TORQUE ENGINEERING CORP
Form 10KSB
April 26, 2002

U.S. Securities and Exchange Commission

Washington, D.C. 20549

FORM 10-KSB

(Mark One)

[X] ANNUAL REPORT UNDER SECTION 13 OR 15(d)
OF THE SECURITIES EXCHANGE ACT OF 1934

For the fiscal year ended December 31, 2001

[ ] TRANSITION REPORT UNDER SECTION 13 OR 15(d)
OF THE SECURITIES EXCHANGE ACT OF 1934

Commission file number: 0-21811

TORQUE ENGINEERING CORPORATION
(Name of small business issuer in its charter)

Delaware	83-0317306
(State or other jurisdiction of incorporation or organization)	(I.R.S. Employer Identification No.)

2932 Thorne Drive, Elkhart, Indiana 46514
(Address of principal executive offices, including ZIP Code)

Issuer's telephone number: (219) 264-2628

Securities registered pursuant to Section 12(g) of the Act:

Common Stock, par value $0.00001 per share
(Title of Class)

Check whether the issuer (1) filed all reports required to be filed by Section 13 or 15(d) of the Exchange Act during the past 12 months (or for such shorter period that the registrant was required to file such reports), and (2) has been subject to such filing requirements for the past 90 days. Yes [X] No [ ]

Check if there is no disclosure of delinquent filers in response to Item 405 of Regulation S-B contained in this form, and no disclosure will be contained, to the best of registrant's knowledge, in definitive proxy or information statements incorporated by reference in Part III of this Form 10-KSB or any amendment to this Form 10-KSB. [ ]

The issuer's revenues for its most recent fiscal year ended December 31, 2001 were $295,715.

The aggregate market value of the 8,290,795 shares of the issuer's outstanding common stock held by non-affiliates of the issuer as of April 15, 2002, was $248,723.85 based on the closing bid price of $0.03 per share as reported on the OTC Bulletin Board on that date.

The issuer had 12,748,965 shares of its common stock issued and outstanding as of April 15, 2002.

TORQUE ENGINEERING CORPORATION

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FORWARD-LOOKING STATEMENTS

Information included or incorporated by reference in this filing may contain forward-looking statements within the meaning of Section 27A of the Securities Act and Section 21E of the Exchange Act. This information may involve known and unknown risks, uncertainties and other factors which may cause our actual results, performance or achievements to be materially different from the future results, performance or achievements expressed or implied by any forward-looking statements. Forward-looking statements, which involve assumptions and describe our future plans, strategies and expectations, are generally identifiable by use of the words "may," "will," "should," "expect," "anticipate," "estimate," "believe," "intend" or "project" or the negative of these words or other variations on these words or comparable terminology.

This filing contains forward-looking statements, including statements regarding, among other things, (a) our projected sales and profitability, (b) our company's growth strategies, (c) our company's future financing plans and (d) our company's anticipated needs for working capital. These statements may be found under "Management's Discussion and Analysis of Financial Condition and Results of Operations" and "Business," as well as in this prospectus generally. Actual events or results may differ materially from those discussed in forward-looking statements as a result of various factors, including, without limitation, the risks outlined under "Risk Factors" and matters described in this filing generally. In light of these risks and uncertainties, there can be no assurance that the forward-looking statements contained in this filing will in fact occur.

PART I

ITEM 1. DESCRIPTION OF BUSINESS

Torque Engineering Corporation was formerly known as Quintessence Oil Company. Quintessence Oil was formed under Wyoming law on June 26, 1996 to purchase, develop and operate oil and gas leases. On December 3, 1996, Quintessence Oil voluntarily filed a registration statement on Form 10 with the SEC to become a publicly reporting company. Prior to May 28, 1999, Quintessence Oil was essentially inactive and had no operations. Quintessence Oil had previously acquired one undeveloped oil and gas lease, but had not initiated drilling or other production operations.

In May 1999, Quintessence Oil's new management began the first phase of a transition from an inactive oil and gas company to a manufacturer of high-performance production engines for the boating and transportation industry. On May 28, 1999, Quintessence Oil issued 1,500,000 shares of its common stock to acquire IPSL, Inc. Prior to that, on May 1, 1999, IPSL acquired from Glaval Corporation the proprietary rights to continue to research and develop the Torque V-12, an aluminum, gasoline-powered engine for the luxury off-shore marine industry. By acquiring IPSL and other assets, Quintessence Oil obtained those same proprietary rights. On November 17, 1999, Quintessence Oil re-incorporated under Delaware law and changed its name to Torque Engineering Corporation.

Torque Engineering's current management has experience in the design and production of high-performance, marine race and pleasure engines. Beginning in 1986, under the name Lightning Performance Products, Inc., Torque Engineering's current president, Raymond B. Wedel, Jr., developed and sold after-market performance-enhanced parts and equipment for marine racing and pleasure engines.

The high-performance marine race and pleasure engines Lightning Performance originally produced were custom-made. As a result, the market for these products was extremely limited. In early 1992, Mr. Wedel sold Lightning Performance to Richard Streffling where Lightning Performance, as an Indiana corporation under the name Torque Engineering, continued operations. Mr. Wedel joined that business after the sale and began to transition it from the production of race engines to the development of a light-weight, high-power marine engine which could be built on a production-line basis for the luxury performance pleasure craft industry.

In 1997, Mr. Wedel left the prior Torque Engineering to pursue other opportunities in the marine industry. However, that company, utilizing many of the same employees who worked for Mr. Wedel, continued to develop the Torque V-12. In 1999 IPSL purchased the assets and proprietary rights to continue to research and develop the Torque V-12 from the prior Torque Engineering entity.

On May 21, 1999, Quintessence Oil and IPSL entered into a Plan and Agreement of Reorganization under which Quintessence Oil agreed to acquire all of the issued and outstanding shares of common stock of IPSL. Under the plan,

IPSL's sole shareholder, Michel Attias, irrevocably granted Quintessence Oil the right to exchange 1,500,000 shares of its common stock for all of the outstanding shares of common stock of IPSL at any time prior to June 15, 1999. On May 28, 1999 Quintessence Oil exercised its right to close the transaction and to acquire IPSL and the assets and proprietary rights to research and develop the Torque V-12. As described above, Quintessence Oil then

reincorporated and changed its name to Torque Engineering Corporation.

Since acquiring IPSL and the rights to develop and manufacture the Torque V-12, Torque Engineering has formulated a plan of operation based on management's belief that even as boat manufacturers increase the size of pleasure craft, marine industry consumers are unwilling to settle for lesser performance than what is available in smaller craft. Management believes that in order to provide the same level of performance, the standard automotive-based gasoline V-8 engine is being asked to perform beyond its engineered limits. Owners of luxury offshore pleasure craft are therefore forced to resort to installing three or four high performance V-8 engines or installing heavier and noisier diesel engines. As a result, Torque Engineering has developed and is now manufacturing and marketing the Torque V-12, a high-powered, 12-cylinder, 14 liter/860 cubic inch V-12 aluminum marine engine. Torque Engineering presently offers the Torque V-12 in the following three models:

- The TORQ 1000 - 900 horsepower engine with 1050 ft.-lbs. of torque,
- The TORQ 1100 - 1,050 horsepower engine with 1100 ft.-lbs. of torque, and
- The TORQ 1200 - 1,150 horsepower engine with 1150 ft.-lbs. of torque.

PRODUCTS

The Torque V-12 is an all-aluminum, electronically fuel-injected engine designed to run on premium gasoline. The engine has a broad torque band, which allows the Torque V-12 to generate significant power at low throttle settings, thus providing for greater fuel economy. As of March 15, 2001 Torque Engineering is unaware of any other marine engine manufacturer that produces an all-aluminum, naturally aspirated, gasoline-powered V-12 engine that provides the same performance characteristics of the Torque V-12 engines.

In September 1999, the Torque V-12 became an available power plant in the Carlson Model 2000, 33 foot sport cruiser boat line. Torque Engineering will display this boat at various marine industry trade shows throughout 2002. Currently, Cigarette, Fountain, Hustler, Magnum Marine, NorTech, and Predator boats also list the Torque V-12 as a power plant selection for some of their current models.

The Torque V-12 is designed for installation in luxury marine pleasure craft. In the event significant production of the Torque V-12 begins, Torque Engineering anticipates that it will analyze whether the Torque V-12 may be commercially adapted to other uses, including potential military, industrial, agricultural or mining uses. Torque Engineering has engaged in the past in discussions with various third parties about adapting the Torque V-12 to other marine uses outside of the luxury pleasure craft industry. These discussions continued during the year ended December 31, 2001. However, these discussions continue to be of an extremely broad and preliminary nature. There is no assurance that Torque Engineering will adapt its Torque V-12 to additional marine or other uses, or that the Torque V-12 will be appropriate for uses other than in the luxury marine pleasure craft market.

Retail prices for the Torque V-12 range from $69,539 to $81,227 without options. Torque Engineering offers a one-year limited warranty on all three Torque V-12 models.

PRODUCT MARKET

Torque Engineering's products are designed for the marine pleasure craft industry. That industry is divided primarily into the stern drive segment and

the outboard segment. The Torque V-12 is targeted toward the stern drive segment.

More specifically, Torque Engineering's Torque V-12 engines are currently targeted toward a limited niche market for purchasers and owners of high-powered, luxury performance pleasure craft sold in the U.S. Torque Engineering believes this niche market is generally characterized as having consumers who are concerned primarily with:

- the performance of the high-powered engines they purchase,
- the dependability of those engines, and
- the overall useful life of those high-powered engines.

Prices for the marine craft for which the Torque V-12 engines are designed generally range from $250,000 to $1,000,000.

INDUSTRY OVERVIEW

According to the National Marine Manufacturers' Association, the recreational boating industry generated approximately $21.7, $25.0, and $25.6 billion in overall sales in 1999, 2000, and 2001 respectively.

There were 96,000 new sales of inboard and stern drive boats in 2001. Of these, approximately 20,000 were 25' or more in length. Approximately 90% of these boats would have two or more engines. Torque Engineering's management hopes to capture 2-1/2% to 4% of this market over the next three to five years. However, there can be no assurance Torque Engineering will be able to do so.

Management believes recreational marine industry sales are impacted by factors such as:

- the general state of the economy,
- interest rates,
- consumer spending,
- technology,
- dealer effectiveness,
- demographics,
- weather conditions,
- fuel availability and price, and
- government regulations.

During the period from 1983 to 1992, the recreational marine industry experienced both its largest growth (from 1983 to 1988) and its largest decline (from 1988 to 1992) in over 30 years. The growth was stimulated not only by increasing real disposable income, but also by readily obtainable marine loans that required no down payment and could be financed over a term of over ten years. The contraction in sales from 1988 to 1992 was due to the recession during the early 1990s and to the increased level of sales in the late 1980s. Many boat owners had loan balances in the early 1990s that exceeded the value of

their boats, which made trade-up sales more difficult to obtain. In addition, in 1990 the U.S. government imposed a luxury tax on boats sold at prices in excess of $100,000. However, the luxury tax was repealed in 1993 and boats over 24 feet continue to be one of the largest growth sectors in the market.

Torque Engineering also believes there are three primary factors affecting the recreational marine industry today.

- There are an increasing number of consumers over the age of 50. These older consumers typically have larger discretionary income per capita and increased leisure time. Torque Engineering believes that these consumers are purchasing larger and more luxurious boats.

- Torque Engineering believes there is increasing interest in upgrading existing boats through equipment-based accessories and repowerment. Torque Engineering's research indicates that approximately 1% of the existing boat engines in use are replaced on an annual basis.

- Women are increasingly influencing or making purchasing decisions. Torque Engineering estimates there are currently approximately 500,000 women powerboat owners in the U.S. and that the number is expected to grow.

MANUFACTURING

Torque V-12 engines were developed and are produced in Torque Engineering's Elkhart, Indiana manufacturing facility using computer-controlled machining centers.

In November 1999, Torque Engineering completed installation of additional computer-controlled machining centers it uses to manufacture Torque V-12 engine components. Haas Automation manufactured these additional computer-controlled machining centers and Torque Engineering leased the machining centers from CNC Associates, Inc.

The Torque V-12 engine is machined and also hand-assembled by Torque Engineering's employees at the Elkhart, Indiana production facility. Each engine is tested on a dynamometer and research is conducted using a 41 foot test boat. Management believes that this manufacturing arrangement will be sufficient as production begins to meet consumer demand for the Torque V-12.

RAW MATERIALS

Torque Engineering plans to produce internally as many of the necessary components for the Torque V-12 as possible. Torque Engineering expects that the computer-controlled manufacturing machines acquired in November 1999 will facilitate the internal component production process. Additionally, Torque Engineering utilizes components acquired in May 1999 as part of the acquisition of IPSL, Inc. However, subcontractors and supplies will still be needed for some components, such as crankshafts, electronic controls, and raw aluminum block castings. Torque Engineering solicits competitive quotes for these components whenever possible. Whenever the price of a component can be substantially reduced by volume buying Torque Engineering plans to do so. Torque Engineering believes that adequate sources of supply exist and will continue to exist, at competitive prices, for all of Torque Engineering's raw material requirements.

MAJOR CUSTOMERS

For the year ended December 31, 2001, approximately 98.0% of Torque

Engineering's revenues were generated from sales to two customers, Cigarette Racing Team, Inc and Douglas Marine Corp. For the year ended December 31, 2000, approximately 97.5% of Torque Engineering's revenues were generated from sales to one customer, Cigarette Racing Team, Inc. We cannot assure you that Cigarette Racing Team or Douglas Marine Corp, Inc. will continue to be major customers.

MARKETING

Torque Engineering currently markets its Torque V-12 engines on a direct sale basis through leads derived from trade shows, magazine articles and personal contacts of our employees in the power boating industry. Torque Engineering markets its products not only to boat manufacturers, but also to pleasure boat users in an effort to increase demand through consumer requests to boat manufacturers for the Torque V-12 as an available power plant in luxury pleasure craft.

