



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

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

www.torqueenergy.com

TORQUE ENERGY INC.

Financial Statements

For the years ending
November 30, 2009 and 2008

Auditor's Report	2
Financial Statements	
Balance Sheets	3
Statements of Changes in Equity	4
Statements of Operations	5
Statements of Cash Flows	6
Notes to Financial Statements	7 - 17

AUDITORS' REPORT

To the Shareholders of
Torque Energy Inc.

We have audited the balance sheet of **Torque Energy Inc.** as at November 30, 2009 and 2008 and the statement 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 financial statements present fairly, in all material respects, the financial position of the Company as at November 30, 2009 and 2008 and the results of its operations and its cash flows for the years then ended in accordance with Canadian generally accepted accounting principles.

Ernst + Young LLP

London, Canada,
March 26, 2010.

Chartered Accountants
Licensed Public Accountants

**Torque Energy Inc.
Balance Sheets**

as at November 30 2009 2008

Assets

Current

Accounts receivable	402,129	360,978
Prepaid expenses	118,951	104,203
	521,080	465,181

Reclamation bonds (Note 8)

70,000 70,000

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

10,606,285 10,624,604

\$ 11,197,365 \$ 11,159,785

Liabilities and Shareholders' Equity

Current

Bank indebtedness (Note 6)	2,247,654	2,485,409
Accounts payable and accrued liabilities	508,079	569,467
Current portion of obligations under capital lease (note 7)	-	2,433
	2,755,733	3,057,309

Asset retirement obligation (Note 8)

433,684 427,843

3,189,417 3,485,152

Shareholders' Equity

Share Capital (Note 9)	12,143,910	12,143,910
Contributed Surplus	510,241	510,241
Deficit	(4,646,203)	(4,979,518)
	8,007,948	7,674,633

\$ 11,197,365 \$ 11,159,785

Approved on behalf of the Board:

"Brian E. Bayley"

"Paul W. Vandenbosch"

Torque Energy Inc.
Statements of Changes in Equity

For the year ended November 30, 2009	Total	Deficit	Share Capital	Contributed Surplus
Balance, November 30, 2008	\$ 7,674,633	\$ (4,979,518)	\$ 12,143,910	\$ 510,241
Net income and comprehensive income	333,315	333,315		
Balance November 30, 2009	<u>\$ 8,007,948</u>	<u>\$ (4,646,203)</u>	<u>\$ 12,143,910</u>	<u>510,241</u>
<hr/>				
For the year ended November 30, 2008				
Balance, November 30, 2007	\$ 5,991,218	\$ (6,662,933)	\$ 12,143,910	\$ 510,241
Net income and comprehensive 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>

Torque Energy Inc.
Statements of Operations

For the years ended November 30	2009	2008
Revenue		
Oil and gas sales	\$ 2,763,803	\$ 4,706,154
Less royalties	<u>(388,339)</u>	<u>(615,169)</u>
	2,375,464	4,090,985
Other income	<u>76,577</u>	<u>76,055</u>
	<u>2,452,041</u>	<u>4,167,040</u>
Expenses		
Operating	616,002	728,014
Depletion, accretion and amortization	691,109	725,760
General and administrative	717,698	685,743
Interest	93,117	203,752
Other expenses (Note 8)	<u>800</u>	<u>140,356</u>
	<u>2,118,726</u>	<u>2,483,625</u>
Net income and comprehensive income for the year	<u>333,315</u>	<u>1,683,415</u>
Basic and diluted earnings per share - (Note 9)	\$ 0.02	\$ 0.12

Torque Energy Inc.
Statements of Cash Flows

For the years ended November 30	2009	2008
Cash flows from operating activities		
Net income for the year	\$ 333,315	\$ 1,683,415
Adjustments for:		
Depletion, accretion and amortization	691,109	725,760
Asset retirement obligations incurred	(66,531)	(49,230)
	<u>957,893</u>	<u>2,359,945</u>
Change in non-cash working capital balances		
Accounts receivable	3,368	75,137
Prepaid expenses	31,330	(11,218)
Accounts payable and accrued liabilities	(131,177)	66,667
	<u>861,414</u>	<u>2,490,531</u>
Cash flows from financing activities		
Repayment of capital lease obligations	(2,433)	(8,924)
Repayment of bank loan	(75,000)	(1,725,000)
	<u>(77,433)</u>	<u>(1,733,924)</u>
Cash flows from investing activities		
Change in non-cash working capital balances related to investing activities	(20,808)	44,529
Acquisition of property, plant and equipment	(601,359)	(969,854)
Proceeds from sale of property, plant and equipment	941	854
	<u>(621,226)</u>	<u>(924,471)</u>
Increase (decrease) in cash position during the year	162,755	(167,864)
Cash position, beginning of year	<u>(160,409)</u>	<u>7,455</u>
Cash position, end of year (Note 6)	<u>2,346</u>	<u>(160,409)</u>

November 30, 2009 and 2008

1. NATURE OF OPERATIONS

The annual financial statements include the accounts of Torque Energy Inc. (the "Company") for 2009 and the Consolidated financial statements of Torque Energy Inc. for 2008. During the year, Reefex Corporation, a wholly-owned subsidiary, was dissolved.

