TORRENT ENERGY CORP
Form 10-Q
August 19, 2008

UNITED STATES
SECURITIES AND EXCHANGE COMMISSION
Washington, D.C. 20549

FORM 10-Q

(Mark One)

[X] QUARTERLY REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934

For the quarterly period ended June 30, 2008

OR

[ ] TRANSITION REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE EXCHANGE ACT

For the transition period from _____________ to _____________

Commission file number 000-19949

TORRENT ENERGY CORPORATION
(Exact name of registrant as specified in its charter)

Colorado	84-1153522
(State or other jurisdiction of incorporation or organization)	(I.R.S. Employer Identification No.)

11918 SE Division Suite 197, Portland, OR 97266
(Address of principal executive offices)

503.224.0072
(Issuer's telephone number)

N/A
(Former name, former address and former fiscal year, if changed since last report)

Indicate by check mark whether the registrant (1) has 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 [ ]

Indicate by check mark whether the registrant is a large accelerated filer, an accelerated filer, a non-accelerated filer, or a smaller reporting company. See definition of "large accelerated filer," "accelerated filer" and "smaller reporting company" in Rule 12b 2 of the Exchange Act. (Check one):

Large accelerated filer [ ]	Accelerated filer [ ]	Non-accelerated filer [ ]	Smaller Reporting Company [X]

Indicate by check mark whether the registrant is a shell company (as defined in Rule 12b-2 of the Exchange Act).
Yes [ ] No [X]

State the number of shares outstanding of each of the issuer's classes of common equity, as of the latest practicable date:

41,732,547 shares of common stock issued and outstanding as of August 19, 2008.

Transitional Small Business Disclosure Format (Check one): Yes [ ] No [X]

PART I – FINANCIAL INFORMATION

Item 1. Financial Statements

We have prepared the consolidated financial statements included herein without audit, pursuant to the rules and regulations of the Securities and Exchange Commission. Certain information and footnote disclosures normally included in financial statements prepared in accordance with generally accepted accounting principles have been omitted pursuant to such Securities and Exchange Commission rules and regulations. In our opinion, the accompanying statements contain all adjustments necessary to present fairly the financial position of Torrent Energy Corporation (the “Company” or “Torrent”) as of June 30, 2008, and its results of operations for the three months ended June 30, 2008 and 2007 and its cash flows for the three months ended June 30, 2008 and 2007. The results for these interim periods are not necessarily indicative of the results for the entire year. The accompanying financial statements should be read in conjunction with the financial statements and the notes thereto filed as a part of our annual report on Form 10-K filed on July 15, 2008.

Proceedings Under Chapter 11 of the Bankruptcy Code

On June 2, 2008, we commenced Chapter 11 proceedings (Case No. 08-32638) by filing a voluntary petition for reorganization under the Bankruptcy Code with the United States Bankruptcy Court for the District of Oregon (the “Bankruptcy Court”). Each of our subsidiaries, Methane Energy Corp. and Cascadia Energy Corp. (which we refer to collectively with the Company as the "Debtors"), also commenced a case under Chapter 11 of the Bankruptcy Code on the same day (together with the Company’s filing, the “Chapter 11 Cases”).

On June 9, 2008, the Court entered an order fixing the last day to file proofs of claim against the Debtors as August 15, 2008. On June 16, 2008, the Debtors filed their Joint Plan of Reorganization for Reorganizing Debtors and the Disclosure Statement Regarding Joint Plan of Reorganization for Reorganizing Debtors (the “Plan”). A hearing on the adequacy of the Disclosure Statement is scheduled for September 18, 2008 at 9:30 a.m. at the Bankruptcy Court in Portland, Oregon.

In connection with the Chapter 11 Cases, on June 6, 2008, we entered into a senior secured super-priority debtor-in-possession credit and guaranty agreement (the “DIP Credit Agreement”) among the Company and its subsidiaries, as Guarantors, and YA Global Investments, L.P., as lender ("YA Global " or "Lender"). The Bankruptcy Court entered an order approving the DIP Credit Agreement on July 11, 2008. In addition to the DIP Credit Agreement, the Plan also includes a rights offering, under which shareholders of the Company will have the opportunity to purchase additional new equity of the Company (the "Rights Offering"), subject to Bankruptcy Court approval and other conditions.

The administrative and reorganization expenses resulting from the Chapter 11 process will unfavorably affect our results of operations. Future results of operations may also be adversely affected by other factors related to the Chapter 11 process.

The discussion of the Chapter 11 Cases in this report provides general background information regarding our bankruptcy cases, and is not intended to be an exhaustive description. Access to documents filed with the U.S. Bankruptcy Court and other general information about the U.S. bankruptcy cases is available at www.orb.uscourts.gov.

