



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. Presently, the Company conducts its activities in the provinces of Ontario and Alberta, Canada.

The following Management's Discussion and Analysis ("MD&A") should be read in conjunction with the unaudited interim financial statements for the three months ended February 28, 2010 together with the notes thereto and the audited financial statements for the years ended November 30, 2009 and 2008 together with the related MD&A. This MD&A is based on information to April 26, 2010. 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](http://www.sedar.com) and [www.torqueenergy.com](http://www.torqueenergy.com)

## FORWARD LOOKING STATEMENTS

This MD&A may contain forward-looking statements including expectations of future capital programs and commodity prices. These statements are based on current expectations that involve a number of risks and uncertainties, which could cause actual results to differ from those anticipated. These risks include, but are not limited to: operational risk in development, exploration and production; delays or changes in plans with respect to exploration or development projects or capital expenditures; and commodity price and exchange rate fluctuation and uncertainties.

The financial data contained herein is presented in Canadian dollars and has been prepared in accordance with Canadian Generally Accepted Accounting Principles ("GAAP"). In conformity with Canadian Securities Administrators National Instrument 51-101, *Standards of Disclosure for Oil and Gas Activities*, natural gas volumes have been converted to barrels ("bbls") of oil equivalent ("BOE" and, if per day, "BOE/d") using a conversion ratio of six Mcf (one thousand cubic feet = one Mcf and, if per day, "Mcf/d") 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 MD&A that are commonly used as benchmarks within the oil and natural gas production industry. They are widely accepted measures of performance and value within the industry, and are used by investors and analysts to compare and evaluate oil and natural gas exploration and producing entities.



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

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

*Funds flow from operations* is the funds generated from operating activities before the 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.

*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 February 28, 2010, the Company realized net income of \$149,912 (\$0.011 per share) compared to a net loss of \$51,133 (\$0.004 per share) for the same period in 2009, an improvement of \$201,045 for the quarter.

The increase in net income of \$201,045 is due to an increase of \$101,880 (19%) in oil and gas revenues, net of royalty expenses together with a reduction in expenses of \$99,165 (17%) compared to the same period in 2009. Royalty expenses increased by \$11,627 (14%) compared to the same period in 2009 due to their variable relationship with sales.

The increase in total revenues is attributed to the economic and other factors affecting the global price for crude oil, which had a surge during the three months ended February 28, 2010. The North American price for Natural gas had less fluctuation during the quarter. Offsetting the increase in crude oil pricing was a decrease in overall sales volume of approximately 20% compared to the same period in 2009 due to lower daily production volumes in both the Corey and Petrolia East fields as a result of minor mechanical repairs. In addition, Ram #84 was off production from January to the end of March 2010 awaiting the installation of a new compressor starter. These minor production related matters have been rectified in the second quarter of 2010.

Favourable variances were recorded in most expense categories to help supplement the favourable impact from crude oil and natural gas revenues. Operating expenses



recorded during the three months ended February 28, 2010 decreased to \$166,355 compared to \$212,909 for the same period in 2009. The decrease was largely due to costs related to the Mikwan wells in Alberta. During the initial start-up phase through the second quarter of 2009, the Company's estimated operating costs at Mikwan that were higher than what actually were incurred. As a result, actual costs currently being reported through to the end of the second quarter 2010 will continue to show reductions compared to the 2009 estimates.

Overall depletion rates have been influenced by lower production volumes. For the three months ended February 28, 2010 the cumulative rate for the calculation of depletion was 1.58% compared to 1.76% during the same period in 2009.

General administrative costs decreased by 9% to \$161,461 for the three months ended February 28, 2010 compared to \$177,174 for the same period in 2009 due to cost reductions in employee-related expenses. Interest costs decreased by 24% in the quarter compared to the same period in 2009 due to a continued reduction in bank indebtedness together with lower interest rates.

The Company generated funds flow from operations of \$296,782 for the three months ended February 28, 2010 compared to \$36,128 for the same period in 2009. The increase in cash flow is a direct result of the impact from greater net income during the period. The higher cash flow enabled the Company to continue to internally fund the Company's capital expenditure program and contribute towards reducing bank indebtedness.

## 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 together with the Canada/U.S. exchange rate. An increase in the value of the Canadian dollar negatively impacts price realizations. During the three months ended February 28, 2010 the value of the Canadian dollar relative to the U.S. dollar remained stable from an opening value of \$0.9586 to a closing value of \$0.9596 and averaged \$0.9512 during the period.