DISTRIBUTION

Torque Engineering does not currently have a distribution network set up for the Torque V-12. If Torque Engineering's sales increase substantially, Torque Engineering may in the future establish Service Representatives in various areas to service its products. Torque Engineering believes that it will be able to adequately ship the Torque V-12 to manufacturers who purchase the Torque V-12 through normal shipping avenues.

COMPETITION

Torque Engineering anticipates that it will face intense competition in the market in which Torque Engineering will produce and sell its Torque V-12 engines. The marine engine production market generally has high barriers to entry due to the capital investment and technological expertise required in manufacturing marine engines. As a result, the marine engine market is concentrated among large U.S., Japanese and European manufacturers. Industry estimates are that U.S.-based Brunswick Corporation maintains approximately 70 to 80 percent of the stern drive market segment with Volvo Penta Corporation

enjoying a large portion of the remaining market share. In the outboard engine market, management believes Brunswick and Outboard Motor Corporation control roughly 80 percent of the market.

In the niche market for high-powered marine engines in which Torque Engineering will participate, there are several manufacturers who build gasoline engines with 700 or more horsepower, including Volvo Penta and Brunswick. Management's experience is that generally these engines are either modified V-8s with enhanced aspiration such as turbo-chargers, or diesel fueled engines. As a result, Torque Engineering does not believe that these engines are competing with the Torque V-12 on an identical product line basis.

Nonetheless, Torque Engineering's competitors, including Brunswick and Volvo Penta are large, vertically integrated companies that have greater resources, including financial resources, than Torque Engineering. Economies of scale give these companies distinct advantages in the market. For example, Brunswick and its subsidiaries have established dealer networks that offer sales as well as service and warranty repair and production schedules afford them larger margins than other competitors in the market. The vertical integration of Torque Engineering's competitors allow them to offer consumers different combinations of boat, engine and stern drive packages at various pricing levels.

There is no assurance that Torque Engineering will be able to successfully

compete against these companies in the stern drive segment of the marine engine market.

INTELLECTUAL PROPERTY

In developing its business strategy for the Torque V-12 Torque Engineering expects to rely on patented and other proprietary technology. In addition, Torque Engineering expects to rely on confidentiality agreements and other contractual covenants to establish and protect its technology and other intellectual property rights. Wherever legally permissible and appropriate, Torque Engineering plans to file patent applications and to register its trademarks.

Torque Engineering has registered the trademark "Torque" for its products and also holds a U.S. patent for its Torque V-12 engines' lubrication system which patented system has a substantial impact on the useful life of the Torque V-12. This patent was granted on August 18, 1998 to Torque Engineering as the assignee of Raymond B. Wedel and Richard Moser. Torque Engineering cannot assure you that any future patent applications it submits will result in patents being issued or that, if issued, such patents or pre-existing patents will afford adequate protection against competitors with similar technology. In addition, Torque Engineering's competitors may independently develop superior technology.

Torque Engineering also cannot assure you that any patents issued to or licensed by Torque Engineering will not be infringed upon or designed around by others, that others will not obtain patents that Torque Engineering will need to license or design around or that Torque Engineering's products will not inadvertently infringe upon the valid patents of others. In addition, Torque Engineering cannot assure you that the Torque Engineering patent will not be invalidated or that Torque Engineering will have adequate funds to finance the high cost of defending or prosecuting patent validity or infringement issues.

RESEARCH AND DEVELOPMENT

Torque Engineering maintains an ongoing research & development program. In September 1999, Torque Engineering completed a private placement of 461,540 shares of common stock to raise a total of $1,500,000 for working capital purposes, including continued development of the Torque V-12 engine. A portion of the proceeds of this private offering were used as a down payment to lease the computer-controlled manufacturing equipment Torque Engineering uses in the production of its Torque V-12 engines. In 2000, Torque Engineering completed private placements of 578,359 shares of common stock to raise a total of $913,000 of which a portion supported ongoing research & development with the balance used for overhead and the purchase of raw materials. In 2001, Torque Engineering continued advancing and refining the Torque V-12 engine design and plan to offer a 1,450 horsepower version of the V-12.

Management believes that Glaval Corporation spent significant funds on research and development prior to IPSL's acquisition of the assets and proprietary rights to develop and manufacture the Torque V-12. These expenditures were included as part of the acquisition price and will not be passed on to customers. The portion of funds spent after May 1, 1999 to convert to a production line is considered overhead that will be prorated over the manufacturing cost of the V-12 engines in accordance with generally accepted accounting principles.

ENVIRONMENTAL AND REGULATORY MATTERS

Torque Engineering is subject to regulation under various federal, state

and local laws relating to the environment and to employee safety and health. These laws include those relating to the generation, storage, transportation, disposal and emission into the environment of various substances, those relating to drinking water quality initiatives, and those which allow regulatory authorities to compel or seek reimbursement for clean-up of environmental contamination at its owned or operated sites and at facilities where its waste is or has been disposed. Permits are required for operation of Torque Engineering's business, and these permits are subject to renewal, modification and, in certain circumstances, revocation. Torque Engineering believes that it is in substantial compliance with environmental laws and permit requirements.

The EPA has adopted regulations governing emissions from marine engines. The regulations relating to outboard engines phase in over nine years, beginning in model year 1998 and concluding in model year 2006. For personal watercraft the regulations phase in over eight years, beginning in model year 1999 and concluding in model year 2006. Marine engine manufacturers are required to reduce hydrocarbon emissions from outboard engines, on average, by 8.3% per year beginning with the 1998 model year, and emissions from personal watercraft by 9.4% per year beginning in model year 1999. These regulations apply to two-stroke engines and to personal watercraft, such as jet skis. Since the Torque V-12 is a four-stroke engine, Torque Engineering does not believe that compliance with these standards will have a material adverse effect on the cost of its engine products or its future sales.

Certain states, including California, have adopted environmental laws that require marine engines to comply with future federal annual hydrocarbon emissions standards more quickly than federal law requires. While Torque Engineering has not been able to fully assess the impact that these standards will have on its business, Torque Engineering does not believe these more stringent state requirements will have a material adverse effect on the cost of its engine products or its future sales.

Torque Engineering cannot predict the environmental legislation or regulations that may be enacted in the future or how existing or future laws or regulations will be administered or interpreted. Compliance with more stringent laws or regulations, as well as more vigorous enforcement policies of the regulatory agencies or stricter interpretation of existing laws, may require expenditures by Torque Engineering.

EMPLOYEES

As of April 15, 2002, Torque Engineering employed a total of 8 people, all of which are employed full time.

CERTAIN BUSINESS RISKS

Torque Engineering is subject to various risks which may materially harm its business, financial condition and results of operations. You should carefully consider the risks and uncertainties described below and the other information in this filing before deciding to purchase Torque Engineering's common stock. These are not the only risks and uncertainties that the Company faces. If any of these risks or uncertainties actually occur, Torque Engineering's business, financial condition or operating results could be materially harmed. In that case, the trading price of Torque Engineering's common stock could decline and you could lose all or part of your investment.

WE HAVE HISTORICALLY LOST MONEY AND LOSSES MAY CONTINUE IN THE FUTURE

We have historically lost money. In the year ended December 31, 2001 and year ended December 31, 2000, we sustained losses from operations of $8.5 million and $2.8 million, respectively. Future losses are likely to occur. Accordingly, we may experience significant liquidity and cash flow problems if

we are not able to raise additional capital as needed and on acceptable terms. No assurances can be given that we will be successful in reaching or maintaining profitable operations.

WE WILL NEED TO RAISE ADDITIONAL CAPITAL TO FINANCE OPERATIONS

Our operations have relied almost entirely on external financing to fund our operations. Such financing has historically come from a combination of borrowings from and sale of common stock to third parties and funds provided by certain officers and directors. We will need to raise additional capital to fund our anticipated operating expenses and future expansion. Among other things, external financing will be required to cover our operating costs. We cannot assure you that financing whether from external sources or related parties will be available if needed or on favorable terms. The sale of our common stock to

raise capital may cause dilution to our existing shareholders. Our inability to obtain adequate financing will result in the need to curtail business operations. Any of these events would be materially harmful to our business and may result in a lower stock price.

THERE IS SUBSTANTIAL DOUBT ABOUT OUR ABILITY TO CONTINUE AS A GOING CONCERN DUE TO RECURRING LOSSES AND WORKING CAPITAL SHORTAGES, WHICH MEANS THAT WE MAY NOT BE ABLE TO CONTINUE OPERATIONS UNLESS WE OBTAIN ADDITIONAL FUNDING

The report of our independent accountants on our December 31, 2001 and December 31, 2000 financial statements included an explanatory paragraph indicating that there is substantial doubt about our ability to continue as a going concern due to recurring losses and working capital shortages. Our ability to continue as a going concern will be determined by our ability to obtain additional funding. Our financial statements do not include any adjustments that might result from the outcome of this uncertainty.

WE HAVE A LIMITED OPERATING HISTORY

Torque Engineering is a manufacturing business that has a limited operating history. Limited production commenced in late 2000 with the first Torque V-12 engines being shipped in the fourth quarter. Prior to May 1999 we were an inactive public company originally formed for the purpose of purchasing, developing and operating oil and gas leases. Our business strategy is to continue to transition Torque Engineering away from the oil and gas business and to manufacture an aluminum, gasoline-powered V-12 engine for use in the performance pleasure boat marine industry. We expect to incur operating losses and negative operating cash flows as we begin to increase our operations. We cannot assure you that we will succeed in our transition or that we will have sufficient funds to continue operations until we reach profitability.

WE CANNOT ASSURE YOU THAT THE MARKET FOR THE TORQUE V-12 WILL BE SUFFICIENT TO COVER OUR OPERATING EXPENSES

Sales of the Torque V-12 are currently targeted toward owners of performance pleasure craft. This market is a limited niche market in which the price of the boats for which the Torque V-12 is designed range in price from $250,000 to greater than $1,000,000. We cannot assure you that sales of engines in this market will be sufficient to allow us to become profitable in the future.

WE CANNOT ASSURE YOU THAT WE WILL BE ABLE TO ADAPT THE TORQUE V-12 TO ANY OTHER USE OUTSIDE OF THE MARINE ENGINE MARKET

Our current business strategy is to market and sell the Torque V-12 in the high-performance marine engine industry. Because this is a limited niche market, we also anticipate we will attempt to adapt the Torque V-12 to other industries and uses in order for us to increase our future profitability. We cannot assure you that we will be able to adapt the Torque V-12 to other uses or to other industries.

WE HAVE NOT YET MANUFACTURED THE TORQUE V-12 ON A FULL PRODUCTION BASIS

Our current business strategy is to manufacture the Torque V-12 on a production basis, as opposed to customizing the Torque V-12 per our customers' requests. In 1999 and 2000 we continued the tooling, fixturing, programming and installation of equipment in preparation for production. The initial production engines we completed and shipped in the later part of 2000 and early part of 2001. Due to financing shortages throughout 2001, we have not yet begun to implement quantity production of the Torque V-12 and cannot assure you that we will not experience initial or recurring quality control or cost problems.

WE HAVE NOT YET ESTABLISHED A FULL DISTRIBUTION CHANNEL FOR THE TORQUE V-12

We currently market the Torque V-12 through OEM boat manufacturers, an Internet website, trade show appearances, magazine articles and personal contacts of the members of our company in the pleasure craft marine industry. We cannot assure you that these marketing efforts will prove sufficient to allow us to be profitable.

WE COULD FAIL TO ATTRACT OR RETAIN KEY PERSONNEL

Our success largely depends on the efforts and abilities of key executives, including Richard D. Wedel, our Chief Executive Officer and Chairman of the Board; Raymond B. Wedel, Jr., our President and a Director; and I. Paul Arcuri, our Chief Financial Officer and a Director. The loss of the services of Messrs. Wedel, Arcuri and/or Wedel, Jr., could materially harm our business because of the cost and time necessary to replace and train a replacement. Such a loss would also divert management attention away from operational issues. We do not have employment agreements with Messrs. Wedel, Arcuri or Wedel, Jr. We do not presently maintain a key-man life insurance policy covering these individuals.

WE EXPECT INTENSE COMPETITION

Although we are not aware of any other gasoline-powered aluminum V-12 engine with performance characteristics similar to the Torque V-12. We believe that if the Torque V-12 becomes popular with consumers, other manufacturers will design and market their own aluminum V-12 engines that will directly compete with the Torque V-12. Many of our competitors have significantly greater name recognition and financial and other resources than we do. We cannot assure you that we will succeed in the face of strong competition from other engine manufacturers.

NO ASSURANCE OF TECHNOLOGICAL SUCCESS

Our ability to commercialize our products is dependent on the advancement of our existing technology. In order to obtain and maintain a significant market share we will continually be required to make advances in technology. Due to cash shortages, we did not expend any money in research and development in 2001. We cannot assure you that our research and development efforts will result in

the development of such technology on a timely basis or at all. Any failures in such research and development efforts could result in significant delays in product development and have a material adverse effect on us. We cannot assure you that we will not encounter unanticipated technological obstacles which either delay or prevent us from completing the development of our products. Such obstacles could have a material adverse effect on us.

WE DO NOT MAINTAIN ANY PRODUCT LIABILITY INSURANCE, WHICH MAY EXPOSE US TO THE EXPENSE OF DEFENDING ANY LIABILITY CLAIMS

The manufacture and sale of our products entails the risk of product liability claims. In addition, certain companies with which we do or may do business may require financial assurances of product reliability. At the present time we do not maintain product liability insurance.