TORRENT ENERGY CORPORATION
(Debtor-In-Possession)
(formerly Scarab Systems, Inc.)
(An exploration stage enterprise)

Consolidated Balance Sheets
(UNAUDITED)

	June 30, 2008	March 31, 2008
ASSETS		
Current Assets		
Cash and cash equivalents	$ 55,455	$ 120,388
Joint venture receivables	5,313	-
Supplies inventory	22,154	75,790
Prepaid expenses and deposits	60,355	82,796
Total Current Assets	143,277	278,974
Oil and gas properties, unproven (Note 5)	35,136,908	35,055,328
Other assets, net of depreciation of $108,996 (March 31, 2008 - $103,074)	68,371	115,445
Total Assets	$ 35,348,556	$ 35,449,747
LIABILITIES AND STOCKHOLDERS' EQUITY		
Current Liabilities		
Borrowings under Debtor-in-Possession credit facility (Note 6)	$ 551,717	$ -
Accounts payable	192,056	869,866
Accounts payable – related parties (Note 4)	33,565	153,324
Convertible Series E preferred stock subject to mandatory redemption, 20,950 shares outstanding (Note 8)	-	20,950,000
Preferred stock dividends payable	-	1,683,777
Notes payable – related parties	-	100,318
Current portion of long-term note	-	15,625
Total Current Liabilities	777,338	23,772,910
Long-term Liabilities		
Asset retirement obligation	77,920	76,332
Liabilities Subject to Compromise (Note 7)	23,947,059	-
Total Liabilities	24,802,317	23,849,242
Commitments and Contingencies (Note 9)	-	-
STOCKHOLDERS' EQUITY		
Share Capital		
Convertible Series E preferred stock, $0.01 par value, 25,000 shares authorized, 25,000 shares issued and 20,950 outstanding (2007 – 21,650)	-	-

Common stock, $0.001 par value, 100,000,000 shares authorized, 41,732,547 shares issued and outstanding	41,733	41,733
Additional paid in capital	37,713,491	37,691,051
Deficit accumulated during the exploration stage	(27,208,985)	(26,132,279)
Total stockholders' equity	10,546,239	11,600,505
Total liabilities and stockholders' equity	$ 35,348,556	$ 35,449,747

The accompanying notes are an integral part of these consolidated financial statements.

TORRENT ENERGY CORPORATION
(Debtor-In-Possession)
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Consolidated Statements of Stockholders' Equity (Deficit)
For the period from October 8, 2001 (inception) to June 30, 2008
(UNAUDITED)

	Common Stock Shares	Common Stock Amount	Additional paid-in capital	Share subscriptions received/ (receivable)	Deficit accumulated during exploration stage	Total Stockholders' equity (deficit)
Stock issued for cash at $0.001 per share in October 2001	5,425,000	$ 5,425	$ -	$ -	$ -	$ 5,425
Stock issued for intangible asset acquisition at $0.001 per share in October 2001	200,000	200	-	-	-	200
Issued 1,440,000 common stock at $0.001 per share in October 2001	1,440,000	1,440	-	(1,440)	-	-
Stock issued at $0.50 per share in November 2001	675,000	675	336,825	(337,500)	-	-
Stock issued for cash at $0.50 per share in January 2002	390,000	390	194,610	-	-	195,000
Net(loss)for the period	-	-	-	-	(112,434)	(112,434)
Balance, March 31, 2002	8,130,000	8,130	531,435	(338,940)	(112,434)	88,191
Stock issued for cash at $0.25 to $0.50 per share in April 2002	130,000	130	39,870	-	-	40,000
Recapitalization to effect the acquisition of iRV, Inc.	1,446,299	1,446	(1,446)	-	-	-
Acquisition of MarketEdge Direct	-	-	-	337,500	-	337,500
Proceeds of share subscription	-	-	-	1,440	-	1,440
Return of stocks in connection with disposal of MarketEdge Direct	(540,000)	(540)	(358,042)	-	-	(358,582)
Proceeds of 96,000 share subscription at $0.40 to $0.50 per share	-	-	-	40,500	-	40,500
	-	-	33,306	-	-	33,306

241,020 shares allotted for services rendered at $0.10 to $0.40 per share						
Net (loss) for the year	-	-	-	-	(396,277)	(396,277)
Balance, March 31, 2003	9,166,299	9,166	245,123	40,500	(508,711)	(213,922)
Stocks issued for services rendered and recorded in fiscal year 2004	241,020	241	(241)	-	-	-
Stocks issued at $0.40 to $0.50 per share	96,000	96	40,404	(40,500)	-	-
Stocks issued for conversion of debt at $0.10 per share in February 2004	510,000	510	50,490	-	-	51,000
Stocks issued for cash at $0.10 per share in February and March 2004	1,200,000	1,200	118,800	-	-	120,000
Stocks issued for exercise of stock options at $0.10 per share in February and March 2004	960,000	960	95,040	-	-	96,000
Issuance of stock options as compensation	-	-	195,740	-	-	195,740
Forgiveness of debt – related party	-	-	110,527	-	-	110,527
Net (loss) for the year	-	-	-	-	(374,606)	(374,606)
Balance, March 31, 2004	12,173,319	$ 12,173	$ 855,883	$ -	$ (883,317)	$ (15,261)