### Sales summary

During the three months ended February 28, 2010 total sales increased by \$113,723 to \$726,462 compared to \$612,739 for the same period in 2009. Total sales volumes in the first quarter of 2010 decreased to 11,622 BOE (129.1 BOE/d) from 14,519 BOE (161.3 BOE/d) in 2009. The decrease in overall sales volume is a result of daily production slowdowns at both the Corey and Petrolia East fields due to minor mechanical repairs and awaiting the installation of a new compressor starter at Ram #84. All minor mechanical and winter maintenance projects have been completed.



The Company received an average price of \$62.51 per BOE during the three months ended February 28, 2010 compared to an average price of \$42.20 per BOE in 2009. The increase of 48.1% is a result of the impact from a recent surge in the global price for crude oil. The following table details the oil and gas sales volumes and values for the three months ending February 28<sup>th</sup>.

	February 28		
	2010	2009	2008
Oil volumes - bbl	7,599	9,271	9,307
Gross oil sales \$	586,434	376,432	799,188
Crude oil price - \$/bbl	77.17	40.60	85.87
Natural gas volumes - Mcf	24,135	31,487	17,731
Gross natural gas sales \$	140,028	236,306	151,249
Natural gas price - \$/Mcf	5.80	7.50	8.53

Crude Oil Sales:

Crude oil sales increased 55.8% in the three months ended February 28, 2010 to \$586,434 compared to \$376,432 for the same period in 2009. This increase is the result of a surge in the global price for crude oil which more than offset lower overall sales volume.

For the three months ended February 28, 2010, sales volume decreased to 7,599 bbl (84.4 bbl/d) from 9,271 bbl (103.0 bbl/d) in 2009. The decrease in volume is primarily attributed to the Corey East field where lower than normal daily production was recorded due to minor mechanical projects and winter maintenance which have since been completed.

The Company received an average price of \$77.17/bbl for the three months ended February 28, 2010 compared to an average price of \$40.60/bbl for the same period in 2009. The Company continues to be exposed to the risk associated with fluctuating commodity prices and foreign exchange. Presently, crude oil represents 65% (twelve month moving average) of the overall production volume on a BOE basis and generates 82% (twelve month moving average) of total revenues.

Natural Gas Sales:

Natural gas sales decreased 40.7% during the three months ended February 28, 2010 to \$140,028 compared to \$236,306 for the same period in 2009. This decrease is a result of a 22.7% decline in the average price per Mcf for natural gas and a 23.3% decrease in sales volume.



During the three months ended February 28, 2010, the Company received an average price of \$5.80 per Mcf compared to an average price of \$7.50 per Mcf during the same period in 2009.

During the three months ended February 28, 2010, Company sales volume decreased to 24,135 Mcf (268.2 Mcf/d) from 31,487 Mcf (349.9 Mcf/d) for the same period in 2009. A large part of the decrease in sales volumes is due to a compressor starter repair at Ram #84 which has been completed and, a decrease in the non-operated Raleigh field which is attributed to lower production levels compared to the peak production volumes following tie-in during the first quarter of 2009.

Expenses:

Royalty burdens are comprised of freehold and overriding royalties, along with crown royalties that are specifically related to the Mikwan assets in Alberta. Royalty expenses typically range from 12.5% to 13.5% of sales revenue. Royalty expenses expressed per BOE will result in greater fluctuation due to the volatility of commodity pricing.

During the three months ended February 28, 2010 royalty expense increased by \$11,627 to \$95,970 compared to \$84,343 for the same period in 2009. This increase is a result of the variable relationship that royalties have with sales of crude oil and natural gas.

Crude oil sales represent approximately 82% of total sales on a twelve month moving average basis and due to the recent surge in the global price of crude oil, royalty expenses were significantly influenced for the three months ended February 28, 2010 compared to the same period in 2009.

Natural gas royalties decreased by \$16,989 to \$19,057 (13.61% of natural gas sales) during the three months ended February 28, 2010 compared to \$36,046 (15.25% of natural gas sales) for the same period in 2009, due to lower prices of natural gas and a retroactive billing for crown royalties recorded in the first quarter of 2009.