EXISTING SHAREHOLDERS WILL EXPERIENCE SIGNIFICANT DILUTION FROM OUR SALE OF SHARES UNDER THE EQUITY LINE OF CREDIT AND THE CONVERSION OF DEBENTURES

On November 9, 2001, we entered into an equity line of credit agreement pursuant to which we may sell shares of our common stock to an investor for a purchase price of up to $5,000,000. For each share of common stock purchased under the equity line of credit, the investor will pay 91% of the average of the 2 lowest closing bid prices on which our common stock is traded during the 5 days immediately following a notice date. In addition, on November 14, 2001, we sold $300,000 of convertible debentures that are convertible into shares of our common stock. The sale of shares pursuant to our equity line of credit and the conversion of debentures into shares of our common stock will have a dilutive impact on our stockholders. As a result, our net income per share could decrease in future periods, and the market price of our common stock could decline. In addition, the lower our stock price is the more shares of common stock we will have to issue under the equity line of credit to draw down the full amount and the more shares of common stock we will have to issue upon conversion of the debentures. If our stock price is lower, then our existing stockholders would experience greater dilution.

THE INVESTOR UNDER THE LINE OF CREDIT WILL PAY LESS THAN THE THEN-PREVAILING MARKET PRICE OF OUR COMMON STOCK

The common stock to be issued under the equity line of credit will be issued at a 9% discount to the average of the two lowest closing bid prices on the Over-the-Counter Bulletin Board or other principal market on which our common stock is traded for the five days immediately following the notice date. These discounted sales could cause the price of our common stock to decline.

THE SELLING STOCKHOLDERS PURSUANT TO AN EFFECTIVE REGISTRATION STATEMENT INTEND TO SELL THEIR SHARES OF COMMON STOCK IN THE MARKET, WHICH SALES MAY CAUSE OUR STOCK PRICE TO DECLINE

On December 27, 2001, the Securities and Exchange Commission declared our Registration Statement on Form SB-2 effective. The selling stockholders included in that registration statement intend to sell in the public market the shares of common stock registered in that offering. That means that up to 19,025,000 shares of common stock, the number of shares registered in that offering, may be sold. Such sales may cause our stock price to decline.

ITEM 2. DESCRIPTION OF PROPERTY

Torque Engineering's business office and manufacturing facility is located

at 2932 Thorne Drive, Elkhart, Indiana 46514. Torque Engineering leases a 33,000 square foot industrial type metal building on approximately 4 1/2 acres in an industrial park area in Elkhart, Indiana. The initial term of lease is for three years. The lease provides Torque Engineering the option to renew the lease for two successive three year terms. Torque Engineering also has an option to acquire the property during the initial term of the lease. Torque Engineering believes that the property is sufficient for its current operating plans.

ITEM 3. LEGAL PROCEEDINGS

On November 26, 2001, Torque Engineering was named in litigation with Patrick Patel and Peter Hledin in the Superior Court of New Jersey, Hudson County. Messrs. Patel and Hledin sued Torque Engineering for breach of warranty and under New Jersey Fraud regarding alleged deficiencies in Torque Engineering's engines and transmissions sold to the plaintiffs. On February 22, 2002, Torque Engineering filed a third party claim against Douglas Marine Corporation, the vendor to whom the engines were sold, alleging, among other things, that any damage resulting to the engines was caused by defective or negligent "rigging." Due to the preliminary status of the lawsuit, it is not possible to evaluate the likelihood of an unfavorable outcome or estimate the extent of potential loss.

On March 2, 2002, Torque Engineering was named in litigation with Crown Financial in the Texas court system. Crown Financial sued Torque Engineering regarding alleged non-payment under a security agreement against Douglas Marine Corporation and Torque Engineering. Due to the preliminary status of the lawsuit, it is not possible to evaluate the likelihood of an unfavorable outcome or estimate the extent of potential loss.

ITEM 4. SUBMISSION OF MATTERS TO A VOTE OF SECURITY HOLDERS

None.

PART II

ITEM 5. MARKET FOR COMMON EQUITY AND RELATED STOCKHOLDER MATTERS

PRINCIPAL MARKET OR MARKETS. Torque Engineering common stock is traded in the over-the-counter market, and is presently quoted on the Over-the-Counter Bulletin Board under the symbol "TORQ." Trading on the OTC Bulletin Board began on May 14, 1998 and prior to October 22, 1999 the trading symbol was "QTSN". The following table sets forth the high and low bid prices of the common stock on the OTC Bulletin Board during each quarter from January 1, 2000 through December 31, 2001. These prices reflect interdealer quotations, without retail mark-up, mark-down or commissions, and may not represent prices at which actual transactions occurred.

	BID	
QUARTER ENDED	HIGH	LOW
March 31, 2000	6.000	1.125
June 30, 2000	4.000	1.000
September 30, 2000	4.125	1.437
December 31, 2000	4.125	0.656
March 31, 2001	1.250	1.250

June 30, 2001	1.010	0.800
September 30, 2001	0.060	0.400
December 31, 2001	0.360	0.330

APPROXIMATE NUMBER OF HOLDERS OF COMMON STOCK. The number of holders of record of Torque Engineering common stock at April 15, 2002 was approximately 44, which does not include all beneficial shareholders. This includes 4,681,351 shares held by brokers.

DIVIDENDS. Holders of Torque Engineering common stock are entitled to receive dividends if declared by the board of directors. No dividends on the common stock have been paid by Torque Engineering since inception and Torque Engineering does not anticipate paying dividends in the foreseeable future.

RECENT SALES OF UNREGISTERED SECURITIES. During the past three years, Torque Engineering has sold securities in the transactions described below without registering the securities under the Securities Act of 1933. Unless otherwise indicated, no underwriter, sales or placement agent was involved in the transactions.

In March 1999, a total of 4,870,000 shares of common stock were issued to fifteen individuals, including Torque Engineering's current president, Raymond B. Wedel, Jr., current chief executive officer, Richard D. Wedel, current vice president and chief financial officer, I. Paul Arcuri, and current secretary, Donald Christensen. Those shares were issued in reliance on the exemption from registration provided by Section 4(2) of the Securities Act of 1933.

In May 1999, 1,500,000 shares of common stock were issued to Michel Attias, the sole shareholder of IPSL, Inc., in exchange for all of the issued and outstanding shares of IPSL capital stock. These shares were issued in reliance on the exemption from registration provided by Section 4(2) of the Securities Act of 1933.

In September 1999, a total of 461,540 shares of common stock were issued to Clement M. Lange, Glen A. Lange, Joey Lange and Sheila Wendholt at a price of $3.25 per share or a total amount of $1,500,005. These shares were issued in reliance on the exemption from registration provided by Section 4(2) of the Securities Act of 1933.

In November 1999, Torque Engineering issued options to purchase a total of 80,000 shares of common stock to various Torque Engineering employees under the Torque Engineering 1999 stock option plan. These stock options vest at a rate of 20% per year beginning one year after the grant of the options. On November 12, 1999, the board of directors approved the immediate vesting of 20% of those stock options issued to all but one of the Torque Engineering employees who were granted an option. That employee's option vests 20% on the one year anniversary of the option grant. The exercise price of these stock options is $1.80625 per share.

In November 1999, Torque Engineering issued options to purchase 10,000 shares of common stock to the following members of the board of directors: Richard D. Wedel, Raymond B. Wedel, Jr., and Donald Christensen. These options are immediately exercisable at a price of $3.25 per share for a period of five years from the date of the option grant. Torque Engineering also granted I. Paul Arcuri, its chief financial officer, an option to purchase 100,000 shares of common stock at an exercise price of $3.25 per share. Mr. Arcuri's option vested one-third at the time of the option grant, and the remainder vests one-third twelve months from the date of the option grant, and one-third twenty-four months from the date of the option grant. Torque Engineering also granted Donald

Christensen, an officer and a director, an option to purchase 30,000 shares of common stock at an exercise price of $3.25 per share with the same vesting provisions as for Mr. Arcuri's option.

In December 1999, a total of 1,400 shares were issued to Mark Sorg and Eugene Sobczak in exchange for marketing services provided to Torque Engineering in the amount of $2,688. These shares were issued in reliance on the exemption from registration provided by Section 4(2) of the Securities Act of 1933.

In February 2000, Torque Engineering issued an option to purchase 10,000 shares of common stock to an employee under the Torque Engineering 1999 stock option plan. This stock option was immediately 20% vested and vests at a rate of 20% per year thereafter. The exercise price of the stock option is $1.80625 per share.

In June 2000, a total of 266,667 shares of common stock were issued to Clement M. Lange at a price of $1.50 per share or a total amount of $400,000. These shares were issued in reliance on the exemption from registration provided by Section 4(2) of the Securities Act of 1933.

In October 2000, a total of 4,000 shares of common stock were issued to Glen S. Graber at a price of $3.25 per share or a total amount of $13,000. These shares were issued in reliance on the exemption from registration provided by Section 4(2) of the Securities Act of 1933.

In November 2000, Torque Engineering issued options to purchase 10,000 shares of common stock to the following members of the board of directors: Richard D. Wedel, Raymond B. Wedel, Jr., Donald Christensen, I. Paul Arcuri and Clement M. Lange. These options are immediately exercisable at a price of $3.25 per share for a period of five years from the date of the option grant.

In November 2000, a total of 307,692 shares of common stock were issued to Clement M. Lange at a price of $1.625 per share or a total amount of $500,000. These shares were issued in reliance on the exemption from registration provided by Section 4(2) of the Securities Act of 1933.

In February 2001, a total of 125,000 shares of common stock were issued to Messrs. Richard D. Wedel, Raymond B. Wedel, Jr. and Michel Attias at a price of $2.00 per share or a total amount of $250,000. These shares were issued in reliance on the exemption from registration provided by Section 4(2) of the Securities Act of 1933.

In May 2001, a total of 35,543 shares of common stock were issued to Michael Bennett at a price of $1.16 per share or a total amount of $41,230 in exchange for services rendered. These shares were issued in reliance on the exemption from registration provided by Section 4(2) of the Securities Act of 1933.

In May 2001, a total of 180,000 shares of common stock were issued to NuMark Capital Corporation at a price of $1.07 per share or a total amount of $192,600. These shares were issued in reliance on the exemption from registration provided by Section 4(2) of the Securities Act of 1933.

In November 2001, a total of 200,000 shares of common stock were issued to Kenneth Hersh at a price of $0.25 per share or a total amount of $50,000. These shares were issued in reliance on the exemption from registration provided by Section 4(2) of the Securities Act of 1933.

In November 2001, a total of 20,000 shares of common stock were issued to Kenneth Hersh at a price of $0.25 per share or a total amount of $5,000 in exchange for services rendered. These shares were issued in reliance on the exemption from registration provided by Section 4(2) of the Securities Act of

1933.

In November 2001, a total of 625,000 shares of common stock were issued to Yorkville Advisors Management LLC at a price of $0.42 per share or a total amount of $262,500 in exchange for services rendered. These shares were issued in reliance on the exemption from registration provided by Section 4(2) of the Securities Act of 1933.

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In November 2001, Torque Engineering issued Convertible Debentures in the original principal amount of $300,000. These Convertible Debentures are convertible into shares of common stock at a price equal to 120% of the closing bid price of the common stock as of the date of purchase or 80% of the average of the 4 lowest closing bid prices of the common stock for the 5 trading days immediately preceding the conversion date. These Convertible Debentures accrue interest at 6% per year and are convertible at the holder's option. These Convertible Debentures have a term of 5 years. At Torque Engineering's option, these Convertible Debentures may be paid in cash or converted into shares of common stock on the fifth anniversary unless earlier converted by the holder.

In January 2002, a total of 250,000 shares of common stock were issued to V.T. Lincoln Financial Corporation at a price of $0.51 per share or a total amount of $127,500 in exchange for services rendered. These shares were issued in reliance on the exemption from registration provided by Section 4(2) of the Securities Act of 1933.

In January 2002, a total of 5,000 shares of common stock were issued to William R. A. Kleysteuber, III at a price of $0.30 per share or a total amount of $1,500 in exchange for services rendered. These shares were issued in reliance on the exemption from registration provided by Section 4(2) of the Securities Act of 1933.

In March, 2002, a total of 900,000 shares of common stock were issued to Peter Cardillo at a price of $0.09 per share or a total amount of $81,000 in exchange for services rendered. These shares were issued in reliance on the exemption from registration provided by Section 4(2) of the Securities Act of 1933.

In March, 2002, a total of 105,000 shares of common stock were issued to Kenneth Hersh at a price of $0.08 per share or a total amount of $8,400 in exchange for services rendered. These shares were issued in reliance on the exemption from registration provided by Section 4(2) of the Securities Act of 1933.

The stock options described above were granted in reliance on the exemption from registration provided by Section 4(2) of the Securities Act of 1933.

The facts relied on to make the exemption from registration provided by Section 4(2) of the Securities Act of 1933 available for the sale of securities discussed in paragraphs 1 through 10 above were:

- the limited number of purchasers,
- the sophistication or accreditation of the purchasers,
- their access to material information about Torque Engineering,
- the information provided to Torque Engineering by them,

- the absence of any general solicitation or advertising, and

- restrictions on transfer of the securities issued to them as indicated by a legend on the certificates representing such securities.

ITEM 6. MANAGEMENT'S DISCUSSION AND ANALYSIS

The following information should be read in conjunction with our consolidated financial statements and the notes thereto appearing elsewhere in this filing.

Certain statements within this Item and throughout this Annual Report on Form 10-KSB and the documents incorporated herein are "forward-looking statements" as described in the "safe harbor" provision of the Private Securities Litigation Reform Act of 1995. These statements involve a number of risks and uncertainties and actual results could differ materially from those projected.