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Consolidated Statements of Stockholders' Equity (Deficit)
For the period from October 8, 2001 (inception) to June 30, 2008
(UNAUDITED)

	Series B Preferred Stock		Common Stock		Additional Paid-in capital	Deficit accumulated during exploration stage	Total Stockholders' equity (deficit)
	Shares	Amount	Shares	Amount			
Stocks issued for exercise of stock options at $0.10 per share in May, June and July 2004	-	$ -	640,000	$ 640	$ 63,360	$ -	$ 64,000
Stocks and warrants issued under a private placement at $0.35 per share in May 2004	-	-	1,442,930	1,443	503,582	-	505,025
Stocks issued for investor relations services at $0.54 per share in June 2004	-	-	300,000	300	161,700	-	162,000
Stocks issued for acquisition of oil and gas properties at $0.38 per share in June 2004 and January 2005	-	-	1,200,000	1,200	454,800	-	456,000
Stocks and warrants issued under a private placement at $0.40 per share in July 2004	-	-	500,000	500	199,500	-	200,000
Stocks issued under a private placement at $1.00 per share in 2005, net of share issue costs of $100,000	-	-	2,500,000	2,500	2,397,500	-	2,400,000
Stocks issued for exercise of warrants at $0.50 and $0.55 per share	-	-	1,614,359	1,614	825,565	-	827,179
Convertible Series B preferred stock issued under a private placement at $1,000	2,200	22	-	-	1,934,978	-	1,935,000

per Series B share in August 2004, net of issuance costs							
Stocks issued for conversion of Series B preferred stock at prices ranging from $0.76 to $0.89 per share	(500)	(5)	614,358	615	(610)	-	-
Beneficial conversion feature on convertible Series B preferred stock	-	-	-	-	315,245	-	315,245
Accretion of Series B preferred stock beneficial conversion feature	-	-	-	-	-	(210,163)	(210,163)
Series B preferred stock dividend	-	-	-	-	-	(72,672)	(72,672)
Issuance of stock options as compensation	-	-	-	-	701,740	-	701,740
Net (loss) for the year	-	-	-	-	-	(2,418,625)	(2,418,625)
Balance, March 31, 2005	1,700	$ 17	20,984,966	$ 20,985	$ 8,413,243	$ (3,584,777)	$ 4,849,468

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For the period from October 8, 2001 (inception) to June 30, 2008
(UNAUDITED)

	Series B Preferred Stock		Series C Preferred Stock		Common Stock		Additional paid-in capital	Deficit accumulated during exploration stage	Total Stockholde equity (defic
	Shares	Amount	Shares	Amount	Shares	Amount			
Stock issued for conversion of Series B preferred stock at prices ranging from $0.77 to $1.20 per share	(1,700)	$ (17)	-	$ -	1,795,254	$ 1,795	$ (1,778)	$ -	$
Accretion of Series B preferred stock beneficial conversion feature	-	-	-	-	-	-	-	(105,081)	(105,0
Common stock issued for cashless exercise of stock options	-	-	-	-	89,502	89	(89)	-	
Cancellation of stock options as compensation	-	-	-	-	-	-	(99,641)	-	(99,6
Common stock issued for exercise of warrants ranging from $0.50 to $0.55 per share	-	-	-	-	328,571	329	168,956	-	169,2
Common stock issued at $2 per share under a private placement in	-	-	-	-	1,650,000	1,650	3,273,350	-	3,275,0

July 2005, net of issuance cost									
Series C preferred stock issued under a private placement at $1,000 per Series C share in July 2005, net of issuance costs	-	-	12,500	125	-	-	11,551,875	-	11,552,0
Beneficial conversion feature on convertible Series C preferred stock	-	-	-	-	-	-	845,763	-	845,7
Accretion of Series C preferred stock beneficial conversion feature	-	-	-	-	-	-	-	(845,763)	(845,7
Series C stock dividend	-	-	-	-	-	-	-	(308,442)	(308,4
Common stock issued for conversion of Series C preferred stock ranging from $1.64 to $2.27 per share	-	-	(4,125)	(41)	2,083,614	2,084	(2,043)	-	
Common stock issued for acquisition of oil and gas properties at $0.38 per share in February 2007	-	-	-	-	600,000	600	227,400	-	228,0
Stock based compensation for the period	-	-	-	-	-	-	2,075,422	-	2,075,4
	-	-	-	-	-	-	-	(4,036,286)	(4,036,2

Net (loss) for the period														
Balance, March 31, 2006	-	$	-	8,375	$	84	27,531,907	$	27,532	$	26,452,458	$	(8,880,349)	$ 17,599,7

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For the period from October 8, 2001 (inception) to June 30, 2008
(UNAUDITED)

