



MANAGEMENT'S DISCUSSION AND ANALYSIS FOR THE THREE MONTH PERIOD ENDED FEBRUARY 28, 2009

Form 51-102F1

April 27, 2009

Torque Energy Inc. ("Torque" or the "Company") is a Canadian-based oil and natural gas company whose common shares are traded on the TSX Venture Exchange (TSX-V) under the symbol "TQE".

The Company's business is the acquisition, exploration, development and operation of oil and gas properties. During the first quarter of 2009 it conducted its activities in the provinces of Ontario and Alberta, Canada.

The following Management's Discussion and Analysis (MD&A) should be read in conjunction with the unaudited interim financial statements for the three months ended February 28, 2009 together with the notes thereto and the audited consolidated financial statements and MD&A for the year ended November 30, 2008, and is based on information to April 27, 2009. The reader should be aware that historical results are not necessarily indicative of future performance. Additional information relating to Torque can be found at www.sedar.com and www.torqueenergy.com

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.

The financial data contained herein is presented in Canadian dollars and has been prepared in accordance with Canadian Accepted Accounting Principles ("GAAP"). In conformity with Canadian Securities Administrators National Instrument 51-101, natural gas volumes have been converted to equivalent barrels of oil ("BOE") using a conversion ratio of six thousand cubic feet ("Mcf") to one boe. Readers are cautioned that boes may be misleading, particularly if used in isolation.

NON-GAAP MEASURES

The Company uses certain measures of financial reporting in the MD&A that are commonly used as benchmarks within the oil and natural gas production industry. They are widely accepted measures of performance and value within the industry, and are used by investors and analysts to compare and evaluate oil and natural gas exploration and producing entities.

These measures and their underlying calculations are not defined by Generally Accepted Accounting Principles ("GAAP") in Canada and consequently are referred to as non-GAAP measures. These measures may not be comparable to a similarly titled measure of another entity. When these measures are used, they should be given careful consideration by the reader.

Included in the MD&A are references to the following non GAAP terms:

Funds flow from operations, which is determined before changes in non-cash working capital is used as a key measure of performance and liquidity

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.

Operating netback is a benchmark used in the crude oil and natural gas industry to measure the BOE contribution of oil and natural gas sales subsequent to the deduction of royalties, operating and transportation costs.

RESULTS OF OPERATIONS

The Company averaged 161 BOE (barrels of oil equivalent) sold per day for the period compared to 135 BOE per day for the same period in 2008. New production from the Mikwan property contributed approximately 19 BOE/day and a formerly shut-in well came on production in Ontario adding another 6 BOE/day.

Total bank indebtedness at February 28, 2009 increased to \$2,503,860 from \$2,485,409 at November 30, 2008. The difference in the amount reported as total bank indebtedness versus the bank loan represents the timing in the clearance of outstanding cheques together with the funding of current account balances from the loan account.

SELECTED QUARTERLY INFORMATION

| (\$000s, except per share amounts) | Three months ended February 28 | | | |
|------------------------------------|--------------------------------|----------|----------|--------------------|
| | 2009 | 2008 | 2007 | % Change 2008-2009 |
| Revenue (net of royalties) | 547.8 | 845.0 | 649.2 | (35) |
| Funds flow from operations | 36.1 | 462.9 | 169.3 | (92) |
| Per share - basic & diluted (\$) | 0.00 | 0.03 | 0.01 | |
| Net earnings (loss) | (51.1) | 294.3 | (50.6) | (117) |
| Per share - basic & diluted (\$) | 0.00 | 0.02 | 0.00 | |
| Total assets | 11,174.3 | 10,963.8 | 11,037.1 | 2 |
| Bank indebtedness | 2,504 | 3,663 | 4,416 | (32) |

