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Interim Financial Statements

(Expressed in Canadian Dollars)

(Prepared in accordance with Canadian GAAP)

**Six months ended May 31, 2009**

The accompanying unaudited interim financial statements of Torque Energy Inc. for the six months ended May 31, 2009 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**

	<b>May 31 2009</b>	<b>November 30 2008</b>
	<b>(Unaudited)</b>	<b>(Audited)</b>
<b>Assets</b>		
<b>Current</b>		
Accounts receivable	285,362	360,978
Prepaid expenses	170,359	104,203
	455,721	465,181
<b>Reclamation bonds (Note 6)</b>	<b>70,000</b>	<b>70,000</b>
<b>Property, plant and equipment, net of accumulated depletion and amortization (Note 3)</b>	<b>10,645,633</b>	<b>10,624,604</b>
	<b>\$ 11,171,354</b>	<b>\$ 11,159,785</b>
<b>Liabilities and Shareholders' Equity</b>		
<b>Current</b>		
Bank loan (Note 4)	2,438,496	2,485,409
Accounts payable and accrued liabilities	726,848	569,467
Current portion of obligations under capital lease	-	2,433
	3,165,344	3,057,309
<b>Obligations under capital lease (Note 5)</b>	<b>-</b>	<b>-</b>
<b>Asset retirement obligation (Note 6)</b>	<b>351,694</b>	<b>427,843</b>
	<b>3,517,038</b>	<b>3,485,152</b>
<b>Shareholders' Equity</b>		
Share Capital (Note 7)	12,143,910	12,143,910
Contributed Surplus	510,241	510,241
Deficit	(4,999,835)	(4,979,518)
	<b>7,654,316</b>	<b>7,674,633</b>
	<b>\$ 11,171,354</b>	<b>\$ 11,159,785</b>

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 May 31 (Unaudited)		Six months ended May 31 (Unaudited)	
	2009	2008	2009	2008
	\$	\$	\$	\$
<b>Revenue</b>				
Oil and gas sales	690,939	1,253,689	1,303,678	2,204,126
Less royalties	(89,876)	(163,621)	(174,219)	(287,463)
	<u>601,063</u>	<u>1,090,068</u>	<u>1,129,459</u>	<u>1,916,663</u>
Other income	18,187	18,196	37,601	36,629
	<u>619,250</u>	<u>1,108,264</u>	<u>1,167,060</u>	<u>1,953,292</u>
<b>Expenses</b>				
Operating	204,089	166,019	416,998	301,147
Depletion, accretion and amortization	157,656	185,694	339,010	358,795
General and administrative	205,334	153,835	382,508	326,853
Interest	21,355	53,613	48,861	123,110
	<u>588,434</u>	<u>559,161</u>	<u>1,187,377</u>	<u>1,109,905</u>
<b>Net income for the period</b>	<b>30,816</b>	<b>549,103</b>	<b>(20,317)</b>	<b>843,387</b>
<b>Deficit, beginning of period</b>	<b>(5,030,651)</b>	<b>(6,368,649)</b>	<b>(4,979,518)</b>	<b>(6,662,933)</b>
<b>Deficit, end of period</b>	<b>(4,999,835)</b>	<b>(5,819,546)</b>	<b>(4,999,835)</b>	<b>(5,819,546)</b>
Basic and diluted earnings per share - (Note 8)	<b>0.00</b>	0.04	<b>0.00</b>	0.06

