MANAGEMENT'S DISCUSSION AND ANALYSIS
FOR THE INTERIM PERIOD ENDING AUGUST 31, 2009 October 28, 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 exploration, development and acquisition of opportunities related to the operation and production of oil and natural gas properties. It presently conducts its activities in the provinces of Ontario and Alberta, Canada.

The following Management's Discussion and Analysis (M.D.& A.) should be read in conjunction with the unaudited interim financial statements for the nine months ended August 31, 2009 together with the notes thereto and the audited consolidated financial statements and M.D.& A. for the year ended November 30, 2008. 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 M.D.& 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 barrels of oil equivalent ("BOE") using a conversion ratio of six Mcf (one thousand cubic feet = one Mcf) to one BOE. Readers are cautioned that BOE may be misleading, particularly if used in isolation.

NON-GAAP MEASURES

The Company uses certain measures of financial reporting in the M.D.& 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 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 M.D.& A. are references to the following non-GAAP terms:

> ***Funds flow from operations*** is determined before changes in non-cash working capital items, and 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 expenses used to calculate net income. Field level cash flow contributes to the funding of the Company's working capital and capital expenditure requirements as well as providing for the reduction to overall bank indebtedness.
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> ***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 and operating expenses.

OVERALL PERFORMANCE

For the three months ended August 31, 2009, the Company realized net income of $98,700 ($0.007 per share) versus net income of $659,118 ($0.048 per share) for the same period in 2008. For the nine months ended August 31, 2009, the Company realized net income of $78,383 ($0.005 per share) versus net income of $1,502,505 ($0.109 per share) for the same period in 2008.

Total sales for crude oil and natural gas declined to $2,039,895 during the nine months ended August 31, 2009 compared to $3,603,839 for the same period in 2008. Sales volume of crude oil for the nine months ended August 31, 2009 remained stable at 27,406 barrels compared to 27,976 barrels for the same period in 2008 a reduction of approximately 2%. The sales volume of natural gas increased to 27,608 Mcf in 2009 compared to 20,417 Mcf in 2008. The increase of approximately 35% in natural gas volume is due to the impact of the Company's working interest in the Mikwan area in Alberta.

The reduction in total revenue can be attributed to economic factors affecting the global price for crude oil and the North American price for natural gas which has resulted in lower net income during the nine month period in 2009.

For the nine months ended August 31, 2009, operating costs increased to $538,645 compared to $479,200 during the same period in 2008. The increase is primarily a result of incurring nine months of production costs from the new Mikwan project in 2009 compared to the initial production costs which commenced during Q3 of 2008. There were no other significant events or changes to operating procedures that would have a material impact on operating costs during the period. General and administrative costs increased $115,412 to $613,046 during the nine months ended August 31, 2009 compared to $497,634 for the same period in 2008 due to the recognition of severance and other related employee costs in the three months ended August 31, 2009.

The Company generated cash from operating activities of $604,774 during the nine months ended August 31, 2009 compared to $1,761,041 for the same period in 2008. The reduction in cash flow is also a direct result of the impact in lower prices for crude oil and natural gas compared to the same period in 2008. Despite the reductions in cash flow from the prior year, the ability of the Company to generate positive cash flow during the period has contributed to the reduction in bank debt and has allowed the Company to internally fund the current capital expenditure program. Total bank indebtedness at August 31, 2009 decreased to $2,319,256 from $2,485,409 at November 30, 2008.

SELECTED QUARTERLY INFORMATION

$, except as indicated	Three months ended August 31			Nine months ended August 31		
	2009	2008	2007	2009	2008	2007
Total sales	736,217	1,399,713	926,252	2,039,895	3,603,839	2,611,334
Net income	98,700	659,118	175,614	78,383	1,502,505	242,247
EPS - basic	.007	.048	.013	.005	.109	.017
EPS - diluted	.007	.046	.012	.005	.106	.016
Sales volume (BOE)	13,718	12,667	14,372	42,398	37,974	42,344
Total assets	11,138,441	11,449,422	11,217,106	11,138,441	11,449,422	11,217,106
Bank indebtedness	2,319,256	2,884,665	4,331,079	2,319,256	2,884,665	4,331,079

RESULTS OF OPERATIONS

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 increase in the value of the Canadian dollar versus the U.S. dollar in the nine months ended August 31, 2009. During the third quarter of 2009 the value of the Canadian dollar continued to strengthen versus the U.S. dollar to Cdn$1.09/US$1.00.

