



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

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

www.torqueenergy.com

TORQUE ENERGY INC.
CONSOLIDATED FINANCIAL STATEMENTS
For the years ending
November 30, 2008 and 2007

Auditor's Report

Financial Statements

Consolidated Balance Sheets

Consolidated Statements of Changes in Equity

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AUDITORS' REPORT

To the Shareholders of
Torque Energy Inc.

We have audited the consolidated balance sheets of **Torque Energy Inc.** as at November 30, 2008 and 2007 and the consolidated statements of operations, changes in equity, 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, 2008 and November 30, 2007 and the results of its operations and its cash flows for the years then ended in accordance with Canadian generally accepted accounting principles.

London, Canada,
March 19, 2009.

Ernst & Young LLP

Chartered Accountants
Licensed Public Accountants

Torque Energy Inc.
Consolidated Balance Sheets

as at November 30

2008

2007

Assets

Current

Accounts receivable	360,978	436,115
Prepaid expenses	104,203	92,547
	465,181	528,662

Reclamation bonds (Note 8)

	70,000	70,000
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**Property, plant and equipment, net of
accumulated depletion and amortization (Note 5)**

	10,624,604	10,478,761
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	\$ 11,159,785	\$ 11,077,423
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Liabilities and Shareholders' Equity

Current

Bank indebtedness (Note 6)	2,485,409	4,042,545
Accounts payable and accrued liabilities	569,467	457,834
Current portion of obligations under capital lease	2,433	8,924
	3,057,309	4,509,303

Obligations under capital lease (Note 7)

	-	2,433
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Asset retirement obligation (Note 8)

	427,843	574,469
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	3,485,152	5,086,205
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Shareholders' Equity

Share Capital (Note 9)	12,143,910	12,143,910
Contributed Surplus	510,241	510,241
Deficit	(4,979,518)	(6,662,933)
	7,674,633	5,991,218

	\$ 11,159,785	\$ 11,077,423
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Approved on behalf of the Board:

"John F. Cowan"

"Paul W. Vandenbosch"

Torque Energy Inc.
Consolidated Statements of Changes in Equity

For the year ended November 30, 2008	Total	Deficit	Share Capital	Contributed Surplus
Balance, November 30, 2007	\$ 5,991,218	\$ (6,662,933)	\$ 12,143,910	\$ 510,241
Net income	1,683,415	1,683,415		
Balance November 30, 2008	<u>\$ 7,674,633</u>	<u>\$ (4,979,518)</u>	<u>\$ 12,143,910</u>	<u>510,241</u>
<hr/>				
For the year ended November 30, 2007				
Balance, November 30, 2006	\$ 5,621,476	\$ (7,032,675)	\$ 12,143,910	\$ 510,241
Net income	369,742	369,742		
Balance November 30, 2007	<u>\$ 5,991,218</u>	<u>\$ (6,662,933)</u>	<u>\$ 12,143,910</u>	<u>\$ 510,241</u>

Torque Energy Inc.
Consolidated Statements of Operations

For the years ended November 30	2008	2007
Revenue		
Oil and gas sales	\$ 4,706,154	\$ 3,512,953
Less royalties	<u>(615,169)</u>	<u>(452,566)</u>
	4,090,985	3,060,387
Other income	<u>76,055</u>	<u>83,948</u>
	<u>4,167,040</u>	<u>3,144,335</u>
Expenses		
Operating	728,014	747,992
Depletion, accretion and amortization	725,760	954,053
General and administrative	685,743	714,902
Interest	203,752	324,693
Other expenses (Note 8)	<u>140,356</u>	<u>32,953</u>
	<u>2,483,625</u>	<u>2,774,593</u>
Net income for the year	1,683,415	369,742
Deficit, beginning of year	<u>(6,662,933)</u>	<u>(7,032,675)</u>
Deficit, end of year	(4,979,518)	(6,662,933)
<hr/>		
Basic and diluted earnings per share - (Note 9c)	\$ 0.12	\$ 0.03