SELECTED INFORMATION FOR LAST EIGHT QUARTERS

| (\$000s, except per share amounts) | 2009 | 2008 | | | | 2007 | | |
|------------------------------------|----------|----------|----------|----------|----------|----------|----------|----------|
| | Q1 | Q4 | Q3 | Q2 | Q1 | Q4 | Q3 | Q2 |
| Revenue (net of royalties) | 547.8 | 978.7 | 1,235.0 | 1,108.3 | 845.0 | 804.4 | 840.9 | 849.7 |
| Funds flow from operations | 36.1 | 226.5 | 820.5 | 733.4 | 462.9 | 353.1 | 375.4 | 371.0 |
| Per share - basic & diluted (\$) | 0.00 | 0.02 | 0.06 | 0.05 | 0.03 | 0.02 | 0.03 | 0.03 |
| Net earnings (loss) | (51.1) | 180.9 | 659.1 | 549.1 | 294.3 | 127.5 | 175.6 | 117.2 |
| Per share - basic & diluted (\$) | 0.00 | 0.01 | 0.05 | 0.04 | 0.02 | 0.01 | 0.01 | 0.01 |
| Total assets | 11,174.3 | 11,159.8 | 11,449.4 | 11,224.2 | 10,963.8 | 11,077.4 | 11,217.1 | 11,170.5 |
| Bank indebtedness | 2,504 | 2,485 | 2,885 | 3,238 | 3,663 | 4,043 | 4,332 | 4,308 |

FUNDS FLOW FROM OPERATIONS

Funds flow from operations decreased 92% in the first quarter of 2009 to \$36,128 or \$0.00 per share on a diluted basis from \$462,889 or \$0.03 per share on a diluted basis for the first quarter of 2008. This is primarily a result of decreased commodity prices. Funds flow from operations is calculated as follows:

| Three Months ending February 28 (\$) | Three months ending February 28 (\$) | | | % Change 2008-2009 |
|---------------------------------------|--------------------------------------|----------|---------|-----------------------|
| | 2009 | 2008 | 2007 | |
| Cash provided by operating activities | 231,716 | 474,949 | 88,587 | (51) |
| Change in non-cash working capital | (195,588) | (12,060) | 80,736 | 1,522 |
| Funds flow from operations | 36,128 | 462,889 | 169,323 | (92) |

FIELD LEVEL CASH FLOW

| Three Months ending February 28 (\$) | Three months ending February 28 (\$) | | | % Change 2008-2009 |
|---|--------------------------------------|-----------|-----------|-----------------------|
| | 2009 | 2008 | 2007 | |
| Oil and natural gas sales | 612,739 | 950,437 | 727,932 | (36) |
| Royalty expense | (84,343) | (123,842) | (93,369) | (32) |
| Net sales | 528,396 | 826,595 | 634,563 | (36) |
| Operating expenses (incl. Transportation) | (212,909) | (135,128) | (234,902) | 58 |
| Field level cash flow | 315,487 | 691,467 | 399,661 | (54) |
| Per share - basic & diluted (\$) | 0.02 | 0.05 | 0.03 | (54) |

OPERATING NETBACKS

| Three Months ending February 28 (\$/BOE) | Three months ending February 28 (\$/BOE) | | | % Change 2008-2009 |
|---|--|---------|---------|-----------------------|
| | 2009 | 2008 | 2007 | |
| Oil sales | 40.60 | 85.88 | 59.84 | (53) |
| Natural gas sales | 45.03 | 51.18 | 53.14 | (12) |
| Total sales | 42.20 | 77.52 | 57.89 | (46) |
| Royalty expense - (\$/BOE) | (5.81) | (10.10) | (7.42) | (42) |
| % | 13.76 | 13.03 | 12.83 | 6 |
| Operating expenses (incl. transportation) | (14.66) | (11.02) | (18.68) | 33 |
| Netback | 21.73 | 56.40 | 31.78 | (61) |

PETROLEUM AND NATURAL GAS SALES

All of the Company's production is sold within Canada, and revenues are received in Canadian dollars. The commodities produced and sold are sensitive to both worldwide (crude oil) and North American (natural gas) price fluctuations and the Canada/U.S. exchange rate. An increase in the value of the Canadian dollar negatively impacts price realizations. There was a significant decrease in the value of the Canadian dollar versus the U.S. dollar in the first quarter of 2009 compared to the same period in 2008. The average Canada/U.S. exchange rate was \$1.23/\$1.00 in Q1 2009 compared to \$1.00 during Q1 2008.