	Series C Preferred Stock		Series E Preferred Stock		Common Stock		Additional Paid-In	Deficit accumulated during exploration	T Stockhol E
	Shares	Amount	Shares	Amount	Shares	Amount	Capital	stage	(De
Beneficial conversion feature on convertible Series C preferred stock	-	$ -	-	$ -	-	$ -	$ 710,110	$ -	$ 710
Accretion of Series C beneficial conversion feature	-	-	-	-	-	-	-	(710,110)	(710
Series C stock dividend	-	-	-	-	-	-	-	(35,270)	(35
Common Stock Issued for conversion of Series C preferred stock ranging from $1.64 to $2.27 per share	(8,375)	(84)	-	-	5,339,320	5,339	(5,255)	-	
Common Stock Issued in lieu of cash dividend on Series C preferred stock at a price of $1.50 per share	-	-	-	-	228,714	229	343,483	-	343
Series E preferred stock issued under Private Placement at	-	-	25,000	250	-	-	23,114,750	-	23,115

$1,000 per Series E share net of issuance costs									
Convertible Series E preferred stock reclassed to liability per SFAS No. 150	-	-	(2,350)	(24)	-	-	(2,349,976)	-	(2,350
Series E stock dividend	-	-	-	-	-	-	-	(660,069)	(660
Stock based compensation for the period	-	-	-	-	-	-	2,465,796	-	2,465
Common stock issued for services	-	-	-	-	125,000	125	227,375	-	227
Exercise of stock options	-	-	-	-	200,000	200	165,800	-	166
Net (Loss) for the Period	-	-	-	-	-	-	-	(6,359,978)	(6,359
Balance, March 31, 2007	-	$ -	22,650	$ 226	33,424,941	$ 33,425	$ 51,124,541	$ (16,645,776)	$ 34,512

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For the period from October 8, 2001 (inception) to June 30, 2008
(UNAUDITED)

	Series E Preferred Stock		Common Stock		Additional Paid-In	Deficit accumulated during exploration	Total Stockholders' Equity
	Shares	Amount	Shares	Amount	Capital	Stage	(Deficit)
Common Stock issued for settlement of Series E Preferred Stock liability at $0.50 per share	-	$ -	8,100,000	$ 8,100	$ 8,433,900	$ -	$ 8,442,000
Common Stock issued in lieu of cash dividends on Series E Preferred Stock at a price of $0.50 per share	-	-	162,606	163	153,471	-	153,634
Convertible Series E Preferred Stock reclassified to current liability per SFAS No. 150	(22,650)	(226)	-	-	(22,649,774)	-	(22,650,000)
Series E Preferred Stock dividend	-	-	-	-	-	(791,689)	(791,689)
Stock based compensation for the period	-	-	-	-	606,458	-	606,458
Exercise of stock options in December 2007	-	-	45,000	45	22,455	-	22,500
Net (Loss) for the Period	-	-	-	-	-	(8,694,814)	(8,694,814)
Balance, March 31, 2008	-	-	41,732,547	41,733	37,691,051	(26,132,279)	11,600,505
	-	-	-	-	22,440	-	22,440

Stock based compensation for the period							
Net (Loss) for the Period	-	-	-	-	-	(1,076,706)	(1,076,706)
Balance, June 30, 2008	-	$ -	41,732,547	$ 41,733	$ 37,713,491	$ (27,208,985)	$ 10,546,239

The accompanying notes are an integral part of these consolidated financial statements.

TORRENT ENERGY CORPORATION
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Consolidated Statements of Operations
(UNAUDITED)

	Cumulative October 8, 2001 (inception) to June 30, 2008	Three Months Ended June 30, 2008	Three Months Ended June 30, 2007
Expenses			
Consulting and director's fees (Note 4)	$ 2,830,136	$ 27,824	$ 145,675
Payroll expense	2,174,690	100,196	361,466
Stock based compensation	6,067,596	22,440	239,597
Investor relations	1,984,562	27,955	118,364
Depreciation	127,772	13,621	15,456
Insurance	500,952	39,338	45,855
Legal and accounting	1,383,040	40,399	62,119
Lease rental expense	193,713	-	-
Office and Miscellaneous	505,028	5,271	34,148
Rent	449,588	29,096	35,648
Shareholder relations	219,728	694	2,313
Telephone	195,435	4,076	17,695
Travel	941,138	4,618	76,806
Inventory shrinkage / write-down	721,321	-	-
Purchase investigation costs	103,310	-	-
Accretion expense	7,051	1,590	-
Operating (loss)	(18,405,060)	(317,118)	(1,155,142)
Other income (expense)			
Interest income	533,110	359	58,682
Interest expense	(520,131)	(181,798)	(28,466)
Gain (Loss) on sale of equipment	(37,433)	(14,453)	-
Gain on settlement of debt	37,045	-	-
Loss on conversion of preferred stock	(4,464,329)	-	(2,609,029)
Write-off of goodwill	(70,314)	-	-
Loss from continuing operations	(22,927,112)	(513,010)	(3,733,955)
Reorganization items			
Fees associated with the Debtor-in-Possession credit facility	(91,875)	(91,875)	-
Professional fees and Other	(471,821)	(471,821)	-
Net loss before discontinued operations	(23,490,808)	(1,076,706)	(3,733,955)
Net income from discontinued operations	21,082	-	-
Net loss and comprehensive loss for the period	(23,469,726)	(1,076,706)	(3,733,955)
Series B preferred stock dividend	(72,672)	-	-
Series C preferred stock dividend	(343,712)	-	-
Series E preferred stock dividend (Note 7)	(1,451,758)	-	(272,596)
Dividend accretion of Series B preferred stock beneficial conversion feature	(315,244)	-	-
	(1,555,873)	-	-