Torque Energy Inc.
Consolidated Statements of Cash Flows

For the years ended November 30	2008	2007
Cash flows from operating activities		
Net income for the period	\$ 1,683,415	\$ 369,742
Adjustments for:		
Depletion, accretion and amortization	725,760	954,053
Asset retirement obligations settled	(49,230)	(55,044)
	<u>2,359,945</u>	<u>1,268,751</u>
Change in non-cash working capital balances		
Accounts receivable	75,137	(122,732)
Prepaid expenses	(11,218)	(32,338)
Accounts payable and accrued liabilities	66,667	5,964
	<u>2,490,531</u>	<u>1,119,645</u>
Cash flows from financing activities		
Repayment of capital lease obligations	(8,924)	(7,763)
Repayment of bank loan	(1,725,000)	(362,173)
	<u>(1,733,924)</u>	<u>(369,936)</u>
Cash flows from investing activities		
Change in non-cash working capital balances related to investing activities	44,529	(150,616)
Acquisition of property, plant and equipment	(969,854)	(630,260)
Proceeds from sale of property, plant and equipment	854	38,622
	<u>(924,471)</u>	<u>(742,254)</u>
Increase (decrease) in cash position during the year	(167,864)	7,455
Cash position, beginning of year	<u>7,455</u>	<u>-</u>
Cash position, end of year (Note 6)	<u>(160,409)</u>	<u>7,455</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 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 alter the rate of depletion by more than 20%.

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,

November 30, 2008 and 2007

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

Measurement uncertainty

The amounts recorded for allowance for doubtful accounts, depletion of property, plant and equipment and the provision for asset retirement obligation are based on estimates of collectability, future costs and salvage values. The impairment 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.

Income taxes

The Company uses the liability method to account for income taxes. Under this method, future tax assets and liabilities are determined based upon differences between the financial reporting and tax bases of assets and liabilities, and measured using the substantively enacted tax rates and laws that will be in effect when the differences are expected to reverse. In assessing the realizable amount of future tax assets, management considers whether it is more likely than not that some portion or all the benefit of the future income tax assets will be realized. The ultimate realization of future tax assets is dependent upon the generation of future taxable and/or tax planning strategies.

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.

November 30, 2008 and 2007

Cash

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

Joint interest accounting

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

3. CHANGES IN ACCOUNTING STANDARDS**a) Financial Instruments**

On December 1, 2007, the Company adopted the requirements of the CICA Handbook Section 3862, Financial Instruments – Disclosures and CICA Handbook Section 3863, Financial Instruments – Presentation, which modify the disclosure and presentation requirements for CICA Handbook Section 3861. These sections have been applied in accordance with the transitional provision, which do not require restatement of prior periods. CICA Handbook Section 3862 requires disclosure that enables the users of the financial statements to evaluate the significance of the Company's financial instruments, CICA Handbook Section 3863 carries forward the presentation requirements of the CICA Handbook Section 3861. The new disclosures are included throughout the financial statements.

b) Capital Disclosures

On December 1, 2007, the Company adopted the requirements of the CICA Handbook Section 1535, Capital Disclosures. This new standard requires the Company to make new disclosures to enable user of the financial statements to evaluate the Company's objectives, policies and processes for managing capital. These new disclosures are shown in Note 14.

4. FUTURE CHANGES IN ACCOUNTING STANDARDS

The CICA has issued the following new Standards that will become effective for the Company:

- CICA Handbook Section 3064, Goodwill and Intangible Assets
- Adoption of International Financial Reporting Standards

In February 2008, the CICA issued new CICA 3064, Goodwill and Intangible Assets, replacing CICA 3062, Goodwill and Other Intangible Assets, and CICA 3450, Research and Development Costs. New Section 3064 addresses when an internally developed intangible asset meets the criteria for recognition as an asset. The CICA also issued amendments to Section 1000, Financial Statement Concepts, and Accounting Guideline AcG-11, Enterprises in the Development Stage. EIC-27, Revenues and Expenditures during the Pre-operating Period, will not apply to entities that have adopted section 3064. The objectives of the changes are to reinforce a principle-based approach to the recognition of costs as assets and to clarify the application of the concept of matching revenues and expenses in CICA 1000. Collectively, these changes bring Canadian practice closer to International Financial Reporting Standards ("IFRS") and U.S. GAAP by eliminating the practice of recognizing as assets a variety of start-up, pre-production and similar costs that do not meet the definition and recognition criteria of an asset. Consequently, such costs will be expensed as incurred. The effective date of adopting this new standard for the Company is December 1, 2008. This standard will have no effect on the Company's consolidated net income.

The CICA's Accounting Standards Board has announced that Canadian publicly accountable enterprises will adopt IFRS as issued by the International Accounting Standards Board effective January 1, 2011 and therefore will commence in the first quarter of the Company's 2012 fiscal year

Torque Energy Inc.

Notes to Consolidated Financial Statements

November 30, 2008 and 2007

with comparative figures. The Company will be developing a plan for the implementation of IFRS and will assess the impact of the differences in accounting standards on the Company's consolidated financial statements. It is not practically possible at this time to quantify the impact of these differences at this time. The Company expects to make changes to processes and systems before the 2011 fiscal year in time to enable the Company to record transactions under IFRS for comparative purposes in the 2012 financial year reporting.