Crude oil sales during the nine months ended August 31, 2009 averaged $56.13 per barrel versus $105.72 per barrel for the same period in 2008, a 47% reduction in the average price per barrel sold. During the three months ended August 31, 2009, crude oil sales averaged $69.48 per barrel compared to $123.53 per barrel in the same period in 2008, a reduction of approximately 44%. During the nine months ended August 31, 2009, the average price per barrel has increased from $40.60 in Q1-2009 to $69.48 per barrel, an increase of approximately 71% which has contributed to the Company's net income and cash flow.

Natural gas sales during the nine months ended August 31, 2009 averaged $5.48 per Mcf versus $10.69 per Mcf for the same period in 2008, a 49% reduction in the average price per Mcf sold. During the three months ended August 31, 2009, natural gas sales averaged $3.73 per Mcf compared to $12.49 per Mcf in the same period in 2008. For the nine months ended August 31, 2009, the average price per Mcf in Q1-2009 of $7.47 has decreased to $3.73, a reduction of 50%,

At the same time as prices were declining, the Company was successful in sustaining production levels for both oil and natural gas which has contributed to net income and positive cash flow. For the nine months ended August 31, 2009, oil production compared to the same period in 2008 was very similar showing only a 2% reduction (see Production History and Sales Summary). Natural gas production during the nine months ended August 31, 2009 increased approximately 35% compared to the same period in 2008. The increase represents the contribution from the Company's working interest participation in the Mikwan wells (Alberta) which commenced initial production during the third quarter of 2008.

The Company averaged 155 BOE sold per day for the nine months ended August 31, 2009 compared to 138 BOE sold per day for the same period in 2008. During the three months ended August 31, 2009 the Company averaged 149 BOE sold per day compared to 138 for the same period in 2008. New production from the Mikwan property contributed an average of 16.6 BOE/day and 16.3 BOE/day for the three and nine month periods ended August 31, 2009 respectively.

Overall expenses remained at manageable levels. For the nine months ended August 31, 2009, overall expenses increased approximately 7% compared to the same period in 2008. For the three months ended August 31, 2009, overall expenses decreased approximately 5% compared to the same period in 2008. The majority of the overall increase was recorded in general and administrative expenses which increased 35% and 23% for the three and nine month periods respectively. The increases reflect the recognition of severance and other employee related expenses during the third quarter.

Operating costs increased approximately 12% for the nine months ended August 31, 2009 related primarily to accrued estimates and actual production costs for the Mikwan production and, a reduction in repairs and maintenance in the Dover East field. For the three months ended August 31, 2009, operating costs decreased approximately 32% as the Company recorded adjustments to previous estimates based upon reported actual expenses related to the Mikwan area. The increases in operating and administrative expenses were offset by reduced interest costs that occurred as a result of declining interest rates and overall lower bank indebtedness. Interest expense decreased by 49% and 57% for the three and nine month periods respectively.

During the nine months ended August 31, 2009 there were no new significant commitments made that would or may have a material impact on the Company's future performance or financial position. The Company continues to be exposed to the normal risks associated with global oil prices and North American natural gas prices and will be affected accordingly.

SUMMARY OF QUARTERLY RESULTS

Last eight quarters $000s, except as indicated	2009			2008				2007
	Q3	Q2	Q1	Q4	Q3	Q2	Q1	Q4
Total sales	736.2	690.9	612.7	1,102.3	1,399.7	1,253.7	950.4	901.6
Net income (loss)	98.7	30.8	(51.1)	180.9	659.1	549.1	294.3	127.5
EPS - basic ($)	.007	.002	(.004)	.013	.048	.040	.021	.009
EPS - diluted ($)	.007	.002	(.004)	.013	.046	.039	.021	.009
Sales volume (BOE)	13,718	14,161	14,519	16,062	12,667	13,046	12,261	13,438
Total assets	11,138	11,171	11,174	11,160	11,449	11,224	10,964	11,077
Bank indebtedness	2,319	2,438	2,504	2,485	2,885	3,238	3,663	4,043

Funds flow from operations

Despite the dramatic fluctuation of global prices of crude oil and the reduction in North American natural gas prices, the Company continues to generate positive funds flow from operations which have been used to reduce bank indebtedness, fund the Company's working capital requirements and, internally fund the Company's current capital expenditure projects. Funds flow from operations decreased 68% in the third quarter of 2009 to $260,912 from $820,480 for the third quarter of 2008. For the nine months ended August 31, 2009, funds flow from operations decreased 77% to $484,070 compared to $2,016,811 for the same period in 2008. These decreases are a result of the lower commodity prices and their influence on net income together with modest changes in the working capital components. Funds flow from operations is calculated as follows:

$, except as indicated	Three months ended August 31			Nine months ended August 31		
	2009	2008	2007	2009	2008	2007
Cash provided by operating activities	245,907	709,180	184,275	604,774	1,761,041	514,604
Impact of non-cash working capital items	15,005	111,300	191,170	(120,704)	255,770	401,138
Funds flow from operations	260,912	820,480	375,445	484,070	2,016,811	915,742

Field level cash flow

For the third quarter in 2009, field level cash flow decreased 52% to $497,466 from $1,035,812 in 2008. For the nine months ended August 31, 2009, field level cash flow decreased 54% to $1,209,927 compared to $2,651,328 in 2008. The decrease in both periods is attributed to lower revenues resulting from lower commodity prices. The modest improvement in the third quarter 2009 compared to the nine month change represents the steady increase in global crude oil prices.

$, except as indicated	Three months ended August 31			Nine months ended August 31		
	2009	2008	2007	2009	2008	2007
Oil and natural gas sales	736,217	1,399,713	926,252	2,039,895	3,603,839	2,611,334
Royalty expense	(117,114)	(185,848)	(120,217)	(291,323)	(473,311)	(336,358)
Net sales	619,113	1,213,865	806,035	1,748,572	3,130,528	2,274,976
Operating expenses	(121,647)	(178,053)	(155,716)	(538,645)	(479,200)	(585,772)
Field level cash flow	497,466	1,035,812	650,319	1,209,927	2,651,328	1,689,204
Per share - basic	.036	.075	.047	.088	.192	.122
Per share - diluted	.036	.072	.046	.087	.186	.119

Operating netbacks

Operating netbacks provide the unit revenue and unit costs on a BOE (barrel of oil equivalent) basis associated with items related to field level cash flow. Noted percentage changes from one period to another will differ slightly from the noted percentage changes in field level cash flow due to the influence of the additional "*BOE*" variable. During the third quarter in 2009 operating netbacks decreased 56% to $36.26/BOE compared to $81.77/BOE in 2008. For the nine months ended August 31, 2009, operating netbacks decreased 59% to $28.54/BOE compared to $69.82/BOE for the same period in 2008.

$/BOE	Three months ended August 31			Nine months ended August 31		
	2009	2008	2007	2009	2008	2007
Oil sales	69.48	123.53	70.76	56.13	105.72	65.02
Natural gas sales	22.34	75.03	47.54	33.45	64.62	52.29
Total sales	53.67	110.50	64.45	48.11	94.90	61.67
Royalty expense	(8.54)	(14.67)	(8.36)	(6.87)	(12.46)	(7.94)
Operating expenses	(8.87)	(14.06)	(10.83)	(12.70)	(12.62)	(13.83)
Netback	36.26	81.77	45.25	28.54	69.82	39.89

Production history

The following table summarizes the Company's production sales volumes for the three months and nine months ended August 31st.

Volumes	Three months ended August 31						Nine months ended August 31					
	2009		2008		2007		2009		2008		2007	
	Amt	/Day	Amt	/Day	Amt	/Day	Amt	/Day	Amt	/Day	Amt	/Day
Oil - stb & bbl/d	9,117	99.1	9,264	100.7	10,466	113.8	27,406	100.0	27,976	101.7	31,203	113.9
Gas - Mcf & Mcf/d	27,608	300.0	20,417	221.9	23,437	254.8	89,953	328.3	59,985	218.1	66,846	244.0
BOE (6:1) & BOE/d	13,718	149.1	12,667	137.7	14,372	156.2	42,398	154.7	37,974	138.1	42,344	154.5

Sales summary

The following table details the oil and gas sales volumes and values for the three months and nine months ended August 31st.

	Three months ended August 31			Nine months ended August 31		
	2009	2008	2007	2009	2008	2007
Oil volumes - bbl	9,117	9,264	10,466	27,406	27,976	31,203
Oil price - $/bbl	69.48	123.53	70.76	56.13	105.72	65.02
Gross oil sales ($)	633,432	1,144,369	740,576	1,538,417	2,957,748	2,028,821
Natural gas volumes - Mcf	27,608	20,417	23,437	89,953	59,985	66,846
Natural gas price - $/Mcf	3.72	12.51	7.92	5.57	10.77	8.71
Gross natural gas sales ($)	102,785	255,344	185,676	501,478	646,091	582,513

bbl = one barrel of oil cf = ft^3 of natural gas M = one thousand

Royalties

Royalty burdens are comprised of freehold and overriding royalties, along with Crown royalties that are specifically related to the Mikwan Alberta assets. For the third quarter of 2009, natural gas royalty rates increased due to overriding royalties from the Mikwan area following the execution of a Novation agreement with the operator. Also in the third quarter, oil royalties decreased temporarily as a direct result of the Warwick well being shut-in (which carries a 10% overriding royalty). Royalties expressed per BOE will show greater fluctuation as a result of the changes in royalty expenses relative to stable production levels.