Dividend accretion of Series C preferred stock beneficial conversion feature						
Net loss for the period applicable to common stockholders	$	(27,208,985)	$	(1,076,706)	$	(4,006,551)
Basic and diluted (loss) per share			$	(0.03)	$	(0.11)
Weighted average number of common shares outstanding				41,732,547		35,046,608

The accompanying notes are an integral part of these consolidated financial statements

TORRENT ENERGY CORPORATION
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Consolidated Statements of Cash Flows
(UNAUDITED)

	Cumulative October 8, 2001 (inception) to June 30, 2008	Three Months Ended June 30, 2008	Three Months Ended June 30, 2007
Cash flows provided by (used in) operating activities			
Net (loss) for the period	$ (23,469,726)	$ (1,076,706)	$ (3,733,955)
Adjustments to reconcile net loss to net cash used in operating activities:			
- depreciation and amortization	127,772	13,621	15,456
- accretion of well-site restoration	7,051	1,590	-
- stock-based compensation	6,067,596	22,440	239,597
- loss on conversion of preferred stock	4,464,329	-	2,609,029
- interest expense on Series E Preferred Stock subject to mandatory redemption	488,387	175,062	28,466
- interest expense on related party notes	2,280	1,341	-
- interest expense on Debtor-in-Possession credit facility	3,424	3,424	-
- write down on supplies inventory	390,550	-	-
- foreign exchange	1,398	-	-
- write-off of goodwill	70,314	-	-
- debt forgiven	37,045	-	-
- loss (gain) on sale of equipment	37,433	14,453	-
- net income from the discontinued operations	(21,082)	-	-
- common shares issued for service rendered	195,306	-	-
- reversal of option expense charged for services	(99,641)	-	-
Changes in non-cash working capital items:			
Joint venture receivables	(5,313)	(5,313)	(180,299)
Inventory	(412,704)	53,636	53,448
Prepaid expenses	(60,355)	22,440	32,896
Accounts payable and accrued expenses	509,095	249,336	134,830
Accrued expenses – related parties	144,040	(9,284)	(537)
Net cash used in operating activities	(11,522,801)	(533,960)	(801,069)
Cash flows provided by (used in) investing activities			
Oil and gas properties	(33,491,798)	(95,041)	(2,519,452)
Loan	(62,684)	-	-
Proceeds from sale of equipment	45,215	19,000	-
Acquisition of other assets	(203,791)	-	(4,700)
Net cash used in investing activities	$ (33,713,058)	$ (76,041)	$ (2,524,152)

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TORRENT ENERGY CORPORATION
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Consolidated Statements of Cash Flows (continued)
(UNAUDITED)

	Cumulative October 8, 2001 (inception) to June 30, 2008	Three Months Ended June 30 2008	Three Months Ended June 30, 2007
Cash flows provided by (used in) financing activities			
Proceeds from issuance of common stock	$ 7,988,414	$ -	$ -
Net proceeds from issuance of Series B preferred stock	1,935,000	-	-
Net proceeds from issuance of Series C preferred stock	11,552,000	-	-
Net proceeds from issuance of Series E Preferred stock	23,115,000	-	-
Payment of Series B preferred stock dividend	(72,672)	-	-
Proceeds from promissory notes	30,000	-	
Repayment of promissory notes	(92,500)	(3,125)	(6,250)
Proceeds from shareholder loan	80,000	-	-
Repayment of shareholder loan	(80,000)	-	-
Proceeds from issuance of related party loans	99,379	-	-
Proceeds from exercise of stock options	188,500	-	-
Proceeds from issuance of secured debt – prepetition	207,854	207,854	-
Repayment of secured debt - prepetition	(207,854)	(207,854)	-
Proceeds from borrowing under the Debtor-in-Possession credit facility	548,193	548,193	-
Net cash provided by (used in) financing activities	45,291,314	545,068	(6,250)
Increase (decrease) in cash and cash equivalents	55,455	(64,933)	(3,331,471)
Cash and cash equivalents, beginning of period	-	120,388	5,941,577
Cash and cash equivalents, end of period	$ 55,455	$ 55,455	$ 2,610,106
Supplemental cash flow information:			
Interest paid	$ 13,013	$ -	$ -
Non-cash transactions:			
Common stock issued pursuant to conversion of promissory note	$ 55,000	$ -	$ -
Common stock issued for investor relations services	$ 162,000	$ -	$ -
Common stock issued for prepaid technical services	$ 227,500	$ -	$ -
Forgiveness of accrued consulting fees payable to directors and officers	$ 110,527	$ -	$ -
Common stock issued for oil and gas properties	$ 684,000	$ -	$ -
Property acquired through issuance of note	$ 75,000	$ -	$ -
Payment of Series C dividends with issuance of common stock	$ 343,712	$ -	$ -
Payment of Series E dividends with issuance of common stock	$ 153,634	$ -	$ 49,535
Common stock issued for settlement of Preferred Stock liability	$ 8,442,000	$ -	$ 4,128,000

