Inc.
Consolidated Statements of Cash Flows

| For the period ending | Three months ended | | Nine months ended | |
|--|--------------------|------------------|--------------------|------------------|
| | August 31 | | August 31 | |
| | (Unaudited) | | (Unaudited) | |
| | 2008 | 2007 | 2008 | 2007 |
| | \$ | \$ | \$ | \$ |
| Cash flows from operating activities | | | | |
| Net income for the period | 659,118 | 175,614 | 1,502,505 | 242,247 |
| Adjustments for: | | | | |
| Depletion, accretion and amortization | 181,511 | 243,657 | 540,306 | 721,243 |
| Asset retirement obligations incurred | <u>(20,149)</u> | <u>(43,826)</u> | <u>(26,000)</u> | <u>(47,748)</u> |
| | <u>820,480</u> | <u>375,445</u> | <u>2,016,811</u> | <u>915,742</u> |
| Change in non-cash working capital balances | | | | |
| Accounts receivable | 37,601 | (64,742) | (86,752) | (97,734) |
| Prepaid expenses | (78,803) | (30,586) | (192,618) | (30,232) |
| Accounts payable and accrued liabilities | <u>(70,098)</u> | <u>(95,842)</u> | <u>23,600</u> | <u>(273,172)</u> |
| | <u>709,180</u> | <u>184,275</u> | <u>1,761,041</u> | <u>514,604</u> |
| Cash flows from financing activities | | | | |
| Repayment of capital lease obligations | (2,267) | (1,969) | (6,576) | (5,724) |
| Cheque issued in excess of bank deposits | 96,490 | - | 184,666 | - |
| Advances from/(repayment) of bank loan | <u>(450,000)</u> | <u>-</u> | <u>(1,350,000)</u> | <u>75,000</u> |
| | <u>(355,777)</u> | <u>(1,969)</u> | <u>(1,171,910)</u> | <u>69,276</u> |
| Cash flows from investing activities | | | | |
| Acquisition of property, plant and equipment | (354,257) | (211,355) | (597,440) | (434,142) |
| Proceeds from sale of property, plant and equipment | 854 | 6,356 | 854 | 6,356 |
| | <u>(353,403)</u> | <u>(204,999)</u> | <u>(596,586)</u> | <u>(427,786)</u> |
| Increase (decrease) in cash during the period | - | (22,693) | (7,455) | 156,094 |
| Cash, beginning of period | - | 41,614 | 7,455 | (137,173) |
| Cash, end of period | - | 18,921 | - | 18,921 |

August 31, 2008 (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.

The CICA has issued the following new Handbook Sections that became 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 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.

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

Torque Energy Inc.
Notes to Consolidated Financial Statements

August 31, 2008 (unaudited)

3. PROPERTY, PLANT AND EQUIPMENT

| | Cost (\$) | Accumulated depletion and amortization (\$) | Net Book Value (\$) |
|--|-------------------|--|------------------------|
| Petroleum and natural gas properties and equipment | 17,878,201 | 7,336,970 | 10,541,231 |
| Office furniture and equipment | 118,317 | 103,447 | 14,870 |
| Office equipment under capital lease | 24,307 | 9,018 | 15,289 |
| | <u>18,020,825</u> | <u>7,449,435</u> | <u>10,571,390</u> |

During the period ending August 31, 2008, the Company capitalized \$92,969 of general and administration expenses related to geology and the development of oil and gas properties. Costs of approximately \$1,100,000 relating to unproved reserves have been excluded from the calculation of depletion.

4. BANK LOAN

On May 20, 2008, the Company established a revised credit facility of \$6,100,000. The credit 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 4.75%, representing no change 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 and is subject to periodic review. The next scheduled review being on or before March 31, 2009.

At August 31, 2008, approximately \$2,885,000 of funds had been drawn against the credit facility of \$6,100,000, leaving an available credit of \$3,215,000. The difference between the stated bank loan of \$2,700,000 in the balance sheet and the \$2,885,000 of funds drawn from the facility is related to cheques in transit in the approximate amount of \$185,000.

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. 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. 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.

| | |
|---------------------------------------|----------------------------|
| | <u>2008</u> <u>(\$)</u> |
| Cost of assets under capital lease | 24,307 |
| Less: accumulated principal reduction | (19,526) |
| | 4,781 |
| Less: current portion due in 1 year | (4,781) |
| Balance at August 31, 2008 | <u>-</u> |

Torque Energy Inc.
Notes to Consolidated Financial Statements

August 31, 2008 (unaudited)

6. ASSET RETIREMENT OBLIGATION

The undiscounted amount of expected cash flows required to settle the asset retirement obligations is estimated at \$1,920,279 (2007 - \$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, 2008.

| | 2008 (\$) |
|--|----------------------------|
| Asset retirement obligation, beginning of the period | 574,469 |
| Asset retirement costs incurred | (26,001) |
| Accretion expense | 36,351 |
| Asset retirement obligation, end of the period | 584,819 |

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 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 August 31, 2008, sufficient funds were on deposit with a Trustee, relating to a Trust Agreement with the Ontario Ministry of Natural Resources as beneficiary.

7. 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

| | 2008 | |
|---------------------------|-----------------------------|------------------------------|
| | Shares (#) | Amount (\$) |
| Common shares outstanding | 13,837,698 | 12,143,910 |

Stock Options:

As at August 31, 2008, 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, 2008.

8. BASIC AND DILUTED SHARE AMOUNTS

| | |
|---|-------------|
| | 2008 |
| Weighted average number of shares outstanding | 13,837,698 |
| Shares issuable pursuant to stock options | 450,416 |
| Weighted average number of diluted shares outstanding | 14,288,114 |

August 31, 2008 (unaudited)

9. 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.

10. RELATED PARTY TRANSACTION

During the nine months ended August 31, 2008, \$22,500 (2007 - \$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, 2008, \$ nil (2007 - \$81,900) was paid to an officer of the Company for management fees. The transactions were in the normal course of business and have been recognized at the agreed to exchange amounts.

11. 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, 2008, the increase or decrease in net earnings before taxes for each 1% change in interest rates on floating rate debt amounts to approximately \$27,000 annually (2007 - \$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 94% of accounts receivable are from these two customers (2007 – 85% were from these same two customers).

August 31, 2008 (unaudited)

12. CAPITAL MANAGEMENT

Effective December 1, 2007, Torque adopted the recommendations of the CICA relating to Capital Disclosures (CICA Handbook 1535). Torque's objectives when managing capital are:

- to maintain an industry credit rating that Torque considers appropriate for its circumstances.
- to strengthen its financial position including, the exceeding of specific lending covenants relative to its banking relationship.
- To provide an appropriate return to shareholders relative to the risk of Torque's underlying assets

Torque reviews its capital structure quarterly and, based upon economic conditions and planned requirements, makes necessary adjustments accordingly.