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 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:

Basis of Presentation

The Company conducts some of its crude oil and natural gas exploration and production activities jointly with other parties subject to operating agreements. The agreements specify the working interest earned by the parties and identifies the party who retains operatorship control of the assets governed by the agreement. These financial statements reflect only the Company's proportionate working interest in such activities.

Measurement uncertainty

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

Cash

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

Property, plant and equipment

i. Capitalized costs:

The Company follows the full cost method of accounting for oil and natural gas properties. Under this method, all costs related to the exploration for and development of oil and natural gas reserves are capitalized in a cost centre. These costs include land or lease acquisition costs, geological and geophysical expenses, asset retirement costs, costs of drilling and overhead charges directly related to acquisition and exploration activities. Proceeds from sale of petroleum

November 30, 2009 and 2008

and natural gas properties are applied against capitalized costs, with no gain or loss recognized, unless such a sale would significantly alter the rate of depletion by more than 20%.

ii. Depletion and depreciation:

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. Office furniture, computer hardware, and software are recorded at cost and amortized using the declining balance basis at annual rates of 20%.

iii. Impairment test:

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, after deducting abandonment and site restoration costs, discounted at a risk free interest rate. Any impairment loss is charged to earnings.

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.

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.

November 30, 2009 and 2008

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

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.

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 included with operating costs as they are not material to disclose separately. Other income associated with the providing of administrative and other services is recognized upon completion of the services.

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).

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

November 30, 2009 and 2008

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.

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.

3. CHANGES IN ACCOUNTING STANDARDS

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.

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:

- Adoption of International Financial Reporting Standards

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 for fiscal years beginning on or after January 1, 2011 and therefore will commence in the first quarter of the Company's 2012 fiscal year with comparative figures. The Company will follow a four key phase approach to ensure successful conversion to International Financial Reporting Standards as follows:

- IFRS diagnostic impact assessment
- Design and Planning
- Solution development
- Implementation

November 30, 2009 and 2008

It is not practically possible at this time to quantify the impact of these differences. 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

November 30, 2009	Cost (\$)	Accumulated depletion and amortization (\$)	Net book value (\$)
Petroleum and natural gas properties and equipment	18,727,439	8,149,752	10,577,687
Furniture and equipment	149,583	120,985	28,598
	18,877,022	8,270,737	10,606,285

November 30, 2008	Cost (\$)	Accumulated depletion and amortization (\$)	Net book value (\$)
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	7,652,000	10,624,604

During 2009, the Company capitalized \$117,338 (2008 - \$122,443) of general and administration expenses related to geology and the development of oil and gas properties. Average costs of \$1,351,961 (2008 - \$ 979,531) relating to unproved reserves have been excluded from the calculation of depletion.

An impairment calculation was performed on the Company's property, plant and equipment at November 30, 2009 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	85.79	5.12
2010	89.60	6.00
2011	90.91	6.88
2012	93.05	7.26
2013	94.97	8.55
2014 thereafter escalated at 2%	96.89	8.72

November 30, 2009 and 2008

6. BANK LOAN

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 of November 30, 2009, the bank's prime lending rate is 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 assets and is subject to periodic review. The next scheduled review being on or before March 31, 2010.

At November 30, 2009, bank indebtedness was \$ 2,247,654 as follows:

	<u>2009</u> (\$)	<u>2008</u> (\$)
Overdraft/(Cash)	(2,346)	160,409
Demand Loan	2,250,000	2,325,000
Ending balance	<u>2,247,654</u>	<u>2,485,409</u>

The bank has not waived its right to demand repayment of the outstanding principal balance prior to November 30, 2009 and consequently the entire balance has been shown as a current liability.