OVERVIEW

Torque Engineering is a company that continues to devote its efforts toward establishing itself as a manufacturer of a lightweight, high-powered marine engine built on a production line basis for the luxury performance pleasure craft industry. Torque Engineering was a development stage company through September 30, 2000, which has devoted most of its efforts toward establishing its planned transition from an inoperative oil and gas company to a manufacturer of a lightweight, high-powered marine engine built on a production line basis for the luxury performance pleasure boat industry. During the year ended December 31, 2000, we became an operating company. For the year ended December 31, 2001 Torque Engineering had a net loss $8,534,825. We had negative cash flows used in operating activities of $1,126,718 and an accumulated deficit of $12,623,761 for the year ended December 31, 2001. These conditions raise substantial doubt about our ability to continue as a going concern. Torque Engineering's financial statements do not include any adjustments that might result from the outcome of this uncertainty.

Torque Engineering's ability to continue as a going concern is dependent upon management's ability to increase sales of the Torque V-12 engines and to obtain adequate levels of additional financing. Management believes that its current efforts will provide for Torque Engineering to continue as a going concern. We cannot assure you, however, that we will be successful.

RESULTS OF OPERATIONS

SALES

We had sales, net of $295,715 for the year ended December 31, 2001 compared to sales, net of $718,801 for the year ended December 31, 2000, a decrease of 58.9%. This decrease is substantially attributable to our sale of 3 Torque V-12 engines for the year ended December 31, 2001, as compared to our sale of six Torque V-12 engines in the same period in 2000.

COST OF SALES

We had cost of sales of $1,482,593 for the year ended December 31, 2001, as compared to $1,607,494 for the year ended December 31, 2000, a decrease of 7.8%. This decrease is primarily attributable to reduced operating levels, as well as a reduction in materials, labor and overhead.

OPERATING EXPENSES

We had operating expenses of $7,076,205 for the year ended December 31, 2001, as compared to $1,863,434 for the year ended December 31, 2000, an increase of 279.7%. This increase in our operating expenses for the year ended December 31, 2001 is primarily attributable to a loss on impairment of fixed assets in the amount of $4,764,258 and an increase in consulting and professional fees.

NET LOSS

We had a net loss from operations and before extraordinary items of $8,534,825 for the year ended December 31, 2001, as compared to $2,752,608 for the year ended December 31, 2000, an increase of 210.1%. This is primarily attributable to a loss on impairment of fixed assets in the amount of $4,764,259 taken in the year ended December 31, 2001, decreased sales, an increase in consulting and professional fees, physical inventory loss, and financing costs associated with our accounts receivable factoring arrangement.

We had depreciation expense of $1,124,641 for the year ended December 31, 2001, as compared to $1,118,079 for the year ended December 31, 2000 in connection with property acquired as part of Torque Engineering's acquisition of IPSL and used in connection with the Company's production-line manufacture of the Torque V-12 engines.

MARKETABLE SECURITIES

We had net unrealized gain on marketable securities of $2,426 for the year ended December 31, 2001, as compared to an unrealized loss on marketable securities of $30,932 for the year ended December 31, 2000.

LIQUIDITY AND CAPITAL RESOURCES

Management anticipates that the capital requirements to conduct Torque Engineering's business plan will be significant and we cannot assure you that we will be able to obtain those funds or obtain the required capital on terms favorable to us. We anticipate that we will require additional capital to implement our business plan. We plan to obtain such capital through the sale of additional securities, financing from third parties, and funds generated from the sale of the Torque V-12 engine. Management further anticipates that any funds obtained will be used for working capital, administrative expenses, and research and development of the Torque V-12 engine for other potential uses in the marine industry, as well as other industries. If we are unable to sell additional securities, obtain financing from third parties, or if our funds from ongoing operations are insufficient, it is unlikely that we will continue as a going concern.

As discussed in Note 3 to our 2001 financial statements, on May 2, 2001, we entered into an accounts receivable financing agreement. Amounts received were utilized for inventory and working capital.

As discussed in Note 9 to our 2001 financial statements, on November 14, 2001, we sold $300,000 of 6% Convertible Subordinated Debentures, due November 13, 2006 to Cornell Capital Partners, L.P. After expenses, we received approximately $220,000 from such offering. We intend to use the proceeds of the offering for working capital purposes and to pay certain administrative expenses.

As discussed in Note 10 to our 2001 financial statements, on November 9,

2001, we entered into an equity line of credit agreement pursuant to which we may sell shares of our common stock to an investor for a purchase price of up to $5,000,000. For each share of common stock purchased under the equity line of credit, the investor will pay 91% of the average of the 2 lowest closing bid prices on which our common stock is traded during the 5 days immediately following the notice date. Unless waived by the investor, the amount of each advance is subject to a monthly maximum amount of $208,333.33. As of April 15, 2002, we have received $50,000 in gross proceeds ($42,000 in net proceeds) and issued 806,452 shares of common stock pursuant to the agreement. We used these funds for working capital and we anticipate using any additional funds that we receive pursuant to the equity line of credit to be used for working capital and to implement our business plan. If the equity line of credit agreement does not provide sufficient capital resources, or if our funds from our ongoing operations do not increase, it is unlikely we will continue as a going concern.

CASH FLOWS

A total of $1,126,718 and $1,468,442 was used for operating activities for the year ended December 31, 2001 and 2000, respectively. The decrease in cash used in operating activities was primarily attributable to stock issued for services and a decrease in operating assets. The cash used in operating activities was primarily expended on costs and expenses related to the production-line manufacturing of the Torque V-12 engines, administrative expenses, and research and development of the Torque V-12 engine for other potential uses in the marine industry, as well as other industries. For the year ended December 31,2001, Torque Engineering raised net cash of $300,000 from private placements of its common stock, $220,000 from a convertible debenture, $219,586 from factoring receivables, and $115,000 from a note payable. In addition, 2 stockholders, both of whom are officers and directors, provided operating funds in the amount of $76,500. The proceeds from these activities were used for working capital, administrative expenses, and research and development of the Torque V-12 engine for other potential uses. For the year ended December 31, 2000, Torque Engineering raised net cash of $913,000 from private placements of our common stock. Of the net cash raised from private placements during the year ended December 31, 2000, $900,000 was raised from a director and significant shareholder. In addition, 2 stockholders, one of whom is also an officer and director, provided operating funds in the amount of $60,000. The proceeds from these private placements and from these stockholders were used for working capital.

Torque Engineering believes it does not have sufficient cash to continue operations and to manufacture the Torque V-12 on a production-line basis to generate revenues for the next twelve months. However, Torque Engineering intends to seek other sources of capital to continue operations and to increase sales and revenues. Management is continuing to evaluate the company's projected capital needs for the future development and manufacture of Torque V-12 engines.

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NEW ACCOUNTING PRONOUNCEMENT

The Financial Accounting Standards Board has recently issued new accounting pronouncement, Statement of Financial Accounting Standards ("SFAS") No. 133, as amended by SFAS No. 137 and 138, "Accounting for Derivative Instruments and Hedging Activities" that establishes accounting and reporting standards for derivative instruments and related contracts and hedging activities. This statement is effective for all fiscal quarters and fiscal years beginning after June 15, 2000.

Torque Engineering believes that the future adoption of this pronouncement will not have a material effect on Torque Engineering's financial position or

results of operations.

ITEM 7. FINANCIAL STATEMENTS

The independent auditors' report and the financial statements listed on the accompanying index at page F-1 of this report are filed as part of this report and incorporated herein by reference.

ITEM 8. CHANGES IN AND DISAGREEMENTS WITH ACCOUNTANTS ON ACCOUNTING AND FINANCIAL DISCLOSURE

None.

PART III

ITEM 9. DIRECTORS, EXECUTIVE OFFICERS, PROMOTERS AND CONTROL PERSONS; COMPLIANCE WITH SECTION 16(A) OF THE EXCHANGE ACT

(a) Directors and Executive Officers. The names and ages of the directors and executive officers of Torque Engineering, as of April 15, 2001, are as follows:

Name	Age	Position
Raymond B. Wedel, Jr.	60	President and Director
Richard D. Wedel	54	Chairman, Chief Executive Officer and Director
I. Paul Arcuri	47	Vice President, Chief Financial Officer and Director

Each director serves until the next annual meeting of shareholders or until his successor is elected and qualified.

The following sets forth information concerning the principal occupations and business experience of the current officers and directors of Torque Engineering:

Raymond B. Wedel, Jr.

Raymond B. Wedel, Jr. has been the President, and Chief Operating Officer of Torque Engineering since 1999. From 1992 until 1997, Mr. Wedel was the President of Torque Engineering, a business of Glaval Corporation, which is the predecessor to the current Torque Engineering. At the time of acquisition, Quintessence obtained the right to continue business under the old name. From 1986 until 1992, Mr. Wedel was Vice-President of Lightning Performance Products, also a predecessor to Torque Engineering. Mr. Wedel has an extensive background in the marine industry going back to the 1970's. During 1997-1998, Mr. Wedel served as the Chief Operational Officer of Sonic Jet Performance, Inc. a manufacturer of personal water-craft, recreational, and fire-rescue boats, with factories in California, Florida and China. Mr. Wedel has a Bachelor of Science Degree in Business Administration from the University of Evansville in Indiana.

Richard D. Wedel

Mr. Richard D. Wedel has been the Chief Executive Officer and Chairman of the Board of Directors of Torque Engineering since 1999. Mr. Wedel is a financial consultant and since 1998, has been President of Wedel Consultants, a firm involved in mergers and acquisitions. Since 1999, Mr. Wedel has been the Chairman of the Board of Integrated Homes, Inc., (INHI), a publicly traded company. Integrated Homes is a provider of bundled voice and data communication systems and services for planned development communities. From 1997 through 1998, Mr. Wedel was Chief Operating Officer and a Director of Horizontal Ventures, Inc. From 1982 through 1997, Mr. Wedel was President and a Director of Petro Union Inc., an energy resource exploration and production company, which merged with Horizontal Ventures, Inc. Mr. Wedel is a past Chairman of the American Petroleum Institute Eastern U.S. Advisory Board. Mr. Wedel has a degree in Business Administration from the University of Evansville.

I. Paul Arcuri

Mr. I. Paul Arcuri was elected to Torque Engineering's Board of Directors in December 1999. Mr. Arcuri has served as President and Financial Principal of the Carney Group, Inc., an investment banking firm, member of N.A.S.D. since 1985. Mr. Arcuri has been a registered broker since 1978 and was an investment advisor registered with the Securities Exchange Commission. Mr. Arcuri has extensive background in financial management involving cash flow, cost and budgeting analysis with an emphasis on operations management. Mr. Arcuri was a Director and Chairman of Gibraltar Savings and Loan Association from 1987 through 1992. Mr. Arcuri has a Bachelor of Arts in Accounting from St. Thomas University/Biscayne College in Miami, Florida.

Family Relationship:

Raymond B. Wedel, Jr. and Richard D. Wedel are brothers.

Section 16(a) Beneficial Reporting Compliance

Under U.S. securities laws, directors, executive officers and persons holding more than 10% of Torque Engineering's common stock must report their initial ownership of the common stock and any changes in that ownership on reports that must be filed with the SEC and Torque Engineering. The SEC has designated specific deadlines for these reports and Torque Engineering must identify in this Form 10-KSB those persons who did not file these reports when due.

Based upon information provided to Torque Engineering by its directors, executive officers and persons holding more than 10% of Torque Engineering's common stock, Torque Engineering is not aware of any failures to comply with reporting requirements of Section 16(a) of the Securities Act of 1934.

ITEM 10. EXECUTIVE COMPENSATION

The following table summarizes the total compensation Torque Engineering awarded or paid to Torque Engineering's Chief Executive Officer for the year ended December 31, 2001. The current Chief Executive Officer was not employed by Torque Engineering prior to March 1999. In addition, no other executive officer

of Torque Engineering had a total annual salary and bonus in excess of $100,000 for 2001.

SUMMARY COMPENSATION TABLE

Name and Principal Position	Year	Annual Compensation Salary ($)	Bonus($)	Long Term Compensation Options (#)	All Other Compensation ($
Richard D. Wedel,	2001	50,000	-0-	10,000(1)	-0-
Chief Executive Officer	2000	50,000	-0-	10,000(1)	-0-
	1999	50,000	-0-	10,000(1)	-0-

(1) In 1999, 2000 and 2001, Mr. Wedel received options to purchase 10,000 shares of Torque Engineering common stock in connection with his service as a member of the Board of Directors. All of these options were immediately vested when granted and are exercisable for a period of five years from the grant date.

2001 OPTION/SAR GRANTS

Name	Number of Securities Underlying Options/SAR's Granted (#)	Percent of Total Options/SAR's Granted to Employees in Fiscal Year	Exercise or Base Price ($ Per Share)	
Richard D. Wedel	10,000	33.33%	$3.25	No
Raymond B. Wedel, Jr.	10,000	33.33%	$3.25	No
I. Paul Arcuri	10,000	33.33%	$3.25	No

AGGREGATED OPTION/SAR EXERCISES
IN LAST FISCAL YEAR AND FISCAL YEAR-END OPTIONS/SAR VALUES(1)

Name	Shares Acquired on Exercise (#)	Value Realized ($)	Number of Unexercised Options/SAR's at FY-End (#) Exercisable/Unexercisable		Value Unexerci In-The-M Options/S at FY-End Exercisa Unexercis
Richard D. Wedel	--	--	Exercisable:	30,000	-0-(2
			Unexercisable:	0	-0-
Raymond B. Wedel, Jr.	--	--	Exercisable:	30,000	-0-(2
			Unexercisable:	0	-0-
I. Paul Arcuri	--	--	Exercisable:	86,666	-0-(2
			Unexercisable:	33,334	-0-(2

(1) These grants represent options to purchase common stock. No SAR's have been granted.

(2) The exercise price for the options exceeded the closing bid quotation for Torque Engineering common stock on the OTC Bulletin Board as of December 31, 2000.

Other than the options to purchase 10,000 shares of Torque Engineering common stock at an exercise price of $3.25 per share granted to Torque Engineering's five directors in 2001, directors did not receive compensation for their services in 2001.

