



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

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

www.torqueenergy.com

TORQUE ENERGY INC.

Interim Financial Statements

(Expressed in Canadian Dollars)
(Prepared in accordance with Canadian GAAP)

For the three months ended February 28, 2010

The accompanying unaudited interim financial statements of Torque Energy Inc. for the three months ended February 28, 2010 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.
Balance Sheets

	February 28 2010	November 30 2009
	Unaudited	Audited
Assets		
Current		
Accounts receivable	363,898	402,129
Prepaid expenses	123,697	118,951
	487,595	521,080
Reclamation bonds (Note 6)	70,000	70,000
Property, plant and equipment, net of accumulated depletion and amortization (Note 4)	10,711,547	10,606,285
	\$ 11,269,142	\$ 11,197,365
Liabilities and Shareholders' Equity		
Current		
Bank indebtedness (Note 5)	2,091,579	2,247,654
Accounts payable and accrued liabilities	579,039	508,079
	2,670,618	2,755,733
Asset retirement obligation (Note 6)	440,664	433,684
	3,111,282	3,189,417
Shareholders' Equity		
Share Capital (Note 7)	12,143,910	12,143,910
Contributed Surplus	510,241	510,241
Deficit	(4,496,291)	(4,646,203)
	8,157,860	8,007,948
	\$ 11,269,142	\$ 11,197,365

Approved on behalf of the Board:

"John F. Cowan"

"Paul W. Vandenbosch"

Torque Energy Inc.
Statements of Changes in Equity

For the period ended February 28, 2010	Total	Deficit	Share Capital	Contributed Surplus
Balance, November 30, 2009	\$ 8,007,948	\$ (4,646,203)	\$ 12,143,910	\$ 510,241
Net income and comprehensive income	149,912	149,912		
Balance February 28, 2010	<u>\$ 8,157,860</u>	<u>\$ (4,496,291)</u>	<u>\$ 12,143,910</u>	<u>510,241</u>
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For the year ended November 30, 2009				
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>

Torque Energy Inc.
Statements of Operations

For the three months ended February 28	2010	2009
Revenue		
Oil and gas sales	\$ 726,462	\$ 612,739
Less royalties	<u>(95,970)</u>	<u>(84,343)</u>
	630,492	528,396
Other income	<u>19,198</u>	<u>19,414</u>
	<u>649,690</u>	<u>547,810</u>
Expenses		
Operating	166,355	212,909
Depletion, accretion and amortization	150,964	181,354
General and administrative	161,461	177,174
Interest	<u>20,998</u>	<u>27,506</u>
	<u>499,778</u>	<u>598,943</u>
Net income and comprehensive income for the period	<u>149,912</u>	<u>(51,133)</u>
Basic and diluted earnings per share - (Note 7)	\$ 0.01	\$ -

Torque Energy Inc.
Statements of Cash Flows

For the three months ended February 28	2010	2009
Cash flows from operating activities		
Net income for the period	\$ 149,912	\$ (51,133)
Adjustments for:		
Depletion, accretion and amortization	150,964	181,354
Asset retirement obligations incurred	(4,094)	(94,093)
	<u>296,782</u>	<u>36,128</u>
Change in non-cash working capital balances		
Accounts receivable	38,231	59,564
Prepaid expenses	(4,746)	1,973
Accounts payable and accrued liabilities	(4,626)	134,051
	<u>325,641</u>	<u>231,716</u>
Cash flows from financing activities		
Repayment of capital lease obligations	-	(2,433)
(Repayment)/advances - bank loan	(156,075)	18,451
	<u>(156,075)</u>	<u>16,018</u>
Cash flows from investing activities		
Change in non-cash working capital balances related to investing activities	75,586	(65,029)
Acquisition of property, plant and equipment	(245,152)	(182,705)
Proceeds from sale of property, plant and equipment	-	-
	<u>(169,566)</u>	<u>(247,734)</u>
Increase (decrease) in cash position during the period	-	-
Cash position, beginning of period	-	-
Cash position, end of period (Note 5)	-	-

February 28, 2010 (unaudited)

1. NATURE OF OPERATIONS

The interim financial statements include the accounts of Torque Energy Inc. (the "Company") for the three months ended February 28, 2010 and the consolidated financial statements of Torque Energy Inc. for the three months ended February 28, 2009. During 2009, 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 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

February 28, 2010 (unaudited)

charges directly related to acquisition and exploration activities. 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 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.