5. PROPERTY, PLANT AND EQUIPMENT

	Cost (\$)	Accumulated depletion and amortization (\$)	Net book value (\$)
November 30, 2008			
Petroleum and natural gas properties and equipment	18,133,980	7,537,682	10,596,298
Furniture and equipment	118,317	104,401	13,916
Office equipment under capital lease	24,307	9,917	14,390
	18,276,604	7,565,988	10,624,604

	Cost (\$)	Accumulated depletion and amortization (\$)	Net book value (\$)
November 30, 2007			
Petroleum and natural gas properties and equipment	17,282,221	6,838,551	10,443,670
Furniture and equipment	117,713	100,609	17,104
Office equipment under capital lease	24,307	6,320	17,987
	17,424,241	6,945,480	10,478,761

During 2008, the Company capitalized \$122,443 (2007 - \$107,360) of general and administration expenses related to geology and the development of oil and gas properties. Costs relating to unproved reserves have been excluded from the calculation of depletion in the average amount of \$979,531 (2007 - \$682,946).

An impairment calculation was performed on the Company's property, plant and equipment at November 30, 2008 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.

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

Year	Oil	Gas
	Cdn \$/bbl Edmonton Par	Cdn \$/MMbtu Henry Hub
2009	81.17	7.19
2010	85.15	7.94
2011	83.94	8.16
2012	91.59	9.37
2013	92.50	9.46
2014 thereafter escalated at 2%	93.42	9.55

Torque Energy Inc.

Notes to Consolidated Financial Statements

November 30, 2008 and 2007

6. BANK LOAN

On May 20, 2008 the Company established a revised credit facility in the amount 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%. As of November 30, 2008, the bank's prime lending rate is 4.00%. 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 and is subject to periodic review. The next review is effective March 31, 2009.

At November 30, 2008, bank indebtedness was \$2,485,409 as follows:

	<u>2008</u> (\$)	<u>2007</u> (\$)
Overdraft/(Cash)	160,409	(7,455)
Demand Loan	2,325,000	4,050,000
Ending balance	<u>2,485,409</u>	<u>4,042,545</u>

The bank has not waived its right to demand repayment of the outstanding principal balance prior to November 30, 2008 and consequently the entire balance has been shown as a current liability.

At November 30, 2008, the available credit is \$3,775,000 (2007 - \$2,050,000) as follows:

	<u>2008</u> (\$)	<u>2007</u> (\$)
Authorized	\$6,100,000	\$6,100,000
Demand loan at November 30	2,325,000	4,050,000
Available credit at November 30	<u>\$3,775,000</u>	<u>\$2,050,000</u>

7. 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>2008</u> (\$)	<u>2007</u> (\$)
Cost of assets under capital lease	24,307	24,307
Less: accumulated principal reduction	(21,874)	(12,950)
	2,433	11,357
Less: current portion due in 1 year	(2,433)	(8,924)
	<u>-</u>	<u>2,433</u>

Equal monthly payments of \$830 including interest at the rate of 14% commenced March 2006. The lease expires in February 2009 with the Company having an option to purchase the equipment for a nominal amount.

8. ASSET RETIREMENT OBLIGATION

The undiscounted amount of expected cash flows required to settle the asset retirement obligations, assuming a 1% inflation factor (2007 – 2%), is estimated at \$1,544,668 (2007 - \$1,920,279). The liability for the expected cash flows, as reflected in the consolidated financial statements, has been discounted at 9% (2007 – 9%).

	2008 (\$)	2007 (\$)
Asset retirement obligation, beginning of year	574,469	665,852
Change in estimate	(116,636)	(93,099)
Liabilities settled – other expenses	140,356	32,953
Asset retirement costs incurred	(189,587)	(87,997)
Accretion	19,241	56,760
Asset retirement obligation, end of year	427,843	574,469

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 18% of the costs will be incurred and the remainder from 2014 to 2058. 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 with a Trustee relating to a Trust Agreement with the Ontario Ministry of Natural Resources as the beneficiary. The balance of this bond at year-end was \$70,000 (2007 - \$70,000).

9. 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

Issued and outstanding

	<u>2008</u>		<u>2007</u>	
	Shares	Amount	Shares	Amount
Common shares outstanding	13,837,698	\$12,143,910	13,837,698	\$12,143,910

b) 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 and such options generally vest immediately. The Company records stock-based compensation expense when stock options vest. 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.