ITEM 11. SECURITY OWNERSHIP OF CERTAIN BENEFICIAL OWNERS AND MANAGEMENT

The following table sets forth information regarding beneficial ownership as of April 15, 2002 of Torque Engineering common stock by any person who Torque Engineering knows to be the beneficial owner of more than five percent of Torque Engineering's voting securities, and by each Torque Engineering director and executive officer and by the directors and executive officers of Torque Engineering as a group. As of April 15, 2002 there were 12,748,965 shares of common stock issued and outstanding.

All beneficial owners listed below have sole voting and investment power with respect to the shares shown, unless otherwise indicated.

BENEFICIAL OWNERS

	TITLE OF CLASS	SHARES	PERCENT OF CLASS
Officers and Directors			
Raymond B. Wedel, Jr. 1415 Meadow Lane Elkhart, IN 46514	Common Stock	1,621,702(1)	12.7%
Richard D. Wedel 3900 Woodcastle Evansville, IN 47711	Common Stock	1,493,334(2)	11.7%
I. Paul Arcuri c/o Torque Engineering Corporation 2432 Thorne Drive Elkhart, IN 46674	Common Stock	186,666(3)	1.5%
All officers and directors as a group (3 persons)	Common Stock	3,301,702(4)	25.5%
Other Beneficial Owners			
Michel Attias 4 Riviera Avenue Costa De Caza, CA 92679	Common Stock	1,303,134	10.2%

Clement Lange 4481 W. Holland Road, East Huntingburg, IN 47532	Common Stock	1,234,629	9.7%

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(1) Excludes 740,000 shares owned by Mr. Wedel's brother, Richard D. Wedel. Includes 316,668 shares owned by Raymond B. Wedel, Jr.'s wife. Mr. Wedel disclaims beneficial ownership of such shares. Excludes an aggregate of 633,332 shares owned by Mr. Wedel's adult children who do not live with him. Also includes 30,000 shares Mr. Wedel is entitled to acquire within 60 days of April 15, 2002 pursuant to options granted to him as a member of the board of directors. Excludes 10,000 shares owned by Wanda Pride and 10,000 shares owned by Blanche Wedel. Ms. Pride and Ms. Wedel are Mr. Wedel's sisters. Mr. Wedel disclaims beneficial ownership of such shares.

(2) Includes 400,000 shares owned by Richard D. Wedel's wife. Mr. Wedel disclaims beneficial ownership of such shares. Includes 400,000 shares owned by Mr. Wedel's minor son who lives with him. Also includes 30,000 shares Mr. Wedel is entitled to acquire within 60 days of April 15, 2002 pursuant to options granted to him as a member of the board of directors. Excludes 10,000 shares owned by Wanda Pride and 10,000 shares owned by Blanche Wedel. Ms. Pride and Ms. Wedel are Mr. Wedel's sisters. Mr. Wedel disclaims beneficial ownership of such shares.

(3) Includes 66,666 shares vested under an option to purchase 100,000 shares granted to Mr. Arcuri as Vice-President and Chief Financial Officer. Also includes 20,000 shares Mr. Arcuri is entitled to acquire within 60 days of April 15, 2002 pursuant to an option granted to him as a member of the board of directors

(4) Includes options to acquire 180,000 shares of Torque's common stock exercisable within 60 days of April 15, 2002.

ITEM 12. CERTAIN RELATIONSHIPS AND RELATED TRANSACTIONS

Effective May 28, 1999, Torque Engineering acquired the outstanding common stock of IPSL, a Nevada corporation, in exchange for the issuance of 1,500,000 shares of Torque Engineering common stock to Michel Attias, then the sole shareholder of IPSL and now a significant shareholder of Torque Engineering. The principal reason for Torque Engineering's acquisition of IPSL was to acquire certain property and equipment to be used to manufacture the Torque V-12, which property and equipment IPSL acquired from an Indiana corporation under the name of Torque Engineering in April 1999.

During the year ended December 31, 1999, Torque Engineering through IPSL made repayments on prior loans to IPSL by affiliates of Michel Attias in the total amount of $280,031.

In June 2000, Torque Engineering sold 266,667 shares of common stock to Clement Lange, a former member of the board of directors, at a price of $1.50 per share for a total purchase price of $400,000. In November 2000, Clement Lange purchased an additional 307,692 shares of common stock at a per share

price of $1.625, for a total price of $500,000.

During September, October and December 2000, Torque Engineering received a total of $60,000 in operating funds from two of its stockholders, Richard D. Wedel and Michel Attias. Mr. Wedel is an officer and director of Torque Engineering. In addition, $11,656 of reimbursable expenses were owed to Richard D. Wedel as of December 31, 2000. Those loans were converted to non-interest bearing promissory notes due June 30, 2001. Torque Engineering is currently in default on these promissory notes.

During February 2001, Clement Lange, a former member of the board of directors, acquired 250,000 shares of common stock from Richard D. Wedel, Raymond Wedel and Michel Attias in exchange for $250,000. In addition, Torque Engineering issued to Richard D. Wedel, Raymond D. Wedel and Michel Attias 125,000 shares of common stock at a price of $2.00 per share for a total purchase price of $250,000. Richard Wedel and Raymond Wedel are officers and directors of Torque Engineering.

During March 2001, Torque Engineering received a total of $46,500 in operating funds from one of its stockholders, Richard D. Wedel. Mr. Wedel is an officer and director of Torque Engineering. Those loans were converted to non-interest bearing promissory notes due June 30, 2001. Torque Engineering is currently in default on these promissory notes.

During May 2001, Torque Engineering received a total of $115,000 in operating funds from Patriot Manufacturing Corp. Michael Attias, a beneficial owner of more than 5% of Torque Engineering's common stock is an officer of Patriot Manufacturing Corp. Those loans were converted to non-interest bearing promissory notes due August 31, 2001.

During December 2001, Torque Engineering received a total of $30,000 in operating funds from two of its stockholders, Richard D. Wedel and Raymond B. Wedel Jr. Richard D. Wedel and Raymond B. Wedel Jr. are officers and directors of Torque Engineering. Those loans were converted to non-interest bearing promissory notes due March 30, 2002.

ITEM 13. EXHIBITS AND REPORTS ON FORM 8-K

(a) The following exhibits are furnished as part of this report:

Exhibit No.	Description	Location
2.1	Form of Agreement and Plan of Merger by and among Quintessence Oil Company and Torque	Incorporated by reference to Exhibit to the Registrant's Definitive Proxy Statement file don September 24, 199
2.2	Plan and Agreement of Reorganization dated May 21, 1999 between IPSL, Inc. and Quintessence Oil Company	Incorporated by reference to Exhibit 2.2 to the Registrant's Annual Repor on Form 10-KSB filed on May 25, 2000
2.3	Bill of Sale between IPSL, Inc. and Torque	Incorporated by reference to Exhibit 2.3 to the Registrant's Annual Repor on Form 10-KSB filed on May 25, 2000
3.1	Articles of Incorporation of Quintessence Oil Company	Incorporated by reference to Exhibit 3.1 to the Registrant's Form 10 file on December 3, 1996
3.2	Certificate of Incorporation of Torque	Incorporated by reference to Exhibit to the Registrant's Definitive Proxy

		Statement filed on September 24, 199
3.3	Bylaws of Quintessence Oil Company	Incorporated by reference to Exhibit 3.2 of the Registrant's Registration Statement on Form 10 filed on Decemb 3, 1996

Exhibit No.	Description	Location
3.4	Bylaws of Torque	Incorporated by reference to Exhibit of the Registrant's Definitive Proxy Statement filed on September 24, 199
10.1	Lease Rental Agreement dated October 6, 1999 between Quintessence Oil Company and CNC Associates (Lease No. 99870001)	Incorporated by reference to Exhibit 10.1 of the Registrant's Amended Ann Report on Form 10-KSB/A filed on Aug 10, 2000
10.2	Lease Rental Agreement dated October 6, 1999 between Quintessence Oil Company and CNC Associates (Lease No. 9987002)	Incorporated by reference to Exhibit 10.2 of the Registrant's Amended Ann Report on Form 10-KSB/A filed on Aug 10, 2000
10.3	Lease Rental Agreement dated October 6, 1999 between Quintessence Oil Company and CNC Associates (Lease NO. 99870003)	Incorporated by reference to Exhibit 10.3 of the Registrant's Amended Ann Report on Form 10-KSB/A filed on Aug 10, 2000
10.4	Lease Rental Agreement dated October 6, 1999 between Quintessence Oil Company and CNC Associates (Lease No. 99870003)	Incorporated by reference to Exhibit 10.4 of the Registrant's Amended Ann Report on Form 10-KSB/A filed on Aug 10, 2000
10.5	Real Estate Lease dated April 29, 1999 by and between Richard W. Strefling Industries, Inc. and Quintessence Oil Company	Incorporated by reference to Exhibit 10.5 of the Registrant's Annual Repo on Form 10-KSB filed on May 25, 2000
10.6	Torque 1999 Stock Option Plan	Incorporated by reference to Exhibit to the Registrant's Definitive Proxy Statement filed on September 24, 199
10.7	Corporate Note dated September 28, 2000 to Richard D. Wedel	Incorporated by reference to Exhibit 10.7 of the Registrant's Annual Repo on Form 10-KSB filed on March 29, 20
10.8	Corporate Note dated October 4, 2000 to Richard D. Wedel	Incorporated by reference to Exhibit 10.8 of the Registrant's Annual Repo on Form 10-KSB filed on March 29, 20
10.9	Corporate Note dated October 12, 2000 to Michael Attias	Incorporated by reference to Exhibit 10.9 of the Registrant's Annual Repo on Form 10-KSB filed on March 29, 20
10.10	Corporate Note dated December 31, 2000 to Richard D. Wedel	Incorporated by reference to Exhibit 10.11 of the Registrant's Annual Rep on Form 10-KSB filed on March 29, 20
10.12	Account Purchase Agreement dated May 2,	Incorporated by reference to Exhibit

	2001 between Torque and Crown Financial, L.L.C.	10.1 to the Registrant's Quarterly Report on Form 10-QSB filed on Augus 17, 2001
10.13	Securities Purchase Agreement dated as of October 28, 2001 between Torque and Cornell Capital Partners, LP	Incorporated by reference to Exhibit 10.13 to the Registrant's Registrati Statement on Form 10-SB-2 filed on December 17, 2001
10.14	Investor Registration Rights Agreement dated as of October 28, 2001 between Torque and Cornell Capital Partners, LP	Incorporated by reference to Exhibit 10.14 to the Registrant's Registrati Statement on Form 10-SB-2 filed on December 17, 2001
10.15	Escrow Agreement dated as of October 28, 2001 among Torque, Yorkville Advisors Management, LLC and First Union National Bank	Incorporated by reference to Exhibit 10.15 to the Registrant's Registrati Statement on Form 10-SB-2 filed on December 17, 2001

Exhibit No.	Description	Location
10.16	Transfer Agent Instructions dated as of October 28, 2001 among Torque, Cornell Capital Partners, LP and Computer Share Trust Company, Inc.	Incorporated by reference to Exhibit 10.16 to the Registrant's Registrati Statement on Form 10-SB-2 filed on December 17, 2001
10.17	Equity Line of Credit Agreement dated November 14, 2001 between Torque and Cornell Capital Partners, LP	Incorporated by reference to Exhibit 10.17 to the Registrant's Registrati Statement on Form 10-SB-2 filed on December 17, 2001
10.18	Registration Rights Agreement dated November 14, 2001 between Torque and Cornell Capital Partners, LP	Incorporated by reference to Exhibit 10.18 to the Registrant's Registrati Statement on Form 10-SB-2 filed on December 17, 2001
10.19	Escrow Agreement dated November 14, 2001 among Torque, Cornell Partners, LP and First Union National Bank	Incorporated by reference to Exhibit 10.19 to the Registrant's Registrati Statement on Form 10-SB-2 filed on December 17, 2001
10.20	Placement Agent Agreement dated November 14, 2001 between Torque and Westport Partners, Ltd.	Incorporated by reference to Exhibit 10.20 to the Registrant's Registrati Statement on Form 10-SB-2 filed on December 17, 2001
99.1	IPSL, Inc. Financial Statements as of May 28, 1999	Incorporated by reference to Exhibit 99.1 to the Registrant's Annual Repo on Form 10-KSB filed on May 25, 2000

(b) Reports on Form 8-K.

None.

SIGNATURES

In accordance with Section 13 or 15(d) of the Exchange Act, the registrant caused this report to be signed on its behalf by the undersigned, thereunto duly authorized.

Date: April 25, 2002

TORQUE ENGINEERING CORPORATION

By:/s/ Raymond B. Wedel, Jr.

Raymond B. Wedel, Jr., President

In accordance with the Exchange Act, this report has been signed below by the following persons on behalf of the registrant and in the capacities and on the dates indicated.

/s/ Raymond B. Wedel, Jr.

Raymond B. Wedel, Jr.
President and Director

Date: April 25, 2002

/s/ Richard D. Wedel

Richard D. Wedel
Chairman, Chief Executive Officer
and Director

Date: April 25, 2002

/s/ Paul Arcuri

I. Paul Arcuri
Vice President, Chief Financial Officer and
Director

Date: April 25, 2002

TORQUE ENGINEERING CORPORATION
AND SUBSIDIARY
CONSOLIDATED FINANCIAL STATEMENTS
AS OF DECEMBER 31, 2001 AND 2000

TORQUE ENGINEERING CORPORATION AND SUBSIDIARY

CONTENTS

INDEPENDENT AUDITORS' REPORT

To the Board of Directors of:
Torque Engineering Corporation

We have audited the accompanying consolidated balance sheets of Torque Engineering Corporation and Subsidiary as of December 31, 2001 and 2000 and the related consolidated statements of operations and comprehensive loss, stockholders' equity and cash flows for the years then ended. These consolidated financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on these consolidated financial statements based on our audits.