Production sales of petroleum and natural gas in the first quarter of 2009 averaged 161 BOE/day, and realized an average gross price of \$42.20/BOE. This compares to 135 BOE/day in Q1 2008 with an average price of \$77.52/BOE, a decrease of 46% in the average price. The overall decrease in realized price/BOE can be primarily attributed to the significant decrease in the price/barrel (bbl) of worldwide crude oil prices during the first quarter of 2009 compared to the significant increase during 2008. This contributed to a 53% decrease in the realized price/bbl of oil compared to 2008. At the same time, the price/BOE of natural gas production decreased 12% from Q1 2008 levels. Oil revenues were helped by lower than normal declines in production volumes in 2009 of approximately 0.4%. Production volumes of natural gas increased by 78% in the first quarter of 2009 compared to Q1 2008 due to new production volumes from the Mikwan property in Alberta, and one formerly shut-in Ontario gas well. The three new Mikwan wells contributed an average of 19 BOE/day, and the Ontario well added an average of 6 BOE/day.

Production History

The following table summarizes, for the three months ended February 28, 2009, 2008, and 2007, the Company's production volumes, revenue, prices received, operating expenses, royalties, and resulting netback in total and per unit of volume.

| Three months ending February 28 | 2009 | | 2008 | | 2007 | |
|--|----------------|--------------|----------------|--------------|----------------|--------------|
| | Q1 | /Day | Q1 | /Day | Q1 | /Day |
| VOLUMES | | | | | | |
| Oil Production - Mstb & bbl/d | 9,271 | 103 | 9,306 | 103 | 8,916 | 99 |
| Gas Production - MMcf & Mcf/d | 31,487 | 350 | 17,731 | 197 | 21,951 | 244 |
| MBOE (6:1) & BOE/d | 14,519 | 161 | 12,261 | 136 | 12,575 | 140 |
| REVENUES | | | | | | |
| | \$ | \$/Unit | \$ | \$/Unit | \$ | \$/Unit |
| Oil Revenue (\$ & \$/bbl) | 376,433 | 40.60 | 799,188 | 85.88 | 533,509 | 59.84 |
| Less: Oil Royalties | 48,297 | 5.21 | 105,518 | 11.34 | 69,881 | 7.84 |
| Net Oil Revenue (\$ & \$/bbl) | 328,136 | 35.39 | 693,670 | 74.54 | 463,628 | 52.00 |
| Gas Revenue (\$ & \$/Mcf) | 236,306 | 7.50 | 151,249 | 8.53 | 194,423 | 8.86 |
| Less: Gas Royalties | 36,046 | 1.14 | 18,324 | 1.03 | 23,488 | 1.07 |
| Net Gas Revenue (\$ & \$/Mcf) | 200,260 | 6.36 | 132,925 | 7.50 | 170,935 | 7.79 |
| TOTAL NET REVENUE (\$ & \$/BOE) | 528,396 | 36.39 | 826,595 | 67.42 | 634,563 | 50.46 |
| Operating Expenses (excl. trans.) | 189,496 | 13.05 | 112,654 | 9.19 | 213,762 | 17.00 |
| Transportation | 23,413 | 1.61 | 22,474 | 1.83 | 21,140 | 1.68 |
| TOTAL OPERATING EXPENSES | 212,909 | 14.66 | 135,128 | 11.02 | 234,902 | 18.68 |
| FIELD LEVEL CASH FLOW | 315,487 | 21.73 | 691,467 | 56.40 | 399,661 | 31.78 |
| REVENUE \$/BOE | 42.20 | | 77.52 | | 57.89 | |
| ROYALTIES \$/BOE | 5.81 | | 10.10 | | 7.43 | |
| OPERATING COSTS \$/BOE | 14.66 | | 11.02 | | 18.68 | |
| NETBACK \$/BOE | 21.73 | | 56.40 | | 31.78 | |

Sales Summary

The following table details the oil and gas sales volumes and values for the three months ending February 28, 2009, 2008 and 2007.

| Three months ending February 28 | 2009 | 2008 | 2007 | % Change 2008-2009 |
|---------------------------------|---------|---------|---------|-----------------------|
| Oil volumes - bbl | 9,271 | 9,306 | 8,916 | (0.4) |
| Oil price - \$/bbl | 40.60 | 85.88 | 59.84 | (53) |
| Gross oil sales (\$) | 376,433 | 799,188 | 533,509 | (53) |
| Natural gas volumes - Mcf | 31,487 | 17,731 | 21,951 | 78 |
| Natural gas price - \$/Mcf | 7.50 | 8.53 | 8.86 | (12) |
| Gross natural gas sales (\$) | 236,306 | 151,249 | 194,423 | 56 |

bbl = one barrel of oil cf = ft³ of natural gas M = one thousand

ROYALTIES

Royalty burdens are predominantly freehold and overriding, along with some Crown royalties related specifically to the Mikwan Alberta production. Crown royalties commenced in July 2008 coincident with the commencement of production from the Mikwan project. Therefore for the first quarter of 2009, royalty rates increased 6% to 13.76% when compared to the same period of 2008.