\$ - except as indicated	Three months ended February 28		
	2010	2009	2008
<b>OIL</b>			
Royalties - \$	76,913	48,297	105,518
Royalties - % of revenue	13.12	12.83	13.20
Royalties - \$ per BOE	10.12	5.21	11.34
<b>GAS</b>			
Royalties - \$	19,057	36,046	18,324
Royalties - % of revenue	13.61	15.25	12.12
Royalties - \$ per BOE	4.74	6.87	6.20
<b>TOTAL</b>			
Royalties - \$	95,970	84,343	123,842
Royalties - % of revenue	13.21	13.76	13.03
Royalties - \$ per BOE	8.26	5.81	10.10

All other expense categories decreased by \$99,165 to \$499,778 during the three months ended February 28, 2010 compared to \$598,943 during the same period in 2009.

Operating expenses decreased by \$46,554 to \$166,355 for the three months ended February 28, 2010 compared to \$212,909 for the same period in 2009. The decrease was largely due to actual costs recorded for the Mikwan property during the first quarter in 2010 being less than the estimated operating costs during the first quarter of 2009.

Depletion, accretion and amortization expense decreased to \$150,964 for the three months ended February 28, 2010 compared to \$181,354 for the same period in 2009. Overall depletion rates have been influenced by the lower production volumes. For the three months ended February 28, 2010 the cumulative rate for the calculation of depletion was 1.58% compared to 1.76% during the same period in 2009.

General and administrative expenses decreased by approximately 9% to \$161,461 for the three months ended February 28, 2010 compared to \$177,174 for the same period in 2009. A decrease was recorded in a number of personnel related expenses.

Interest expense decreased to \$20,998 during the three months ended February 28, 2010 from \$27,506 during the same period in 2009 due to lower interest rates and a continued reduction to the overall bank indebtedness.



Funds flow from operations

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 increased by \$260,654 for the three months ended February 28, 2010 to \$296,782 compared to \$36,128 for the same period in 2009. The increase is a result of the higher global price for crude oil and its influence on net income. Funds flow from operations is calculated as follows:

\$, except as indicated	Three months ended February 28		
	2010	2009	2008
Cash provided by operating activities	325,641	231,716	474,949
Impact of non-cash working capital items	(28,859)	(195,588)	(12,060)
Funds flow from operations	296,782	36,128	462,889

Field level cash flow

Field level cash flow increased 47.1% to \$464,137 for the three months ended February 28, 2010 compared to \$315,487 for the same period in 2009. The increase is attributed to higher revenues net of royalty expense that occurred from higher global prices for crude oil and lower anticipated operating costs. The calculation of field level cash flow is summarized as follows:

\$, except as indicated	Three months ended February 28		
	2010	2009	2008
Oil and natural gas sales	726,462	612,739	950,437
Royalty expense	(95,970)	(84,343)	(123,842)
Net sales	630,492	528,396	826,595
Operating expenses	(166,355)	(212,909)	(135,128)
Field level cash flow	464,137	315,487	691,467
Per share - basic	0.034	0.023	0.050
Per share - diluted	0.033	0.023	0.049

Operating netbacks

Operating netbacks provide the unit revenue and unit costs on a BOE basis for items related to field level cash flow. For the three months ended February 28, 2010 operating netbacks increased 83.8% to \$39.94/BOE compared to \$21.73/BOE for the same period in 2009. The reasons for the increase in operating netbacks are the same as noted above for field level cash flow. In general, operating costs are more of a fixed cost versus a cost that varies with sales such as royalties. As sales volumes progress through their normal declines, operating netbacks will decline over time to



the point at which abandonment decisions are made. The following table summarizes operating netbacks for the Company.

\$/BOE	Three months ended February 28		
	2010	2009	2008
Oil sales	77.17	40.60	85.87
Natural gas sales	34.81	45.03	51.18
Total sales	62.51	42.20	77.51
Royalty expense	(8.26)	(5.81)	(10.10)
Operating expenses	(14.31)	(14.66)	(11.02)
Netback	39.94	21.73	56.39

Asset retirement obligation (ARO)

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

The undiscounted amount of expected cash flows required to settle the asset retirement obligation 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% and includes a 2.0% inflation factor (1.0% - 2009).

The continuity of the Company's liability is as follows:

\$, except as indicated	Three months ended February 28		
	2010	2009	2008
Asset retirement obligation, beginning of the period	433,684	427,843	574,469
Asset retirement costs incurred	(4,094)	(94,093)	(4,496)
Accretion	11,074	9,693	12,117
Asset retirement obligation, end of period	440,664	343,443	582,090

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 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 the beneficiary. As at February 28, 2010, 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 \$8.5 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.