We conducted our audits in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audits to obtain reasonable assurance about whether the consolidated 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. We believe that our audits provide a reasonable basis for our opinion.

In our opinion, the consolidated financial statements referred to above present fairly in all material respects, the financial position of Torque Engineering Corporation and Subsidiary as of December 31, 2001 and 2000 and the results of their operations and their cash flows for the years then ended, in conformity with accounting principles generally accepted in the United States of America.

The accompanying financial statements have been prepared assuming that the Company will continue as a going concern. As discussed in Note 18, the Company has a loss from current operations of $8,534,825, a negative cash flow from operating activities of $1,126,718 and a working capital deficiency of $725,507. These conditions raise substantial doubt about the Company's ability to continue as a going concern. Management's plans in regard to these matters are also described in Note 18. The financial statements do not include any adjustments that might result from the outcome of this uncertainty.

WEINBERG & COMPANY, P.A.

Boca Raton, Florida
April 9, 2002

TORQUE ENGINEERING CORPORATION AND SUBSIDIARY
CONSOLIDATED BALANCE SHEETS
AS OF DECEMBER 31, 2001 AND 2000

ASSETS

	2001	2
CURRENT ASSETS		
Cash	$ 12,757	$
Marketable securities	3,639	
Accounts receivable, net	156,104	
Inventories	348,752	
Prepaid expenses	22,448	
Advances to suppliers	73,094	
Total Current Assets	616,794	
PROPERTY & EQUIPMENT - NET	3,573,112	
TOTAL ASSETS	$ 4,189,906	$ 1

LIABILITIES AND STOCKHOLDERS' EQUITY

CURRENT LIABILITIES		
Accounts payable and accrued liabilities	$ 642,180	$
Due to factor	219,586	
Obligations under capital leases - current portion	217,379	
Notes payable - officers	148,156	
Note payable	115,000	
Total Current Liabilities	1,342,301	

LONG-TERM LIABILITIES		
Obligations under capital leases	342,851	
Convertible debentures	280,000	
Total Long-Term Liabilities	622,851	
TOTAL LIABILITIES	1,965,152	
STOCKHOLDERS' EQUITY		
Common stock, $.00001 par value, 50,000,000 shares authorized, 9,597,112 and 8,411,299 shares issued, respectively	96	
Common stock to be issued, 121,942 shares	1	
Additional paid in capital	15,202,320	1
Accumulated deficit	(12,623,761)	(
Accumulated other comprehensive loss	(208,637)	
	2,370,019	
Less Treasury Stock at cost (6,750 Shares)	(56,970)	
Less Deferred compensation expense	(88,295)	
Total Stockholders' Equity	2,224,754	
TOTAL LIABILITIES AND STOCKHOLDERS' EQUITY	$ 4,189,906	$ 1

See accompanying notes to consolidated financial statements.

TORQUE ENGINEERING CORPORATION AND SUBSIDIARY
CONSOLIDATED STATEMENTS OF OPERATIONS AND COMPREHENSIVE LOSS
FOR THE YEARS ENDED DECEMBER 31, 2001 AND 2000

	2001	2000
SALES, NET	$ 295,715	$ 71
COST OF SALES	1,482,593	1,60
GROSS LOSS	(1,186,878)	(88
OPERATING EXPENSES		
Loss on impairment of property and equipment	4,764,259	
Depreciation	1,124,641	1,11
Consulting	442,637	
Professional fees	209,884	11

Officer compensation	141,230	15
Other selling, general and administrative	154,109	11
Rent	120,000	12
Payroll and other compensation	119,445	24
Total Operating Expenses	7,076,205	1,86
LOSS FROM OPERATIONS	(8,263,083)	(2,75
OTHER INCOME (EXPENSE)		
Interest expense	(157,032)	(4
Factoring expenses	(116,813)	
Other expense - net	(2,452)	
Other income	4,176	
Interest income	379	1
Total Other Income (Expense)	(271,742)	(2
NET LOSS BEFORE EXTRAORDINARY ITEM	(8,534,825)	(2,78
EXTRAORDINARY ITEM		
Gain on extinguishment of debt	-	2
NET LOSS	(8,534,825)	(2,75
OTHER COMPREHENSIVE INCOME (LOSS)		
Unrealized gain (loss) on marketable securities - net	2,426	(3
COMPREHENSIVE LOSS	$ (8,532,399)	$ (2,78
Loss per share before extraordinary gain	$ (.97)	$
extraordinary gain	-	
Net loss per share - basic and diluted	$ (.97)	$
Weighted average number of shares outstanding during the period -basic and diluted	8,764,579	8,0

See accompanying notes to consolidated financial statements.

TORQUE ENGINEERING CORPORATION AND SUBSIDIARY
CONSOLIDATED STATEMENTS OF STOCKHOLDERS' EQUITY
FOR THE YEAR ENDED DECEMBER 31, 2001 AND 2000

	Common Stock		Common Stock To Be Issued		Additional Paid-in	Accumulated	Accumulated Other Comprehensi
	Shares	Amount	Shares	Amount	Capital	Deficit	Loss
Balance December 31, 1999	7,832,940	$ 78	-	$ -	$13,330,715	$(1,336,328)	$(180,131)
Stock issued for cash	578,359	6	-	-	912,994	-	-
Deferred compensation expensed	-	-	-	-	-	-	-
Unrealized loss on available-for-sale securities	-	-	-	-	-	-	(30,932)
Net Loss, 2000	-	-	-	-	-	(2,752,608)	-
Balance, December 31, 2000	8,411,299	84	-	-	14,243,709	(4,088,936)	(211,063)
Stock issued for cash	325,000	3	-	-	299,997	-	-
Stock issued for services	860,813	9	-	-	493,150	-	-
Stock to be issued for services	-	-	50,000	-	25,500	-	-
Grant of stock options for services	-	-	-	-	51,997	-	-
Stock to be issued for debt conversion	-	-	71,942	1	19,999	-	-
Unrealized gain on available-for-sale securities	-	-	-	-	-	-	2,426
Beneficial conversion feature of convertible debentures	-	-	-	-	67,968	-	-
Net Loss, 2001	-	-			-	(8,534,825)	-
BALANCE, DECEMBER 31, 2001	9,597,112	$ 96	121,942	$ 1	15,202,320	$(12,623,761)	$(208,637)

See accompanying notes to consolidated financial statements.

TORQUE ENGINEERING CORPORATION AND SUBSIDIARY
CONSOLIDATED STATEMENTS OF CASH FLOWS
FOR THE YEARS ENDED DECEMBER 31, 2001 AND 2000

	2001	
CASH FLOWS FROM OPERATING ACTIVITIES:		
Net loss	$ (8,534,825)	$
Adjustments to reconcile net loss to net cash used in operating activities:		
Depreciation	1,124,641	
Loss on impairment of property and equipment	4,764,259	
Beneficial conversion feature of convertible debentures	67,968	
Compensation expense incurred in exchange for stock options	4,333	
Provision for bad debts	6,571	
Stock issued for services	486,711	
Gain on extinguishment of debt	-	
Changes in operating assets and liabilities:		
(Increase) decrease in:		
Accounts receivable	148,484	
Prepaid expenses	27,560	
Advances to suppliers	36,086	
Inventories	440,383	
Accounts payable and accrued liabilities	301,111	
Net Cash Used In Operating Activities	(1,126,718)	
CASH FLOWS FROM INVESTING ACTIVITIES:		
Purchase of property and equipment	(10,315)	
Net Cash Used In Investing Activities	(10,315)	
CASH FLOWS FROM FINANCING ACTIVITIES:		
Proceeds from issuance of common stock	300,000	
Principal repayments on capital lease obligations	(21,409)	
Due to factor	219,586	
Proceeds from notes payable - officers	76,500	
Proceeds from note payable	115,000	
Proceeds from convertible debenture	300,000	
Net Cash Provided By Financing Activities	989,677	
NET DECREASE IN CASH	(147,356)	
CASH AT BEGINNING OF YEAR	160,113	
CASH AT END OF YEAR	$ 12,757	$
SUPPLEMENTAL DISCLOSURE OF CASH FLOW INFORMATION		
Cash paid for interest	$ 122,787	$

See accompanying notes to consolidated financial statements.

TORQUE ENGINEERING CORPORATION AND SUBSIDIARY
CONSOLIDATED STATEMENTS OF CASH FLOWS
FOR THE YEARS ENDED DECEMBER 31, 2001 AND 2000

SUPPLEMENTAL DISCLOSURE OF NON-CASH INVESTING AND FINANCING ACTIVITIES:

During 2001, the Company recorded 71,942 shares of common stock to be issued under the terms of the convertible debenture agreement to convert $20,000 of principal (See Notes 9 and 19(B)).

During 2000, the Company acquired equipment totaling $12,125 under capital lease obligations.

During 2000, the Company converted accounts payable with a shareholder to a related party note payable in the amount of $11,656.

See accompanying notes to consolidated financial statements.

TORQUE ENGINEERING CORPORATION AND SUBSIDIARY
NOTES TO CONSOLIDATED STATEMENTS
AS OF DECEMBER 31, 2001 AND 2000

NOTE 1 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES AND ORGANIZATION

(A) ORGANIZATION

The Company designs and manufactures high performance offshore marine engines.

The Company was in the development stage through December 31, 1999. The year ended December 31, 2000 was the first year during which it was considered an operating company.

(B) PRINCIPLES OF CONSOLIDATION

The consolidated financial statements include the accounts of the Company and its wholly owned subsidiary. All intercompany balances and transactions have been eliminated in consolidation.

(C) USE OF ESTIMATES

In preparing financial statements in conformity with generally accepted accounting principles, management is required to make estimates and assumptions that affect the reported amounts of assets and liabilities and the disclosure of contingent assets and liabilities at the date of the financial statements and revenues and expenses during the reported period. Actual results could differ from those estimates.

(D) CASH AND CASH EQUIVALENTS

For purposes of the cash flow statements, the Company considers all highly liquid investments with original maturities of three months or less at the time of purchase to be cash equivalents.

The Company maintains its cash in bank accounts, which, at times, exceed federally insured limits. The Company has not experienced any losses in such accounts as of December 31, 2001.

(E) MARKETABLE SECURITIES

The Company invests in various marketable equity instruments. The Company accounts for such investments in accordance with Statement of Financial Accounting Standards No. 115 "Accounting for Certain Investments in Debt and Equity Securities" ("SFAS 115") (See Notes 1(M) and 2)).

Management determines the appropriate classification of its investments at the time of acquisition and reevaluates such determination at each balance sheet date. Available-for-sale securities are carried at fair value, with unrealized gains and losses, net of tax, reported as a separate component of stockholders' equity. Investments classified as held-to-maturity are carried at amortized cost. In determining realized gains and losses, the cost of the securities sold is based on the specific identification method.

(F) INVENTORY

Inventories are stated at the lower of cost (first-in, first-out) or net realizable value, and consists of purchased parts, engines-in-process and completed engines (See Note 6).

TORQUE ENGINEERING CORPORATION AND SUBSIDIARY
NOTES TO CONSOLIDATED STATEMENTS
AS OF DECEMBER 31, 2001 AND 2000

(G) PROPERTY AND EQUIPMENT

Property and equipment are stated at cost and depreciated using the straight-line method over the estimated economic useful lives of 3 to 8 years. Expenditures for maintenance and repairs are charged to expense as incurred. Major improvements are capitalized (See Note 7).

(H) STOCK OPTIONS

In accordance with Statement of Financial Accounting Standards No. 123, ("SFAS 123") the Company has elected to account for Stock Options issued to employees under Accounting Principles Board Opinion No. 25 ("APB Opinion No. 25") and related interpretations. The Company accounts for stock options issued to non-employees under the fair value method of SFAS 123 (See Note 12(C)).

(I) REVENUE RECOGNITION

The Company recognizes revenue upon shipment of products.

(J) ADVERTISING COSTS

Advertising is charged to operations as incurred. For the years ended December 31, 2001 and 2000, the Company charged $95,376 and $74,461, respectively.

(K) INCOME TAXES

The Company accounts for income taxes under the Financial Accounting Standards Board Statement of Financial Accounting Standards No. 109 "Accounting for Income Taxes" ("Statement 109"). Under Statement 109, deferred tax assets and liabilities are recognized for the future tax consequences attributable to differences between the financial statement carrying amounts of existing assets and liabilities and their respective tax bases. Deferred tax assets and liabilities are measured using enacted tax rates expected to apply to taxable income in the years in which those temporary differences are expected to be recovered or settled. Under Statement 109, the effect on deferred tax assets and liabilities of a change in tax rates is recognized in income in the period that includes the enactment date.

(L) COMPREHENSIVE INCOME (LOSS)

The Company accounts for Comprehensive Income (Loss) under the Statement of Financial Accounting Standards No. 130, "Reporting Comprehensive Income" ("Statement No. 130"). Statement No. 130

establishes standards for reporting and display of comprehensive income and its components, and is effective for fiscal years beginning after December 15, 1997.

The unrealized gains and losses, net of tax, resulting from the valuation of available-for-sale securities at their fair market value at year end (see Note 1 (F)) are reported as Other Comprehensive Income (Loss) in the Statement of Operations and as Accumulated Other Comprehensive Income (Loss) in Stockholders' Equity and in the Statement of Stockholders' Equity.

(M) NEW ACCOUNTING PRONOUNCEMENTS

The Financial Accounting Standards Board has recently issued several new Statements of Financial Accounting Standards.

Statement No. 141, "Business Combinations" supersedes APB Opinion 16 and various related pronouncements. Pursuant to the new guidance in Statement No. 141, all business combinations must be accounted for under the purchase method of accounting; the pooling-of-interests method is no longer permitted. SFAS 141 also establishes new rules concerning the recognition of goodwill and other intangible assets arising in a purchase business combination and requires disclosure of more information concerning a business combination in the period in which it is completed. This statement is generally effective for business combinations initiated on or after July 1, 2001.