The accompanying notes are an integral part of these consolidated financial statements

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Note 1. Incorporation and Continuance of Operations

Torrent Energy Corporation (the "Company" or "Torrent") is an exploration stage company that, pursuant to shareholder approval on July 13, 2004, changed its name from Scarab Systems, Inc. On June 2, 2008, the Company commenced Chapter 11 proceedings by filing a voluntary petition for reorganization under the Bankruptcy Code, with the United States Bankruptcy Court for the District of Oregon (the "Bankruptcy Court"). See Note 3 for additional information.

The Company has generated no revenue to date, has incurred ongoing operating losses, requires additional funds to meet its obligations and to maintain its operations and has been unable to meet certain mandatory redemptions under its convertible preferred stock arrangements. These circumstances, and the Company's recent filing of the Chapter 11 Cases, raise substantial doubt about the Company's ability to continue as a going concern. These financial statements do not include any adjustments that might result from an adverse outcome related to this uncertainty.

Note 2. Summary of Significant Accounting Policies

a) Principles of Consolidation

The accompanying unaudited consolidated financial statements presented are those of the Company and its wholly-owned subsidiaries, Methane Energy Corp. and Cascadia Energy Corp. All significant intercompany balances and transactions have been eliminated.

b) Principles of Accounting

The unaudited consolidated financial statements are stated in U.S. dollars and have been prepared in accordance with the U.S. generally accepted accounting principles. The financial statements have been prepared assuming that the Company would continue as a going concern. The Company's ability to continue as a going concern is an issue raised as a result of recurring losses from operations and working capital deficiency. The Company's ability to continue as a going concern is also subject to our ability to complete a Plan of Reorganization, and to obtain necessary funding from outside sources, including obtaining additional funding from the sale of securities. The Plan of Reorganization presents significant potential for dilution that impacts the Company's ability to obtain funding from the sale of securities.

The Company's future exploration activities will require significant capital expenditures, which funding must be raised from outside sources. There can be no assurance that financing will be available in amounts or on terms acceptable to us, if at all. The inability to obtain additional capital will restrict the Company's ability to grow and to continue to conduct business operations. If the Company is unable to complete the Plan of Reorganization, or obtain additional financing in the future, it is likely that exploration plans will be curtailed and the Company will possibly cease operations.

These unaudited consolidated financial statements have been prepared in accordance with generally accepted accounting principles for interim financial information and with the instructions to Form 10-Q and Article 10 of

Regulation S-X. Accordingly, they do not include all of the information and footnotes required by generally accepted accounting principles for complete financial statements. In the opinion of management, all adjustments (consisting of normal recurring adjustments) considered necessary for a fair presentation of the interim periods presented have been included. Operating results for the three months ended June 30, 2008 are not necessarily indicative of the results that may be expected for the year ending March 31, 2009. This interim unaudited financial information should be read in conjunction with the Company's annual report for the year ended March 31, 2008, as filed on Form 10-K.

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These financial statements have been prepared in accordance with the American Institute of Certified Public Accountants Statement of Position ("SOP") 90-7, "Financial Reporting by Entities in Reorganization under Bankruptcy Code", which is applicable to companies under Chapter 11 of the Bankruptcy Code. Generally the SOP 90-7 does not change the manner in which financial statements are prepared. It does, however, require among other disclosures that the financial statements for periods subsequent to the filing of the Chapter 11 petition distinguish transactions and events that are directly associated with the reorganization from the ongoing operations of the business. Expenses, realized gains and losses, and provisions for losses that can be directly associated with the reorganization and restructuring of the business must be reported separately as reorganization items in the statements of operations. The balance sheet must distinguish prepetition liabilities subject to compromise from both those prepetition liabilities that are not subject to compromise and from post-petition liabilities. Liabilities that may be affected by a plan of reorganization must be reported at the amounts expected to be allowed, even if they may be settled for lesser amounts.