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

For the period ending	Three months ended May 31 (Unaudited)		Six months ended May 31 (Unaudited)	
	2009	2008	2009	2008
	\$	\$	\$	\$
<b>Cash flows from operating activities</b>				
Net income for the period	30,816	549,103	(20,317)	843,387
Adjustments for:				
Depletion, accretion and amortization	157,656	185,694	339,010	358,795
Asset retirement obligations incurred	(1,442)	(1,355)	(95,535)	(5,851)
	<u>187,030</u>	<u>733,442</u>	<u>223,158</u>	<u>1,196,331</u>
Change in non-cash working capital balances				
Accounts receivable	16,052	(147,375)	75,616	(124,353)
Prepaid expenses	20,670	(137,163)	22,643	(113,815)
Accounts payable and accrued liabilities	(96,601)	128,008	37,451	93,698
	<u>127,151</u>	<u>576,912</u>	<u>358,868</u>	<u>1,051,861</u>
<b>Cash flows from financing activities</b>				
Repayment of capital lease obligations	-	(2,196)	(2,433)	(4,309)
Advances from/(repayment) of bank loan	(65,364)	(425,284)	(46,913)	(811,824)
	<u>(65,364)</u>	<u>(427,480)</u>	<u>(49,346)</u>	<u>(816,133)</u>
<b>Cash flows from investing activities</b>				
Acquisition of property, plant and equipment	(157,947)	(149,432)	(340,652)	(243,183)
Change in non-cash working capital balances related to investing activities	96,160		31,130	
	<u>(61,787)</u>	<u>(149,432)</u>	<u>(309,522)</u>	<u>(243,183)</u>
<b>Increase (decrease) in cash during the period</b>	-	-	-	(7,455)
Cash, beginning of period	-	-	-	7,455
Cash, end of period	-	-	-	-

**May 31, 2009 (unaudited)**

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## **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. In February 2003, the Company changed its name from Kinetic Energy Inc. to Torque Energy Inc.

## **2. 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.

**Torque Energy Inc.**  
**Notes to Consolidated Financial Statements**

**May 31, 2009 (unaudited)**

**3. PROPERTY, PLANT AND EQUIPMENT**

	Cost (\$)	Accumulated depletion and amortization (\$)	Net Book Value (\$)
Petroleum and natural gas properties and equipment	18,467,673	7,854,042	10,613,631
Office furniture and equipment	149,583	117,581	32,002
	18,617,256	7,971,623	10,645,633

During the period ended May 31, 2009, the Company capitalized \$56,663 of general and administration expenses related to geology and the development of oil and gas properties. Costs of approximately \$1,305,983 relating to unproved reserves have been excluded from the calculation of depletion.

Included in office furniture and equipment are amounts related to computer equipment acquired by exercising a purchase option following the expiry of a capital lease. This equipment has a cost of \$24,307 (Note 5) and accumulated depreciation of \$11,356.

**4. BANK LOAN**

On April 29, 2009 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 1.50%. As at May 31, 2009, the bank's prime lending rate was 2.25%. 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 May 31, 2009, \$2,438,496 of funds had been drawn against the credit facility of \$6,100,000, leaving an available credit of \$3,661,504.

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

	<b>2009</b> <b>(\$)</b>
Cost of assets under capital lease	24,307
Less: accumulated principal reduction	(24,307)
	-
Less: current portion due in 1 year	-
Balance at May 31, 2009	-

**Torque Energy Inc.**  
**Notes to Consolidated Financial Statements**

May 31, 2009 (unaudited)

**6. ASSET RETIREMENT OBLIGATION**

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 May 31, 2009.

	<u>2009</u>
	(\$)
Asset retirement obligation, beginning of the period	<u>427,843</u>
Asset retirement costs incurred	<u>(95,535)</u>
Accretion expense	<u>19,386</u>
Asset retirement obligation, end of period	<u>351,694</u>

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 May 31, 2009, the balance of this bond was \$70,000.

**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

	<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 May 31, 2009, options to purchase 1,180,000 common shares have been issued. All options are fully vested and exercisable at a weighted average price of \$0.10 per share. There have been no options granted in the six months ending May 31, 2009.

**8. 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>151,294</u>
Weighted average number of diluted shares outstanding	<u>13,988,992</u>

**May 31, 2009 (unaudited)**

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## **9. 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.

## **10. RELATED PARTY TRANSACTION**

During the six months ended May 31, 2009, \$15,000 (2008 - \$15,000) was paid for office facilities and administrative services to a company related by virtue of a common director.

## **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**

During the six months, 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 1.50%. As at May 31, 2009, the increase or decrease in net earnings before taxes for each 1% change in interest rates on floating rate debt amounts to approximately \$24,000 annually (2008 - \$32,000). The related disclosures regarding this debt instrument are included in Note 4 of these financial statements.

### **(b) 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

### **(c) 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.

### **(d) 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 82% of accounts receivable are from these two customers (2008 – 91% 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.

**May 31, 2009 (unaudited)**

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**(e) 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 May 31, 2009, the Company was in compliance with its financial covenants and had \$3,661,504 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.

**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.

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.