Torque Energy Inc.

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

	Common Shares	Option Price (\$)	Weighted average exercise price (\$)
Options granted	1,040,000	0.10	0.10
Options granted	140,000	0.13	0.13
Options outstanding, November 30, 2008 and 2007	1,180,000	0.10	0.10

In 2008 and 2007, there were no new stock purchase options granted, exercised or forfeited.

c) Earnings per Share

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.

	2008	2007
Weighted average number of shares outstanding	13,837,698	13,837,698
Shares issuable pursuant to stock options	474,865	340,136
Weighted average number of diluted shares outstanding	14,312,563	14,177,834

10. INCOME TAXES

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

	2008	2007
	33.72%	36%
Expected income tax at statutory rate	567,400	143,919
Recognition of benefit of oil and gas property pools	(567,400)	(143,919)
Actual income tax provision	\$ -	\$ -

The Company has the following available tax pools:

	2008	2007
Canadian oil and gas property expenses	5,240,000	\$5,938,000
Canadian development expenses	657,000	657,000
Canadian exploration expenses	1,745,000	1,278,000
Undepreciated capital cost allowances	1,262,000	1,467,000
Loan financing fees	63,000	108,000

In addition, the Company has various successor pools in the amount of \$5,596,000 (2007 - \$6,492,000) 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.

11. RELATED PARTY TRANSACTIONS

During the year ended November 30, 2008, \$30,000 (2007 - \$31,878) was paid for office facilities and administrative services to a company related by virtue of a common director.

During the year ended November 30, 2008, \$27,300 (2007 - \$133,750) was paid to an officer of the Company for management fees. Of this amount, \$21,840 (2007 - \$107,360) is included in petroleum and natural gas properties and equipment.

12. COMMITMENTS

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

2009	48,846
2010	49,089
2011	16,553
2012	5,707
2013	5,707

Other Indemnifications

In the ordinary course of business, the Company and its subsidiaries enter into contracts which contain indemnification provisions, such as loan agreements, confidentiality 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.

13. FINANCIAL INSTRUMENTS AND RISK MANAGEMENT

As disclosed in Note 2, 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

During the year, the Company was exposed to risks from fluctuations in interest rates on the bank loan. The floating rate debt is based on the bank's prime lending rate plus 1.00%. As at November 30, 2008, the increase or decrease in net earnings before taxes for each 1% change in interest rates on floating rate debt amounts to approximately \$23,250 annually (2007 - \$40,500). The related disclosures regarding this debt instrument are included in Note 6 of these financial statements.

Commodity price risk

The Company is exposed to the risk from fluctuations in both worldwide (crude oil) and North American (natural gas) prices. All production is sold within Canada and revenues are received in Canadian dollars. The Company does not manage price risk on its production by entering into forward sales and fixed price contracts.

Foreign exchange risk

The Company is exposed to the risk related to fluctuations in the rate of exchange between the Canadian dollar and the U.S. dollar. Crude oil and natural gas revenues are based upon reference prices denominated in U.S. dollars. The Company does not have any derivative financial instruments in place to manage this risk.

Credit risk

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.

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 71% of accounts receivable are from these two customers (2007 – 82% were from these same two customers). All accounts receivable balances are unsecured and as such the entire balance in Accounts Receivable represents the Company's maximum exposure to credit risk.

Liquidity risk

Liquidity risk represents the risk that the Company will not be in a position to meet its financial obligations as they come due. As at November 30, 2008, the Company was in compliance with its financial covenants and had \$3,775,000 available from its revolving credit facility. The Company's accounts payable and accrued liabilities will come due within 90 days of the balance sheet date and its outstanding bank loan is due on demand. Given the available liquid resources, management anticipates having sufficient funds to meet the Company's short term commitments.

14. CAPITAL MANAGEMENT

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

- to maintain an industry credit rating that the Company 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 the Company's underlying assets

The Company monitors capital on a basis consistent with others in the industry based on total debt to shareholders' equity. Capital is defined as shareholders' equity as presented on the balance sheet and total debt is defined as the sum of the interest-bearing debt. The Company reviews its capital structure quarterly and, based upon economic conditions and planned requirements, makes necessary adjustments accordingly. The Company is not subject to any external capital requirements.

15. STATEMENTS OF CASH FLOWS

The income taxes paid in 2008 were Nil (2007 - Nil).

The total interest paid in 2008 was \$203,752 (2007 - \$324,693).

During 2008 and 2007, the Company had no additional non-cash transactions other than those disclosed elsewhere in these financial statements.