| Three months ending February 28 | 2009 | 2008 | 2007 | % Change 2008-2009 |
|---------------------------------|--------|---------|--------|-----------------------|
| Royalties (\$) | 84,343 | 123,842 | 93,369 | (32) |
| - \$/BOE | 5.81 | 10.10 | 7.42 | (42) |
| - rate % | 13.76 | 13.03 | 12.83 | 6 |

CASH COSTS

An increase in BOE production sales rates and reduced interest costs as a result of lower bank indebtedness throughout the year, attributed to a cash costs (operating, general and administrative and interest) reduction of 7% to \$28.76/BOE in Q1 2009 from \$30.80/BOE in Q1 2008.

| Three months ending February 28 | 2009 | 2008 | 2007 | % Change 2008-2009 |
|-----------------------------------|---------|---------|---------|-----------------------|
| Operating, G&A, and Interest (\$) | 417,589 | 377,643 | 478,597 | 11 |
| - \$/BOE | 28.76 | 30.80 | 38.06 | (7) |

Operating Expenses

Operating expenses for the first quarter of 2009 increased to \$212,909 compared to \$135,128 for the same period in 2008, representing a 58% increase. The increase resulted primarily from the addition of wells at Mikwan and RamBP4, and a reduction in Q1 2008 repairs and maintenance in the Dover East field. On a BOE basis, Q1 2009 operating costs were \$14.66/BOE compared to \$11.02/BOE in Q1 2008.

| Three months ending February 28 | 2009 | 2008 | 2007 | % Change 2008-2009 |
|---------------------------------|---------|---------|---------|-----------------------|
| Operating Expenses (\$) | 212,909 | 135,128 | 234,902 | 58 |
| - \$/BOE | 14.66 | 11.02 | 18.68 | 33 |

General & Administrative Expenses

Net general and administrative expenses increased 2% to \$177,174 in the first quarter of 2009 from \$173,018 in Q1 2008. Consulting and administrative costs were higher in Q1 2009 due to exploration activities and reports, and file maintenance. During the first quarter of 2009, the Company capitalized \$29,077 (2008 - \$20,770) of general and administration expenses related to geology and the development of oil and gas properties. General and administrative expenses are not expected to change in any material amount during the fiscal 2009 period.

| Three months ending February 28 \$, except as indicated | 2009 | 2008 | 2007 | % Change 2008-2009 |
|--|----------|----------|----------|-----------------------|
| Gross | 206,251 | 193,788 | 181,075 | 6 |
| Recoveries | - | - | - | |
| Capitalized amounts | (29,077) | (20,770) | (21,840) | 40 |
| Net General & Administrative Expenses | 177,174 | 173,018 | 159,235 | 2 |
| - \$/BOE | 12.20 | 14.11 | 12.66 | (14) |

Interest Expenses

Interest expenses decreased to \$27,507 during the first quarter of 2009 from \$69,496 in Q1 2008. The decrease is primarily a result of using cash generated from operations to reduce the bank indebtedness. Recent changes to borrowing rates may result in a continued reduction of interest costs for 2009.

| Three months ending February 28 \$, except as indicated | 2009 | 2008 | 2007 | % Change 2008-2009 |
|--|--------|--------|--------|-----------------------|
| Bank debt | 27,325 | 68,920 | 83,604 | (60) |
| Capital lease and other | 180 | 577 | 855 | (69) |
| Interest Expenses | 27,506 | 69,496 | 84,459 | (60) |
| - \$/BOE | 1.89 | 5.67 | 6.72 | (67) |

NET EARNINGS

The Company realized a loss of \$51,133 (\$0.00 per share) for the 3 months ended February 28, 2009 compared to a profit of \$294,284 (\$0.02 per share) for the same period in 2008. Oil and gas revenues less royalties decreased to \$528,396 in Q1 2009 versus \$826,595 in Q1 2008. The main contributing factor for the decreases can be attributed to significantly higher commodity prices for both oil and natural gas during the first quarter of 2008 as compared to the same period for 2009. This was partially offset by stable oil production volumes and increased gas production volumes.