Statement No. 142, "Goodwill and Other Intangible Assets" supercedes APB Opinion 17 and related interpretations. Statement No. 142 establishes new rules on accounting for the acquisition of intangible assets not acquired in a business combination and the manner in which goodwill and all other intangibles should be accounted for subsequent to their initial recognition in a business combination accounted for under SFAS No. 141. Under SFAS No. 142, intangible assets should be recorded at fair value. Intangible assets with finite useful lives should be amortized over such period and those with indefinite lives should not be amortized. All intangible assets being amortized as well as those that are not, are both subject to review for potential impairment under SFAS No. 121, "Accounting for the Impairment of Long-Lived Assets and for Long-Lived Assets to be Disposed of". SFAS No. 142 also requires that goodwill arising in a business combination should not be amortized but is subject to impairment testing at the reporting unit level to which the goodwill was assigned to at the date of the business combination.

SFAS No. 142 is effective for fiscal years beginning after December 15, 2001 and must be applied as of the beginning of such year to all goodwill and other intangible assets that have already been recorded in the balance sheet as of the first day in which SFAS No. 142 is initially applied, regardless of when such assets were acquired. Goodwill acquired in a business combination whose acquisition date is on or after July 1, 2001, should not be amortized, but should be

reviewed for impairment pursuant to SFAS No. 121, even though SFAS No. 142 has not yet been adopted. However, previously acquired goodwill should continue to be amortized until SFAS No. 142 is first adopted.

Statement No. 143 "Accounting for Asset Retirement Obligations" establishes standards for the initial measurement and subsequent accounting for obligations associated with the sale, abandonment, or other type of disposal of long-lived tangible assets arising from the acquisition, construction, or development and/or normal operation of such assets. SFAS No. 143 is effective for fiscal years beginning after June 15, 2002, with earlier application encouraged.

The adoption of these pronouncements is not expected to have a material effect on the Company's financial position or results of operations.

(N) LOSS PER SHARE

Basic and diluted net loss per common share for the years ended December 31, 2001 and 2000 is computed based upon the weighted average common shares outstanding. Common stock equivalents have not been included in the computation of diluted loss per share since the effect would be anti-dilutive.

(O) BUSINESS SEGMENTS

The Company operates in one segment and therefore segment information is not presented.

(P) FAIR VALUE OF FINANCIAL INSTRUMENTS

Statement of Financial Accounting Standards No. 107, "Disclosures about Fair Value of Financial Instruments", requires disclosures of information about the fair value of certain financial instruments for which it is practicable to estimate that value. For purposes of this disclosure, the fair value of a financial instrument is the amount at

which the instrument could be exchanged in a current transaction between willing parties, other than in a forced sale or liquidation. The carrying amounts of the Company's accounts receivable, advances to suppliers, marketable securities, accounts payable and accrued liabilities, notes payable - officer, notes payable, and due to factor approximates fair value due to the relatively short period to maturity for these instruments.

(Q) IMPAIRMENT OF LONG-LIVED ASSETS

The Company has adopted Statement of Financial Accounting Standards No. 121 (SFAS 121) "Accounting for the Impairment of Long-Lived Assets and for Long-Lived Assets to be Disposed Of." Under the provisions of this statement, the Company has evaluated its long-lived assets for financial impairment, and will continue to evaluate them as events or changes in circumstances indicated that the carrying amount of such assets may not be fully recoverable.

The Company evaluates the recoverability of long-lived assets not held

for sale by measuring the carrying amount of the assets against the estimated undiscounted future cash flows associated with them. At the time such cash flows of certain long-lived assets are not sufficient to recover the carrying value of such assets, the assets are adjusted to their fair values.

During the year ended December 31, 2001, the Company recognized an impairment loss of $4,764,259 (See Note 7(B)).

(R) RECLASSIFICATIONS

Certain reclassifications have been made to the December 31, 2000 financial statements to conform to the December 31, 2001 financial statement presentation.

NOTE 2 MARKETABLE SECURITIES

The Company's marketable securities are classified as available-for-sale and are reported at fair value based upon the quoted market prices of those investments at December 31, with unrealized gains (losses) reported as other comprehensive income (loss) in a separate component of stockholders' equity until they are sold. Any realized gains or losses are included in net earnings (loss) at the time of sale (See Note 1(E)).

The composition of marketable securities at December 31, 2001 is as follows:

	COST	FAIR VALUE
Common stock	$ 212,276	$ 3,639

There was no investment income or expense for the years ended December 31, 2001 and 2000.

Unrealized gains (losses) included in other comprehensive loss for the years ended December 31, 2001 and 2000 consisted of the following:

2001	2000
$ 2,426	$ (30,932)

NOTE 3 ACCOUNTS RECEIVABLE, CONCENTRATIONS AND FACTOR AGREEMENTS

(A) ACCOUNTS RECEIVABLE

Accounts receivable at December 31, 2001 and 2000 were as follows:

	2001	2000
Accounts receivable	$ 162,675	$ 311,159
Less: allowance for doubtful accounts	(6,571)	-
Accounts receivable, net	$ 156,104	$ 311,159

In March 2002, the Company regained possession of two engines previously sold for $219,586 (See Note 3(C)). The engines were recovered in connection with ongoing litigation surrounding a factoring agreement (See Note 11(D)). At December 31, 2001, the portion of the original sale, in the amount $94,437, representing the gross margin, was recorded as a sales allowance and as a reduction in accounts receivable. The remaining $125,149 will be recorded as an increase in inventory in 2002 and a corresponding reduction of receivables upon receipt of the two engines (See Note 18(F)).

(B) CONCENTRATIONS

As of December 31, 2001 and 2000, approximately 98% and 98%, respectively, of accounts receivable were due from two customers. Sales during 2001 and 2000 primarily related to three engine sales and six engine sales, respectively, to the above customers.

(C) FACTOR AGREEMENTS

On May 2, 2001, the Company entered into an accounts receivable financing agreement with a factor. The receivables were transferred with recourse and subject to a provision that could require the Company to repurchase the receivables. Under the terms of the agreement, the factor advances 65% of the face value of the receivables sold by the Company. The Company is charged a variable percentage fee based upon the length of the collection period. After 180 days, if the customer's accounts receivable is not paid, the factor is entitled to keep and assess the remaining 35% holdback reserve as a fee for service. All of the Company's accounts receivable, equipment, furniture and fixtures are pledged as collateral under this agreement.

For the year ended December 31, 2001 the Company has financed $219,586 in accounts receivable (See Note 3(A)). As of December 31, 2001, no collections had been made by the factor and the period in which all collections would be due had passed. As of the date of this report, the entire $219,586 remains unpaid and continues to accrue interest at 12%. Additionally, the account has been submitted for litigation (See Note 11(D)).

NOTE 4 PREPAID EXPENSES

During 2001, prepaid expenses primarily included the cost of promotional and marketing services totaling $39,506. As of December 31,

2001, $19,753 had been charged to operations. The remaining $19,753 will be expensed in 2002.

During 2000, prepaid expenses primarily included the value of a boat engine exchanged for promotional and marketing services for one year. The value of the engine exchanged was $64,759, and as of December 31, 2000, $16,190 had been charged to operations. During 2001, the remaining $48,569 was charged to operations. Due to the cost and fair value of the engine exchanged being equivalent to marketing services, no gain or loss was recognized on the exchange.

NOTE 5 ADVANCES TO SUPPLIERS

The Company maintains deposits on account with various vendors. The Company, upon executing a purchase order with these vendors, is required to provide a deposit against which goods are shipped.

NOTE 6 INVENTORIES

Inventories at December 31, 2001 and 2000 consisted of the following:

	2001	2000
Parts	$ 258,459	$ 376,532
Engines in process	51,549	184,405
Completed engines	38,744	228,198
	$ 348,752	$ 789,135

During 2001, management identified certain inventory that was no longer used in production and charged $129,896 to cost of goods sold to write-down these inventories to their net realizable values.

During 2000, management specifically identified two engines that were no longer held for commercial sale and their carrying value, of $104,008, was charged to selling, general and other administrative expenses for the year ended December 31, 2000.

NOTE 7 PROPERTY AND EQUIPMENT

(A) PROPERTY AND EQUIPMENT

Property and equipment at December 31, 2001 and 2000 consisted of the following:

	2001	2000
Special tooling	$ 3,991,069	$ 9,309,965
Machinery and equipment	498,398	1,155,278
Equipment under capital leases	276,985	646,307

Vehicles	3,731	8,706
Computer equipment	5,854	13,660
Furniture and fixtures	34,145	79,673
	4,810,182	11,213,589
Less: Accumulated depreciation	(1,237,070)	(1,761,891)
Property and equipment - net	$ 3,573,112	$ 9,451,698

(B) LOSS ON IMPAIRMENT

During 2001, the property and equipment of the Company were deemed to be impaired and written down to their fair value. Fair value, which was determined by reference to the present value of the estimated future cash inflows of such assets, exceeded their carrying value by $4,764,259.

NOTE 8 NOTES PAYABLE

(A) Note Payable - Officers

(i) During 2000, the Company received $71,656 in operating funds from an officer. The unsecured note bears interest at 10% and the maturity date was June 30, 2001. As of December 31, 2001, the note was in default. According to the provisions of the note, the Company will accrue interest of $7,166. As of December 31, 2001, the entire $78,822 of principal and interest remain outstanding.

(ii) During 2001, the Company received $46,500 in operating funds from an officer. The unsecured note bears interest at 10% and the maturity date was December 31, 2001. As of December 31, 2001, the note was in default. According to the provisions of the note, the Company will accrue interest $4,650. As of December 31, 2001, the entire $51,150 of principal and corresponding interest remain outstanding.

(iii) During 2001, the Company received $30,000 in operating funds from an officer. Under the terms of the note the principal is due in June 2002. The note is non-interest bearing, due on demand and unsecured. However, upon the maturity date of the note, if the principal is not paid in full, a 10% interest payment, in addition to principal, will become due and payable immediately.

(B) NOTE PAYABLE

During 2001, the Company received $115,000 in operating funds from an

unrelated party. The unsecured note bears interest at 10% and the maturity date was August 31, 2001. As of December 31, 2001, the note was in default. According to the provisions of the note, the Company will accrue interest at $1,500. As of December 31, 2001, the entire $116,500 of principal and interest remain outstanding.

NOTE 9 CONVERTIBLE DEBENTURES

(A) DEBENTURE OFFERING

On November 14, 2001, in order to provide working capital, the Company entered into an agreement whereby the Purchaser acquired $300,000 of 6% Convertible Subordinated Debentures, due November 13, 2006.

Upon recording the convertible debenture, the Company recognized and charged to interest expense, and credited additional paid in capital, a beneficial conversion feature of $62,069. The charge represents the amount by which the market price of the Company's common stock on the commitment date exceeds the conversion price times the number of equivalent shares, which amount to 1,034,483 shares.

The Purchaser is entitled, at its option, to convert any part of the principal amount of the Debenture, plus accrued interest, into shares (the "Conversion Shares") of the Company's common stock, at the price per share (the "Conversion Price") equal to either (a) an amount equal to 120% of the closing bid price of the Common Stock as listed on a Principal Market, as quoted by Bloomberg L.P. (the "Closing Bid Price"), or (b) an amount equal to 80% of the average of the four lowest Closing Bid Prices of the Common stock for the five trading days immediately preceding the Conversion Date.

Interest will be paid at the time of maturity or conversion. The Company may elect to pay interest in cash or in the form of Common Stock.

(B) CONVERSION

On December 28, 2001, the Holder converted $20,000 of principal into 71,942 shares (See Note 13(A)). Upon conversion, the Company also recorded a beneficial conversion feature by charging to interest expense, and crediting additional paid-in capital, $5,899. The amount represents the amount by which the market price of the Company's common stock on the commitment date exceeds the conversion price times the number of equivalent shares (See Note 18(B)(ii)).

NOTE 10 EQUITY LINE OF CREDIT

On November 9, 2001, the Company entered into an equity line of credit under which the Company may sell to the investor shares of common stock for a total purchase price of up to $5,000,000. For each share of

common stock purchased under the Equity Line of credit, the investor will pay 91% of the average of the 2 lowest closing bid prices on which the common stock is traded for during the five days immediately following the notice date. Unless waived by the investor, the amount of each advance is subject to a monthly maximum advance amount of $208,333.33. The investor is entitled to retain 5% of each advance under the equity line of credit.

As of December 31, 2001 the Company had not drawn against this equity line of credit.

For additional activity see Notes 12(A) and 18(C).

NOTE 11 COMMITMENTS AND CONTINGENCIES

(A) CAPITAL LEASES

As of December 31, 2001 and 2000 the Company had non-cancelable capital lease agreements. Also see Note 7(B) for loss on impairment.

Future minimum lease payments under the capital lease are as follows at December 31, 2001:

Total future minimum lease payments	$ 656,158
Less: interest	(95,928)
	560,230
Less: current portion	(217,379)
Long-term obligation under capital leases	$ 342,851

Future minimum lease payments for the capital leases as of December 31, 2001 are as follows:

2002	$ 217,379
2003	133,892
2004	144,553
2005	64,406
2006	-
	$ 560,230

(B) OPERATING LEASE

The Company leases its facilities under an operating lease through 2002.

Future minimum lease payments for the operating lease as of December 31, 2001 are as follows:

2002	$ 40,000
	$ 40,000

Provided for in the agreement is an option to renew the lease for two periods of three years each. Subsequent to December 2001, the Company elected to renew the lease under the provisions of the current operating lease agreement and will continue to pay a monthly rent of $10,000 as adjusted using the price index from 2001.