Royalties $ - except as indicated	Three months ended August 31			Nine months ended August 31		
	2009	2008	2007	2009	2008	2007
OIL						
Royalties - $	81,002	154,558	97,821	193,837	394,465	265,998
Royalties - % of revenue	12.21%	13.51%	13.21%	12.60%	13.34%	13.11%
Royalties - per BOE	8.88	16.68	9.35	7.07	14.10	8.52
GAS						
Royalties - $	36,102	31,290	22,396	97,486	78,846	70,360
Royalties - % of revenue	35.12%	12.25%	12.06%	19.44%	12.20%	12.08%
Royalties - per BOE	7.85	9.19	5.73	6.50	7.89	6.32
TOTAL						
Royalties - $	117,104	185,848	120,217	291,323	473,311	336,358
Royalties - % of revenue	15.91%	13.28%	12.98%	14.28%	13.13%	12.88%
Royalties - per BOE	8.54	14.67	8.36	6.87	12.46	7.94

General and administrative expenses

$, except as indicated	Three months ended August 31			Nine months ended August 31		
	2009	2008	2007	2009	2008	2007
Gross	259,358	199,859	209,368	698,529	590,603	611,060
Capitalized amounts	(28,820)	(29,078)	(21,840)	(85,483)	(92,969)	(65,520)
Net	230,538	170,781	187,528	613,046	497,634	545,540

Interest expense

Interest expense decreased to $23,268 for the third quarter of 2009 from $45,573 in Q3-2008. For the nine months ended August 31, 2009, interest expense decreased to $72,129 versus $168,683 for the same period in 2008. In both cases, the decrease is due to a combination of reduced bank indebtedness and declining interest rates.

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 decreased to $163,207 in the third quarter of 2009 from $181,511 in 2008. For the nine months ended August 31, 2009, depletion, amortization and accretion decreased to $502,217 versus $540,306 for the same period in 2008. The calculation of depletion is based upon the units of production method which is dependent upon certain assumptions involving reserves and other economic factors. The recorded decreases in depletion and accretion are a result of these changing assumptions and estimates.

$, except as indicated	Three months ended August 31			Nine months ended August 31		
	2009	2008	2007	2009	2008	2007
Depletion	151,813	167,542	228,849	468,173	498,419	672,271
Amortization	1,701	1,852	2,202	4,965	5,536	6,402
Accretion - ARO	9,693	12,117	12,606	29,079	36,351	42,570
Total	163,207	181,511	243,657	502,217	540,306	721,243

Asset retirement obligation (ARO)

The undiscounted amount of expected cash flows required to settle the asset retirement obligation 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 August 31, 2009.

	2009 ($)
Asset retirement obligation, beginning of the period	427,843
Asset retirement costs incurred	(96,530)
Accretion expense	29,079
Asset retirement obligation, end of period	360,392

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 five 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 August 31, 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.

LIQUIDITY

Liquidity is a measure of whether the Company will be in a position to meet its financial obligations as they come due.

The Company's working capital deficiency decreased to $2,551,072 at August 31, 2009 from $2,592,128 at November 30, 2008. This decrease is a result of utilizing cash flow from operations to retire a portion of the bank debt after funding working capital and capital expenditure requirements.

The Company's accounts receivable will come due within approximately 30 days of the balance sheet date while the Company's accounts payable and accrued liabilities will come due within 60 days of the balance sheet date.

At August 31, 2009, $2,319,256 of funds had been drawn against the credit facility of $6,100,000, leaving an available credit of $3,780,744. In the short term, the Company is expected to meet its liabilities as they come due although additional financing may be required to rectify the working capital deficiency.

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.

On April 29, 2009 the Company established a revised credit facility in the amount of $6,100,000. The credit facility provides the Company with a revolving demand loan bearing interest payable monthly at the bank's prime lending rate plus 1.50%. As at August 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 the Company's assets.