Certain amounts reported in prior periods have been reclassified to conform to the disclosures in the current fiscal year.

c) Joint Venture Receivables

The accompanying financial statements as of June 30 and March 31, 2008, include the wholly-owned accounts of the Company and its proportionate share of assets, liabilities and results of operations in the joint venture in which it participates. The Company has maintained a 60 percent majority ownership interest in properties in which joint venture participation exists and acts as the operator for the joint venture. The Company incurs 100 percent of the expenses related to the joint venture and bills its Joint Venture Partner for 40 percent of applicable costs.

The Company provides for uncollectible receivables using the allowance method of accounting for bad debts. Under this method of accounting, a provision for uncollectible accounts is charged to earnings. The allowance account is increased or decreased based on past collection history and management's evaluation of the receivables. All amounts considered uncollectible are charged against the allowance account and recoveries of previously charged off accounts are added to the allowance.

At June 30, 2008, net joint venture receivables were $5,313 (2007: $Nil). At June 30 and March 31, 2008, the Company had established no allowance for bad debt, deeming its receivables as likely to be collected.

d) Stock Subject To Mandatory Redemption

In May 2003, FASB issued SFAS No. 150, "Accounting for Certain Instruments with Characteristics of Both Liabilities and Equity" ("SFAS 150"). This statement establishes standards for how an issuer classifies and measures certain financial instruments with characteristics of both liabilities and equity. In applying SFAS 150, the Company has determined that all of the Series E Convertible Preferred Stock ("Series E Stock") met the characteristics of a liability and, therefore, has been classified as a liability on the Company's balance sheet as of March 31, 2008 and in liabilities subject to compromise at June 30, 2008. (See Note 8).

e) Accounting Estimates

The preparation of the consolidated financial statements in conformity with U.S. generally accepted accounting principles requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities at the date of the consolidated financial statements and the reported amounts of revenues and expenses during the reporting period. Management makes its best estimate of the ultimate outcome for these items based on the historical trends and other information available when the financial statements are prepared. Changes in the estimates are recognized in accordance with the accounting rules for the estimate, which is typically in the period when new information becomes available to management. Actual results could differ from those estimates and assumptions.

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f) Supplies inventory

Supplies inventory consist of primarily pipe, tubular materials and chemicals used in drilling operations. Inventory accounting is based on the first-in, first-out cost method and is stated at the lower of cost or market.

g) Loss Per Share

Loss per share is computed using the weighted average number of shares outstanding during the year. Diluted loss per share is equivalent to basic loss per share because the stock options, warrants and convertible preferred stock to acquire common shares as disclosed in the notes are anti-dilutive.

	Three Months Ended June 30, 2008	Three Months Ended June 30, 2007
Net Loss	$ (1,076,706)	$ (3,733,955)
Less Preferred stock dividends	-	(272,596)
Net loss applicable to common stockholders	$ (1,076,706)	$ (4,006,551)
Weighted Average Shares Outstanding	41,732,547	35,046,608
Basic and Diluted Earnings per Share	$ (0.03)	$ (0.11)

h) Asset Retirement Obligations

It is the Company’s policy to recognize a liability for future retirement obligations associated with the Company’s oil and gas properties. The estimated fair value of the asset retirement obligation is based on the current cost escalated at an inflation rate and discounted at a credit-adjusted risk-free rate. This liability is capitalized as part of the cost pool of the related asset and amortized using the units of production method. The liability accretes until the Company settles the obligation. At June 30, 2008, the Company’s estimated asset retirement obligation was $77,920. This obligation will be settled at the end of the useful lives of the wells which is projected to be approximately 39 years. This amount has been calculated using an inflation rate of 2.4% and discounted using a credit-adjusted risk-free interest rate of 8.35%. The accretion expense for the three months ended June 30, 2008 was $1,590 (2007 – Nil).

i) Recent Accounting Pronouncements

In December 2007, the FASB issued SFAS No. 160, “Noncontrolling Interests in Consolidated Financial Statements, an amendment of ARB No. 51” (“SFAS 160”). SFAS 160 will change the accounting and reporting for minority interests, which will be recharacterized as noncontrolling interests and classified as a component of equity. This new consolidation method will significantly change the accounting for transactions with minority interest holders. SFAS 160 is effective for fiscal years, and interim periods within those fiscal years, beginning on or after December 15, 2008. The Company will be required to adopt this statement effective at the beginning of its 2010 fiscal year. The Company is evaluating the impact of the provisions of SFAS 160 on its consolidated balance sheets, results of operations or cash flows.