| Three months ending February 28 \$, except as indicated | 2009 | 2008 | 2007 | % Change 2008-2009 |
|--|----------|---------|----------|-----------------------|
| Net Earnings - Profit (Loss) | (51,133) | 294,284 | (50,587) | (117) |
| - per Share | (0.00) | 0.02 | (0.00) | (118) |
| Oil & Gas Revenue less Royalties | 528,396 | 826,595 | 634,563 | (36) |

OTHER ITEMS

Depletion, Amortization & Accretion Expenses

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. There are no asset retirement liabilities set up for those assets which have an indeterminate useful life.

Depletion, amortization and accretion increased to \$181,354 in the first quarter of 2009 from \$173,101 in 2008. On a BOE basis, depletion, amortization and accretion decreased 12% from \$14.12 to \$12.49.

| Three months ended February 28 | 2009 | | 2008 | | 2007 | | % Change 2008-2009 | |
|-----------------------------------|---------|--------|---------|--------|---------|--------|-----------------------|--------|
| | \$ | \$/BOE | \$ | \$/BOE | \$ | \$/BOE | \$ | \$/BOE |
| Depletion and amortization | 171,661 | 11.82 | 160,984 | 13.13 | 206,255 | 16.40 | 7 | (10) |
| Accretion - ARO | 9,693 | 0.67 | 12,117 | 0.99 | 14,982 | 1.19 | (20) | (32) |
| Total | 181,354 | 12.49 | 173,101 | 14.12 | 221,237 | 17.59 | 5 | (12) |

Asset retirement obligation (ARO)

The undiscounted amount of expected cash flows required to settle the asset retirement obligations is estimated at \$1,544,668 (2008 - \$1,920,279). The liability for the expected cash flows, as reflected in the consolidated financial statements, has been discounted at 9% and includes a 1.0% inflation factor.

The schedule below is a continuity of the Company's liability for the period ended February 28, 2009.

| | |
|--|----------|
| | 2009 |
| | (\$) |
| Asset retirement obligation, beginning of the period | 427,843 |
| Asset retirement costs incurred | (94,093) |
| Accretion expense | 9,693 |
| Asset retirement obligation, end of year | 343,443 |

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 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. As at February 28, 2009, the balance of this bond was \$70,000.

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. The Company has approximately \$7.6 million in tax pools together with approximately \$5.6 million in successor tax pools available to recognize against potential taxable income. The potential income tax benefits associated with unutilized tax pools have been recognized to the extent of reducing future tax liabilities and thus no tax provision has been made.

CAPITAL EXPENDITURES

Net capital expenditures totalled \$247,734 in the first quarter of 2009 compared to \$93,750 in 2008. The capital expenditures for the first quarter of 2007, 2008, and 2009 are summarized below:

| (\$000') | 2009 | 2008 | 2007 | % Change 2008-2009 |
|--|------------|-----------|-----------|-----------------------|
| Canadian expenditures: | | | | |
| Lease and land acquisitions | 57 | 34 | 8 | |
| Geological & geophysical | 84 | 19 | 29 | |
| Drilling, completion and workovers | 70 | 2 | 29 | |
| Equipping and facilities | 1 | | | |
| Capitalized amounts and other | 36 | 39 | 25 | |
| Subtotal | 248 | 94 | 91 | 164 |
| Asset retirement obligation adjustment | 0 | 0 | 0 | |
| Disposition of oil and gas properties | 0 | 0 | 0 | |
| Net Canadian Expenditures | 248 | 94 | 91 | 164 |

The Company's capital expenditures were primarily related to the drilling, completion and tie-in costs of the Mikwan project in Alberta together with continued geological and geophysical assessments of the projects in S.W. Ontario.

LIQUIDITY AND CAPITAL RESOURCES

The Company's working capital deficiency decreased to \$2,738,706 at February 28, 2009 from \$3,613,935 at February 29, 2008. This decrease is a result of utilizing cash flow from operations to retire a portion of the bank debt during the year. In the short term, the Company is able to meet its liabilities as they come due. Additional financing may be required to rectify the working capital deficiency.

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 at February 28, 2009, the bank's prime lending rate was 3.00%. 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.