At November 30, 2009, the available credit is \$3,850,000 (2008 - \$3,775,000) as follows:

	<u>2009</u> (\$)	<u>2008</u> (\$)
Authorized	6,100,000	6,100,000
Demand loan at November 30	2,250,000	2,325,000
Available credit at November 30	<u>3,850,000</u>	<u>3,775,000</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>2009</u> (\$)	<u>2008</u> (\$)
Cost of assets under capital lease	-	24,307
Less: accumulated principal reduction	-	(21,874)
	-	2,433
Less: current portion due in 1 year	-	(2,433)
	<u>-</u>	<u>-</u>

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 an option to purchase the equipment for a nominal amount.

November 30, 2009 and 2008

8. ASSET RETIREMENT OBLIGATION

The undiscounted amount of expected cash flows required to settle the asset retirement obligations, assuming a 2% inflation factor (1% - 2008), is estimated at \$1,927,693 (2008 - \$1,544,668). The liability for the expected cash flows, as reflected in the financial statements, has been discounted at 9% (2008 - 9%).

	2009 (\$)	2008 (\$)
Asset retirement obligation, beginning of year	427,843	574,469
Change in estimate	(64,653)	(116,636)
Liabilities settled	800	140,356
Asset retirement costs incurred	(2,678)	(189,587)
Accretion	72,372	19,241
Asset retirement obligation, end of year	433,684	427,843

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 14% of the costs will be incurred and the remainder from 2015 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 beneficiary. The balance of this bond at year-end was \$70,000 (2008 - \$70,000).

9. SHARE CAPITAL

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

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.

November 30, 2009 and 2008

The maximum number of options is restricted to ten percent (10%) of the outstanding common shares with a maximum term of ten (10) years from the date the option is granted and such options generally vest immediately.

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

	Common Shares	Weighted average exercise price (\$)
Options outstanding, November 30, 2008 and 2007	1,180,000	0.10
Options forfeited during the year	<u>(300,000)</u>	<u>0.10</u>
Options outstanding, November 30, 2009	<u>880,000</u>	<u>0.10</u>

In 2009 and 2008, there were no new stock purchase options granted or exercised. During the year 300,000 stock purchase options were forfeited. All issued options are vested with a term of five (5) years.

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.

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.

	2009	2008
Weighted average number of shares outstanding	13,837,698	13,837,698
Shares issuable pursuant to stock options	<u>161,452</u>	<u>474,865</u>
Weighted average number of diluted shares outstanding	<u>13,999,150</u>	<u>14,312,563</u>

10. INCOME TAXES

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

	2009 (\$)	2008 (\$)
	<u>33.04%</u>	<u>33.72%</u>
Expected income tax at statutory rate	110,000	567,400
Recognition of benefit of oil and gas property pools	(110,000)	(567,400)
Actual income tax provision	<u>\$ -</u>	<u>\$ -</u>

November 30, 2009 and 2008

The Company has the following available tax pools:

November 30	2009 (\$)	2008 (\$)
Canadian oil and gas property expenses	5,805,000	5,240,000
Canadian development expenses	802,000	657,000
Canadian exploration expenses	1,856,000	1,745,000
Undepreciated capital cost allowances	965,000	1,262,000
Loan financing fees	17,000	63,000
Non capital losses	-	-

In addition, the Company has various successor pools in the amount of \$4,840,000 (2008 - \$5,596,000) 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, 2009, \$30,000 (2008 - \$30,000) was paid for office facilities and administrative services to a company related by virtue of a common director.

During the year ended November 30, 2009, nil (2008 - \$27,300) was paid to an officer of the Company for management fees.

12. COMMITMENTS AND CONTINGENCIES

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

2010	49,186
2011	16,585
2012	5,707
2013	5,707
2014	-

Other Indemnifications

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

November 30, 2009 and 2008

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 1.50%. As at November 30, 2009, the increase or decrease in net earnings before taxes for each 1% change in interest rates on floating rate debt amounts to approximately \$22,500 annually (2008 - \$23,250). 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 65% of accounts receivable is from these two customers (2008 – 71% 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, 2009, the Company had \$3,850,000 available from its revolving credit facility. The Company's accounts payable and accrued liabilities will come due within 60 days of the balance sheet date. Given the available liquid resources, management anticipates having sufficient funds to meet the Company's short term commitments.

November 30, 2009 and 2008

14. CAPITAL MANAGEMENT

The primary objectives of the Company's capital management are:

- to maintain a strong 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 reviews its capital structure 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 short-term and long-term interest bearing debt. The Company is not subject to any capital requirements imposed by a regulator.

15. STATEMENTS OF CASH FLOWS

The income taxes paid in 2009 were Nil (2008 - Nil).

The total interest paid in 2009 was \$93,117 (2008 - \$203,752).

During 2009 and 2008, the Company had no additional non-cash transactions other than those disclosed elsewhere in these financial statements.