**Selected Quarterly Information**

Last eight quarters \$000s, except as indicated	2010	2009				2008		
	Q1	Q4	Q3	Q2	Q1	Q4	Q3	Q2
Total sales	726.5	724.0	736.2	690.9	612.7	1,102.3	1,399.7	1,253.7
Net income (loss)	149.9	254.9	98.7	30.8	(51.1)	180.9	659.1	549.1
EPS - basic (\$)	0.011	0.019	0.007	0.002	(0.004)	0.013	0.048	0.040
EPS - diluted (\$)	0.011	0.019	0.007	0.002	(0.004)	0.013	0.046	0.039
Sales volume (BOE)	11,622	12,818	13,718	14,161	14,519	16,061	12,667	13,046
Total assets	11,269	11,197	11,138	11,171	11,174	11,160	11,449	11,224
Bank indebtedness	2,092	2,248	2,319	2,438	2,504	2,485	2,885	3,238
Funds flow from operations	296.8	473.8	260.9	187.0	36.2	343.1	820.5	733.4

EPS = Earnings per share

**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 deficit improved by \$51,630 to \$2,183,023 during the three months ended February 28, 2010 compared to \$2,234,653 at November 30, 2009. The Company's working capital deficit improved by \$555,683 compared to the deficit at February 28, 2009. The improvement 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.



## MANAGEMENT'S DISCUSSION AND ANALYSIS

April 26, 2010

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 February 28, 2010, 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 of the Company's assets. 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.

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

	As at February 28		
	2010	2009	2008
Overdraft/(Cash)	(8,421)	28,860	63,459
Demand Loan	2,100,000	2,475,000	3,600,000
Ending balance	2,091,579	2,503,860	3,663,459

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 be payable within 60 days of the balance sheet date.

At February 28, 2010, \$2,100,000 of funds had been drawn against the credit facility of \$6,100,000, leaving an available credit of \$4,000,000. In the short term, the Company is expected to meet its liabilities as they come due and comply with all banking covenants although additional financing may be required to rectify the working capital deficit.

### Capital Resources

Presently, the Company's twelve month moving average production mix is weighted at approximately 65% in respect of crude oil production and approximately 35% in respect of natural gas although, crude oil revenues represent approximately 82% of total revenue. As a result of the significant contribution from crude oil revenues and the prevailing prices for crude oil, the Company expects to successfully fund its short term working capital requirements, fund its capital expenditure program and continue to reducing overall bank indebtedness. The Company will continue to be exposed to the risk associated with any further changes in the world wide price for crude oil and the North American price for natural gas and foreign exchange. For this and other forward looking statements, please refer to the section titled *Forward Looking Statements* on page 1.



**MANAGEMENT'S DISCUSSION AND ANALYSIS**

**April 26, 2010**

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

	2010	2009	2008
Authorized	6,100,000	6,100,000	6,100,000
Demand loan at February 28	2,100,000	2,475,000	3,600,000
Available credit at February 28	4,000,000	3,625,000	2,500,000

Presently, the Company is in the process of renewing the credit facility and expects to have this completed consistent with the current arrangement. For this and other forward looking statements, please refer to the section titled *Forward Looking Statements* on page 1.

The Company is not under any existing contractual commitments relating to its capital expenditure program for 2010 although the Company does anticipate capital spending amounts to reach levels consistent with recent years. The Company's capital expenditures for the three months ended February 28, 2010 were related to the Company's investment in the S.W. Ontario basin as follows:

(\$000)	Fiscal year		
	2010	2009	2008
<b>Balance December 1</b>	<b>18,727</b>	<b>18,134</b>	<b>17,282</b>
Canadian expenditures:			
Lease and land acquisitions	82	57	34
Geological & geophysical	117	84	19
Drilling, completion and workovers	18	6	2
Equipping and facilities			
Capitalized administration and other	28	29	39
<b>Subtotal</b>	<b>245</b>	<b>176</b>	<b>94</b>
Asset retirement obligation adjustment			
Disposition of oil and gas properties			
<b>Net Canadian Expenditures</b>	<b>245</b>	<b>176</b>	<b>94</b>
<b>Balance February 28</b>	<b>18,972</b>	<b>18,310</b>	<b>17,376</b>

For the balance of 2010, the Company expects to fund its capital expenditure program from unencumbered cash flow and may also utilize the available bank credit facility.



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

Year	\$
2010	36,914
2011	16,585
2012	5,707
2013	5,707

In the ordinary course of business, the Company enters 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 2010 fiscal year any off-balance sheet arrangements.