CAPITAL RESOURCES

Capital expenditures

Net capital expenditures totalled $102,362 in the third quarter of 2009 compared to $353,403 in 2008. The capital expenditures for the three and nine months ended May 31st are summarized below:

($000)	Three months ended August 31			Nine months ended August 31		
	2009	2008	2007	2009	2008	2007
Canadian expenditures:						
Lease and land acquisitions	73.8	61.9	98.9	173.9	137.1	160.8
Geological & geophysical	(21.9)	134.4	15.6	82.0	171.8	54.3
Drilling, completion and workovers	18.6	113.9	68.7	91.2	180.4	147.2
Equipping and facilities	3.1	14.1	0	3.5	14.1	0
Capitalized administration and other	28.8	29.1	21.8	92.4	93.0	65.5
Subtotal	**102.4**	**353.4**	**205.0**	**443.0**	**596.4**	**427.8**
Asset retirement obligation adjustment	0	0	0	0	0	0
Disposition of oil and gas properties	0	0	0	0	0	0
Net Canadian Expenditures	**102.4**	**353.4**	**205.0**	**443.0**	**596.4**	**427.8**

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. In the third quarter of 2009, vendor rebates exceeded costs for geological and geophysical expenditures.

In the nine months ended August 31, 2009, the Company funded its capital expenditure program from internal sources. Capital expenditures in the fourth quarter are not expected to be materially different than those reported in the first three quarters and, the Company expects to fund these expenditures from unencumbered cash flow and may also utilize the available bank credit facility.

Contractual obligations

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

Year	$
(3 months) 2009	12,029
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.

TRANSACTIONS with RELATED PARTIES

During the nine months ended August 31, 2009, $22,500 (2008 - $22,500) was paid for office facilities and administrative services to a company (Ionic Management Corp.) related by virtue of a common director (Brian E. Bayley).

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 barrel 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.

FINANCIAL INSTRUMENTS and OTHER INSTRUMENTS

Business risks

The Company's business is the acquisition, exploration, development and any other opportunities related to the operation and production of oil and natural gas properties. 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 nine month period ended August 31, 2009, for a complete assessment of such risks.

OTHER ITEMS

Controls and procedures

During the nine months ended August 31, 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.

Outstanding share data

The following information is as at the date of this Management's Discussion and Analysis:

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

	2009	
	Shares	Amount
Common shares outstanding	13,837,698	$12,143,910

Stock Options:

Options to purchase 880,000 shares are outstanding. All options are fully vested and exercisable at a weighted average price of $0.10 per share. During the nine months ended August 31, 2009, no new options were granted and 300,000 were forfeited.

OUTLOOK

Management continues to evaluate the Company's asset base of producing and exploration properties in its mandate to improve shareholder value with minimal increase in debt or incurring excessive shareholder dilution.

DEVELOPMENT

As a result of this asset review, Management has initiated an assessment to determine their viability to function as commercial gas storage reservoirs. The Company has acquired 400 acres of petroleum and natural gas and storage rights at 100% working interest adjacent to one of its current producing properties. The Company reprocessed and interpreted nine lines of in-house seismic with encouraging results. To further delineate the reefal structure, a program has been designed to shoot, process and interpret two additional lines of seismic before the end of November.

In February 2009 the Warwick 6-17-IV (50% working interest or net 3 BOE/day) developed a production casing leak and a bridge plug was set to shut off the flow of water into the reservoir. Partner agreement to remedy this leak was received on July 6th. The operation began September 8th and was completed successfully and within budget on September 21st. Current production is 21 bbl/d of fluid with an oil cut (the percentage of crude oil in one barrel of production fluid) of 25% or 5.25 bbl/d and improving steadily.

Economic and pressure evaluations at Ram #91 and Reefex #1 continue to be performed, (both shut-in gas wells). In late August, a wire line test at Ram #91 showed that the wellbore was filled with natural gas and reservoir fluid indicating a reservoir with additional recoverable gas reserves nearby. The Company is encouraged and will perform a production test of the well to measure the open flow potential for natural gas. This test should be completed by mid-November, at which time the equipment will be moved to perform the same tests at Reefex #1.

EXPLORATION

The Company continues to refine its eight oil and gas prospects located in southwestern Ontario. It has acquired 3,002 acres of petroleum and natural gas rights at 100% working interest in the Dunwich-Southwold prospect area. These prospects were originally identified using high resolution geophysics. 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.

In late July, Management initiated a review of all the historical exploration and seismic information which had been stored off site. Corporate acquisitions over time have allowed the Company to create an extensive, proprietary exploration database within the southwestern Ontario portion of the Michigan geological basin. A number of excellent prospects have been revealed and are currently in the acquisition process. This is proving to be a low cost, internally driven enhancement of the Company's assets.