(C) CONSULTING AGREEMENT

In November 2001, the Company entered into an investor relations services agreement. Under the terms of the agreement, the consultant will receive 50,000 shares of common stock and 200,000 stock options, at a price of $.75 per share, exercisable for two years (See Note 12(A)).

The 50,000 shares were valued at $.51 per share for a total of $25,500. As of December 31, 2001, the Company recorded a consulting fee of $2,125 and deferred consulting fees of $23,375. These shares were issued in January 2002 (See Note 12(A)).

For financial statement purposes, the fair market value of the 200,000 stock options granted was estimated on the date of grant using the Black-Scholes option pricing model in accordance with SFAS No. 123 using the following weighted average assumptions: expected dividend yield 0%, risk-free interest rate of 2%, volatility of 164% and expected term of one year. Based on the preceding assumptions, a total value of $51,997 was computed and credited to additional paid-in capital. Additionally, $4,333 was charged to operations and $47,664 was recorded as deferred compensation.

Also see additional activity in Note 18(D).

(D) LITIGATION

In November 2001, an action was filed against the Company regarding alleged deficiencies in the Company's engines and transmissions sold to them. In February 2002, the Company filed a counter claim against the plaintiffs alleging that any damage resulting to the engines was caused by defective or negligent rigging. As of the date of this report, no discovery has been taken and at this time the ultimate resolution to this matter is indeterminable (See Note 3(A)).

In March 2002, the Company's factor filed an action alleging non-payment under its security agreement against the plaintiff referred to in the preceding paragraph and the Company. The claim against the Company is based upon its execution of recourse commercial paper upon which the Company is secondarily liable. As of the date of this report, no answer has yet been filed in this matter and the ultimate resolution to this matter is indeterminable. As of December 31, 2001, the liability to the factor, in the amount of $219,586 is already reflected on the Company's balance sheet (See Notes 3(A) and (C) and 18(F)).

TORQUE ENGINEERING CORPORATION AND SUBSIDIARY
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NOTE 12 STOCKHOLDERS' EQUITY

(A) ISSUANCE OF COMMON STOCK AND COMMON STOCK TO BE ISSUED

On December 28, 2001, the Holder converted $20,000 of convertible debentures to 71,492 shares having a fair value of $20,000. The shares were issued on January 2, 2002 and are classified as common stock to be issued (See Notes 9(A) and 18(B)).

In November 2001, 200,000 shares of Rule 144 restricted common stock were issued, for $50,000, to a consultant for cash.

In November 2001, 625,000 shares of common stock were issued as compensation to Yorkville Advisors Management LLC to induce the transaction. The shares were valued at $.42 per share for a total amount of $262,500 (See Note 10).

In November 2001, 20,000 shares of common stock were issued to a consultant for business consulting services at $1.05 per share for a total of $21,000. As of December 31, 2001 the Company recorded a consulting fee of $5,250 and deferred consulting fees of $15,750.

In November 2001, the Company entered into a consulting agreement to issue 50,000 shares of common stock. The shares were issued in January 2002 and are classified as common stock to be issued (See Note 11(C)).

In July 2001, 180,000 shares of common stock were issued as a consulting fee at $.63 per share for a total of $113,400.

On May 15, 2001 35,543 shares of common stock were issued as compensation to an employee $1.16 per share for a total of $41,230. These shares were issued upon the filing of a form S-8 registration statement under the Securities Act of 1933.

On May 2, 2001, 180,000 restricted shares of common stock were issued as a consulting fee at $1.07 per share for a total of $192,600. Under the terms of the agreement, the consultant would have performed services over a period of seven months. As of June 30, 2001, the Company had recorded a consulting fee expense of $55,028. Effective July 1, 2001, the Company rescinded the consulting contract for nonperformance and as a result, the 180,000 shares of common stock were cancelled and returned to the Company and no additional expense was recorded.

In February 2001, 125,000 shares of Rule 144 restricted common stock were issued at $2.00 per share, for a total of $250,000, to two officers and one stockholder. These shares were issued in reliance on the exemption from registration provided by Section 4(2) of the Securities Act of 1933.

(B) PRIVATE PLACEMENT

As of December 31, 2000 proceeds of $913,000 for 578,359 shares were received from a private placement pursuant to Rule 506 of Regulation D

Section 4(2) of the Securities Act of 1933.

(C) STOCK OPTIONS

On October 7, 1999, the 1999 Stock Option Plan (the "Plan") was adopted by the Board of Directors of the Company and approved by the Company's stockholders. The Plan was developed to provide a means whereby directors, officers, employees of, and certain persons rendering services to the Company or any subsidiary may be granted stock to purchase common stock of the Company.

The Plan authorizes options up to 500,000 shares of the Company's common stock and is administered by the Board of Directors of the Company or a committee of two or more members of the Board of Directors (the "Plan Committee"). The Company grants incentive and nonqualified stock options. Incentive stock options are only granted to employees of the Company or any subsidiary thereof. The exercise price which is established by the Plan Committee may not be less than 85% of the fair market value of the common stock at the time of grant for nonqualified stock options, may not be less than 100% of the fair market value of the common stock at the time of grant for incentive stock options and may not be less than 110% of the fair market value of the common stock at the time of grant if incentive stock options are granted to employees owning more than ten percent of the total voting power or value of all classes of stock of the Company. The term of the stock options is determined by the Plan Committee and shall not exceed ten years from the date of grant. In the case of incentive stock options which are granted to employees owning more than ten percent of the total voting power or value of all classes of stock of the Company, the term may not exceed five years. During the year ended December 31, 1999, the Company issued 240,000 stock options under the plan to employees and Board of Director members. The Company cancelled 10,000 options under the plan to employees during the year ended December 31, 2000 and also granted 60,000 options under the plan to employees and directors during the year ended December 31, 2000. During 2001, the Company granted 30,000 options under the Plan to employees and directors. Also, the Company cancelled 42,000 options under the plan to employees.

In accordance with SFAS No. 123, for options issued to employees, the Company applies APB Options No. 25 and related interpretations in accounting for the options issued. Accordingly, compensation costs of $7,178 and $11,536 and deferred compensation expense of $1,507 and $8,684 respectively, were recognized as of December 31, 2001 and 2000, computed in accordance with the intrinsic value method. Had compensation cost for the Company's options been determined based on the fair market value of the options at the grant date, consistent with SFAS No. 123, the Company's net loss for the year ended December 31, 2001 and 2000 would have been increased to the pro-forma amounts indicated below.

		2001	2000
Net loss	As reported	$ (8,534,825)	$ (2,752,608)
	Pro forma	$ (8,684,259)	$ (3,045,648)
Net loss per share	As reported	$ (.97)	$ (.343)
	Pro forma	$ (.99)	$ (.380)

The effect of applying Statement No. 123 is not likely to be representative of the effects on reported net income for future years due to, among other things, the effects of vesting.

For financial statement disclosure purposes the fair market value of each stock option granted was estimated on the date of grant using the Black-Scholes Option-Pricing Model in accordance with SFAS No. 123 using the following weighted-average assumptions: expected dividend yield 0%, risk-free interest rate of 3.44% in 2001 and 5.125% in 2000, volatility of 164% in 2001 and 229% in 2000 and expected term of three years in both 2001 and 2000.

A summary of the options issued to employees and Board of Director members as of December 31, 2001 and 2000 is presented below:

	2001		
	Number of Options	Weighted Average Exercise Price	Number o Options
STOCK OPTIONS			
Balance at beginning of period	290,000	$ 2.67	240,0
Granted	30,000	3.25	60,0
Cancelled	(42,000)	(2.15)	(10,0
Exercised	-	-	-
Forfeited/expired	-	-	-
Balance at end of period	278,000	$ 2.16	290,0
Options exercisable at end of period	274,100	3.02	250,6
Weighted average fair value of options granted during the period		$ 3.25	

The following table summarizes information about stock options outstanding at December 31, 2001:

Options Outstanding				Options
Range Of Exercise Price	Number Outstanding At December 31, 2001	Weighted Average Remaining Contractual Life	Weighted Average Exercise Price	Number Exercisable A December, 31 2001
$ 1.81	48,000	7	1.81	44,00
$ 3.25	230,000	3	3.25	230,00
	278,000	5	3.00	274,10

NOTE 13 INCOME TAXES

The Company and its subsidiary have elected to file separate tax returns. Income tax expense (benefit) for the years ended December 31, 2001 and 2000 for the parent company is summarized as follows:

	2001	2000
Current:		
Federal	$ -	$ -
State	-	-
Deferred-Federal and State	(2,900,200)	(934,900)
Change in Valuation Allowance	2,900,200	934,900
Income tax expense (benefit)	$ -	$ -

The Company's tax expense differs from the "expected" tax expense for the years ended December 31, 2001 and 2000, as follows:

	2001	20
U.S. Federal income tax provision (benefit)	$ (2,900,200)	$
Effect of unused net operating loss carryforward	2,900,200	

	$ -	$

The tax effects of temporary differences that gave rise to significant portions of deferred tax assets and liabilities at December 31 are as follows:

	2001	2000
Deferred tax assets:		
Net operating loss carryforward	$ 4,065,100	$ 1,16
Less valuation allowance	(4,065,100)	(1,16
Net deferred tax assets	$ -	$

At December 31, 2001, the Company has net operating loss carryforwards of approximately $11,955,700 for U.S. Federal income tax purposes available to offset future taxable income expiring on various dates through 2021.

The valuation allowance at January 1, 2001 was $1,164,900. The net change in the valuation allowance during the year ended December 31, 2001 was an increase of approximately $2,900,200.

NOTE 14 EXTRAORDINARY ITEM

In June 2000, the Company's subsidiary confirmed the extinguishment of debts from certain affiliates and a former shareholder, totaling $28,708. As a result, an extraordinary gain was realized during the year ended December 31, 2000 (See Note 16).

NOTE 15 ACQUISITION

Effective May 28, 1999, the Company acquired the outstanding common stock of IPSL a Nevada corporation, incorporated on April 27, 1998, in exchange for 1,500,000 shares of the Company's common stock. The acquisition was accounted for under the purchase method of accounting and the stock was valued at $7.84 per share, based on the average quoted trading price before and after the purchase was determined and the announcement was made. The resulting purchase price was $11,760,000 and was allocated, based upon an independent appraisal performed for allocation purposes, to the assets acquired and liabilities assumed as follows:

Marketable securities	$ 637,045
Inventory	1,018,808
Special tooling (See Note 7(B))	9,256,014
Machinery and equipment (See Note 7(B))	1,122,509
Furniture, fixtures, and other (See Note 7(B))	34,363
Loan fee payable	(200,875)
Loan to stockholder	(107,864)
	$ 11,760,000

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NOTE 16 OTHER RELATED PARTY TRANSACTIONS

As of December 31, 2000 the Company owed two principal stockholders $28,708. Pursuant to an agreement entered into between IPSL and affiliates of a principal stockholder of IPSL prior to the acquisition the Company owed the affiliates $28,708 at December 31, 1999 relating to prior loans made to the Company. During 2000 the debt was cancelled and recorded as a gain on extinguishment of debt (See Note 14).

During 2000, the Company received $60,000 in operating funds from two stockholders. In addition, $11,656 of reimbursable expenses was owed to one of the stockholders as of December 31, 2000. All loans from the stockholders were converted to non-interest bearing notes payable due June 30, 2001 (See Note 8(A)(i)).

NOTE 17 GOING CONCERN

The accompanying financial statements have been prepared assuming that the Company will continue as a going concern. The Company has a loss from current operations of $8,534,825, a negative cash flow from operating activities of $1,126,718 and a working capital deficiency of $725,507 at December 31, 2001. These conditions raise substantial doubt about the Company's ability to continue as a going concern.

Realization of a major portion of the assets in the accompanying balance sheet is dependent upon continued operations of the Company, which in turn is dependent upon the Company's ability to meet its working capital requirements, and the success of its future operations. Management believes that action presently being taken to revise the Company's operating and financial requirements provide the opportunity for the Company to continue as a going concern.

NOTE 18 OTHER SUBSEQUENT EVENTS

(A) NOTE PAYABLE - OFFICER

During March 2002, the Company received $10,000 in operating funds from an officer. Under the terms of the note, the principal is due in June 2002. The note is non-interest bearing, due on demand and unsecured. However, upon the maturity date of the note, if the principal is not paid in full and the note is in default, a 10% interest payment in addition to principal will become due and payable immediately. In addition, the Company will also issue 42,000 shares of restricted common stock at a time yet to be determined for the working capital funds.

(B) CONVERTIBLE DEBENTURES

(i) On January 2, 2002, the Company issued 71,942 shares of common stock in connection with the conversion of $20,000 in principal (See Note 9).

(ii) During January, February and March 2002, an additional 1,013,462 shares of common stock were issued in connection with the conversion of $130,000 in principal (See Note 9).

(C) EQUITY LINE OF CREDIT

In January 2002, the Company obtained $50,000 of working capital from its equity line of credit and issued 806,452 shares of common stock (See Note 10).

(D) CONSULTING AGREEMENT

In February 2002, the Company entered into a consulting agreement with an individual to provide business advisory services. Under the Terms of the agreement, the consultant will receive 900,000 shares of common stock, valued at $.09 per share, for a total of $81,000. The term of the agreement is for one year.

(E) LOANS

In February 2002, the Company received $25,000 in operating funds from an unrelated individual. In exchange for the loan, the Company issued 105,000 shares of common stock valued at $.08 per share for a total of $8,400. The loan is payable contingent upon the future sales of two manufactured engines.

(F) FACTOR AGREEMENT

During March 2002, the two engines previously sold for $219,586 and factored during 2001, which are included in accounts receivable for $125,149, were returned to the Company by the customer (See Notes 3(C) and 11(D)).

(G) ENGINE SALES

In February 2002, the Company entered into a sales agreement with a customer to sell two engines for an aggregate of $209,910.