#### Transactions with related parties

During the three months ended February 28, 2010, \$7,500 (2009 - \$7,500) 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

The preparation of the financial statements in conformity with Canadian generally accepted accounting principles requires management to make estimates and assumptions that affect the amounts reported in the 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 the 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%.

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.



### New Accounting Standards

The Accounting Standards Board, Canadian Institute of Chartered Accountants ("CICA") has announced that Canadian publicly accountable enterprises must adopt International Financial Reporting Standards ("IFRS") as issued by the International Accounting Standards Board effective for fiscal years beginning on or after January 1, 2011. Reporting in IFRS by the Company 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

#### 1. IFRS diagnostic impact assessment

Perform a review to identify the differences between GAAP as used by the Company, and IFRS.

Status: This phase is in progress. Initial findings suggest that there may be several areas that may require a significant amount of effort to quantify the impact on the opening balance sheet and to put in place procedures and controls to efficiently and effectively address the particular IFRS difference on an ongoing basis.

#### 2. Design and Planning

Results determined from the diagnostic assessment will be used to design and plan the conversion project.

Status: Not started. This phase is expected to commence during the second and third quarters of the fiscal 2010 year.

#### 3. Solution development

This phase will assess the changes required to accounting and business systems in order to transition to IFRS. It will include accounting policy changes and changes to internal processes as required throughout the Company.

Status: Not started. This phase is expected to commence during the second and third quarters of the fiscal 2010 year.



4. Implementation

This final phase will implement the solutions identified in Phase 3 sufficient to produce IFRS-compliant financial reporting.

Status: Not started. This phase is expected to commence during the fourth quarter of the fiscal 2010 year.

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.

**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 Note 11 of the Financial Statements for the assessment of such risks.

Controls and procedures

During the three months ended February 28, 2010, 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

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:

As at February 28, 2010, options to purchase 880,000 shares were outstanding. All options are fully vested and exercisable at a weighted average price of \$0.10 per share. During the period, no new options were granted, forfeited or exercised.

Basic and Diluted Share Amounts

	2010
Weighted average number of shares outstanding	13,837,698
Shares issuable pursuant to stock options	245,527
Weighted average number of diluted shares outstanding	14,083,225

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. For this and other forward looking statements, please refer to the section titled *Forward Looking Statements* on page 1.

Development Operations:

As a result of this review of the Company's assets, 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, an additional four line seismic program was designed and shot in mid-February 2010. The Company's geophysicist and geologist are currently working to tie the geophysics and geology together and will present their report when completed.

Management is continuing to perform economic and pressure evaluations at Ram #91 and Reefex #1, (both shut-in gas wells). In late August 2009 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 performed a production test of this well in December 2009 to measure the open flow potential for natural gas. The results of this test established there are reserves associated with this well but the daily production flow does not warrant the capital costs to tie this well into the market pipeline grid. The Company is currently evaluating other opportunities for this well. The Company moved the testing equipment to the Reefex #1 well in late January



2010 and began the production test in mid-February, 2010. The production test and results for the Reefex #1 well should be completed in early May 2010.

Exploration:

In late July 2009, the Company's management initiated a review of all the historical exploration and seismic information which had been stored off site. Torque's corporate acquisitions over time have allowed it to create an extensive proprietary exploration database. A number of prospects have been revealed and are currently in the acquisition process. This is proving to be a low cost, potentially high return, and internally driven enhancement of Torque assets.

One of these prospects was an over-looked pinnacle reef type play with five in-house processed lines of seismic. The Company has leased the key 800 acres. The Company's geophysicist reviewed four existing lines of in-house seismic and designed one additional 2.16 kilometre line through the center of the feature. In early February 2010 this line of seismic was shot and has now been processed. The Company's geophysicist and geologist are currently working to tie the geophysics and geology together and will present their report when completed.

The Company continues to refine its eight oil and gas prospects and is renewing key lease acreage of petroleum and natural gas rights at 100% working interest in the Dunwich-Southwold prospect area of Ontario. This prospect and an additional seven prospects also located in south-western Ontario were originally identified using high resolution geophysics. The Company has completed the SGH (soil gas hydrocarbon) sampling survey and has integrated these results into the geological/geophysical models to form a geological assessment report on each of these prospects. The Company is currently designing a program to infill areas on which it does not have any SGH information. Once this sampling survey and results are tabulated a seismic program will be designed. The program is planned to be shot in September 2010.