February 28, 2010 (unaudited)

- 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 period. 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

February 28, 2010 (unaudited)

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. 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

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.

4. PROPERTY, PLANT AND EQUIPMENT

February 28, 2010	Cost (\$)	Accumulated depletion and amortization (\$)	Net book value (\$)
Petroleum and natural gas properties and equipment	18,972,592	8,288,214	10,684,378
Furniture and equipment	149,583	122,414	27,169
	19,122,175	8,410,628	10,711,547

During the three months ended February 28, 2010, the Company capitalized \$28,470 (2009 - \$29,077) of general and administration expenses related to geology and the development of oil and gas properties. Average costs of \$1,451,665 (2009 - \$ 1,260,463) relating to unproved reserves have been excluded from the calculation of depletion.

February 28, 2010 (unaudited)

5. 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 February 28, 2010, 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.

At February 28, 2010, bank indebtedness was \$ 2,091,579 as follows:

	<u>2010</u>
	(\$)
Overdraft/(Cash)	(8,421)
Demand Loan	2,100,000
Ending balance	2,091,579

The bank has not waived its right to demand repayment of the outstanding principal balance prior to February 28, 2010 and consequently the entire balance has been shown as a current liability.

At February 28, 2010, the available credit is \$4,000,000 as follows:

	<u>2010</u>
	(\$)
Authorized	6,100,000
Demand loan at February 28	2,100,000
Available credit at February 28	4,000,000

6. ASSET RETIREMENT OBLIGATION

The undiscounted amount of expected cash flows required to settle the asset retirement obligations, assuming a 2% inflation factor is estimated at \$1,927,693 (2009 - \$1,544,668). The liability for the expected cash flows, as reflected in the financial statements, has been discounted at 9%.

	<u>2010</u>
	(\$)
Asset retirement obligation, beginning of year	433,684
Asset retirement costs incurred	(4,094)
Accretion	11,074
Asset retirement obligation, end of year	440,664

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.

February 28, 2010 (unaudited)

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 February 28, 2010 was \$70,000.

7. 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>2010</u>	
	Shares	Amount
Common shares outstanding	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.

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	1,180,000	0.10
Options forfeited during the year	(300,000)	0.10
Options outstanding, November 30, 2009	880,000	0.10
Options outstanding February 28, 2010	880,000	0.10

During the three months ended February 28, 2010, there were no new stock purchase options granted, exercised or 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.

February 28, 2010 (unaudited)

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.

	<u>2009</u>
Weighted average number of shares outstanding	13,837,698
Shares issuable pursuant to stock options	<u>245,527</u>
Weighted average number of diluted shares outstanding	<u>14,083,225</u>

8. 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 \$4.8 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.

9. RELATED PARTY TRANSACTIONS

During the three months ended February 28, 2010, \$7,500 (2009 - \$7,500) was paid for office facilities and administrative services to a company related by virtue of a common director.

10. COMMITMENTS AND CONTINGENCIES

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

2010	\$ 36,914
2011	\$ 16,585
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, 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.

February 28, 2010 (unaudited)

11. 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 period, the Company was exposed to risks from fluctuations in interest rates on its bank loan. The floating rate debt is based on the bank's prime lending rate plus 1.50%. As at February 28, 2010, the increase or decrease in net earnings before taxes for each 1% change in interest rates on floating rate debt amounts to approximately \$21,000 annually (2009 - \$25,000). 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 69% of accounts receivable is from these two customers (2009 – 65% 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 February 28, 2010, the Company had approximately \$4,000,000 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.

February 28, 2010 (unaudited)

12. 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.

13. STATEMENT OF CASH FLOWS

The income taxes paid during the period were Nil (2009 - Nil).

The total interest paid during the period was \$20,998 (2009 - \$27,506).

During the three months ended February 28, 2010, the Company had no additional non-cash transactions other than those disclosed elsewhere in these financial statements.