At February 28, 2009, \$2,503,860 of funds had been drawn against the credit facility of \$6,100,000, leaving an available credit of \$3,596,140.

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.

In the first quarter of 2009, the Company funded its capital expenditure program from cash flow from operations and existing cash. It expects to be able to continue to do so during the short term.

At February 28, 2009, the Company's market value of common shares was \$1,107,016 based on the closing price of \$0.08 per share and 13,837,698 shares outstanding. The number of common shares outstanding at April 27, 2009 remains at 13,837,698.

COMMITMENTS AND CONTRACTUAL OBLIGATIONS

The Company is committed to leased office premises and office equipment with future lease payments, plus common area costs as follows:

| <u>Year</u> | <u>\$</u> |
|-------------|-----------|
| 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.

OFF-BALANCE SHEET ARRANGEMENTS

The Company does not have and is not expected to have during its 2009 fiscal year any off-balance sheet arrangements.

RELATED PARTY TRANSACTIONS

During the three months ended February 28, 2009, \$7,500 (2008 - \$7,500) was paid for office facilities and administrative services to a company (Ionic Management Inc.) related by virtue of a common director (Brian E. Bayley). The agreement may be terminated on three months notice.

BUSINESS RISKS

The Company is engaged in the exploration, development and production of crude oil and natural gas. The oil and natural gas industry is highly competitive. In addition, the Company is exposed to a number of risks. Please refer to page 8 of the annual MD&A under the heading Business Risks, as well as Note 11 of the Consolidated Financial Statements for the three month period ending February 28, 2009, for a complete assessment of such risks.

CRITICAL ACCOUNTING ESTIMATES

Oil and Gas Properties

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 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 Bbl of oil.

Costs of acquiring and evaluating unproved properties are initially excluded from depletion calculations. These unevaluated properties are assessed periodically 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%.

NEW 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 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.

CONTROLS AND PROCEDURES

During the three months ended February 28, 2009, 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.

SUMMARY OF SECURITIES AT THE END OF THE PERIOD

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>2009</u> | |
|---------------------------|-------------------|----------------------|
| | <u>Shares</u> | <u>Amount</u> |
| Common shares outstanding | <u>13,837,698</u> | <u>\$ 12,143,910</u> |

Stock Options:

As at February 28, 2009, options to purchase 1,180,000 shares have been issued. All are fully vested and exercisable at a weighted average price of \$0.10 per share. There have been no options granted in the three months ending February 28, 2009.

Basic and Diluted Share Amounts

| | |
|---|-------------------|
| | <u>2009</u> |
| Weighted average number of shares outstanding | <u>13,837,698</u> |
| Shares issuable pursuant to stock options | <u>91,669</u> |
| Weighted average number of diluted shares outstanding | <u>13,929,367</u> |

OUTLOOK

The Company continues to evaluate existing properties for production and asset value optimization.

Development and Exploration

Operations

In February 2009 the Warwick 6-17-IV (50%WI) developed a production casing leak, a bridge plug was set to shut off the flow of water into the reservoir. The well is shut-in pending the end of road bans so that workover equipment can be mobilized on the well site.

At Ram #91 and Reefex #1 (both 100% working interest) the Company is currently performing an economic evaluation of the two shut-in gas wells with results expected by mid summer.

Alberta

In the Mikwan area of Alberta, the Company earned its interest in the remaining wells in section 12 by participating in the drilling of the first well. In April, 2009, the Company executed the Assignment and Novation Agreements and is now recognized by the operator as a working interest partner. The Company participated in the tie-in of the fourth well to the Encana Lousana compressor site and it went on production the end of March 2009. The first three wells went on production July 18, 2008. At February 28, 2009 the combined production rate for the first three wells was 462 Mcf per day (77 BOE/day), with net production of 115 Mcf per day (19 BOE/day) to the Company.

Ontario

The Company has acquired 3,002 acres of petroleum and natural gas rights at 100% working interest in the Dunwich-Southwold prospect area. This prospect and an additional seven prospects also located in southwestern Ontario were originally identified using high resolution magnetics. The Company has completed the SGH (soil gas hydrocarbon) sampling survey and is currently integrating these results into the geological/geophysical models to form a geological assessment report on each of these prospects, which is expected by mid June. The Company will be looking for partners to participate in the continuing development of these prospects.