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In May 2008, the FASB issued FSP No. APB 14-1, "Accounting for Convertible Debt Instruments that may be Settled in Cash upon Conversion (including Partial Cash Settlement)", ("FSP APB 14-1"). FSP APB 14-1 clarifies that convertible debt instruments that may be settled in cash upon conversion (including partial cash settlement) are not addressed by paragraph 12 of Accounting Principles Board Opinion No. 14, "Accounting for Convertible Debt and Debt Issued with Stock Purchase Warrants." Additionally, FSP APB 14-1 specifies that issuers of such instruments should separately account for the liability and equity components in a manner that will reflect the entity's nonconvertible debt borrowing rate when interest cost is recognized in subsequent periods. This FSP is effective for fiscal years beginning after December 15, 2008, and interim periods within those fiscal years. The Company is evaluating the impact that this FSP will have on its consolidated financial position, results of operations or cash flows.

NoteChapter 11 Bankruptcy
3.

On June 2, 2008, the Company commenced Chapter 11 proceedings (Case No. 08-32638) by filing a voluntary petition for reorganization under the Bankruptcy Code with the Bankruptcy Court. Each of the Company's subsidiaries, Methane Energy Corp. and Cascadia Energy Corp. (collectively referred to with the Company as the "Debtors"), also commenced a case under Chapter 11 of the Bankruptcy Code on the same day (together with the Company's filing, the "Chapter 11 Cases"). On June 9, 2008, the Court entered an order fixing the last day to file proofs of claim against the Debtors as August 15, 2008. On June 16, 2008, the Debtors filed their Joint Plan of Reorganization for Reorganizing Debtors and the Disclosure Statement Regarding Joint Plan of Reorganization for Reorganizing Debtors (the "Plan"). A hearing on the adequacy of the Disclosure Statement is scheduled for September 18, 2008 at 9:30 a.m at the U.S. Bankruptcy Court in Portland, Oregon.

The Plan provides for the reorganization of the Debtors and the payment in full of each allowed claim against the Debtors, as set forth below. The treatment of the two impaired classes of interests (Series E Preferred Interests and Common Shareholder Interests) will depend on the outcome of the Rights Offering (as described in more detail below and in the Plan). This summary is based on the terms of the Plan as currently filed. The Plan may be modified in accordance with section 1127 of the Bankruptcy Code, both prior to and after the Effective Date.

Rights Offering

If certain conditions are met under the Plan, our common shareholders will have the right, but not the obligation, to acquire equity securities in the reorganized Company pursuant to a proposed right offering (the "Rights Offering"). The terms of the Rights Offering are set forth in Article VI and Exhibit A to the Plan. The Rights Offering must be completed, if at all, on or prior to the Effective Date upon the satisfaction of certain conditions. These include: (i) our common shareholders must consent to the conversion of the Series E Preferred Interest into senior secured convertible debt; (ii) our shareholders participate in the Rights Offering to an extent that the gross proceeds to the Debtors is equal to or more than $2,000,000, or such lesser amount as determined by the YA Global in its sole discretion; and (iii) the Bankruptcy Court must determine that the Rights Offering is exempt under Bankruptcy Code Section 1145. Shareholders as of the record date, to be established by the Bankruptcy Court, are eligible to participate in the Rights Offering.

Section 1122 of the Bankruptcy Code requires that a plan of reorganization classify the claims of a debtor's creditors and the interests of its equity holders. The Plan classifies the following separate classes and provides for the treatment summarized below:

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Class	Summary of Treatment
DIP Lender Claim	The DIP Lender shall receive senior secured convertible debt of the Company in the amount of the DIP Lender Claim. On the Effective Date, and from time to time thereafter, the DIP Lender, at its sole discretion, shall have the right to convert all or any portion of the senior secured convertible debt into common shares of the Company pursuant to the terms of the senior secured convertible debt. Debtors estimate that the DIP Lender Claim will equal approximately $4,500,000 on the Effective Date.
Administrative Claims	Allowed Administrative Claims will receive cash equal to the unpaid portion of the claim that has come due for payment under any applicable order or law, unless otherwise agreed to by the holder of an Allowed Administrative Claim or order of the Bankruptcy Court. Payment of allowed professional fee claims shall not exceed $250,000. All Administrative Claims must be filed on or before the Administrative Claim Bar Date.
Priority Tax Claims	On the later of (a) the Effective Date; or (b) the date such claim becomes an Allowed Priority Tax Claim, each Allowed Priority Tax Claim shall receive full satisfaction, settlement, release and discharge with, (i) cash equal to the unpaid portion of such Allowed Priority Tax claim or (ii) such other treatment as agreed to by the parties.
Trustee Fee Claim	Trustee Fees will be paid by Debtors as they become due.
Class 1: Allowed Priority Claims (Unimpaired)	This Class consists of all Allowed Priority Claims against Debtors that are specified as having priority in Bankruptcy Code section 507, if any such claims still exist as of the Effective Date. Unless otherwise agreed by the holder of any claim in this Class, each Allowed Claim under Bankruptcy Code section 507, which has not been satisfied as of the Effective Date, shall be paid in full in cash on the latest of: (a) the Effective Date; or (b) the date on which there is a final order allowing such claim.

Class 2: Allowed Unsecured Claims (Unimpaired)	This Class consists of all Allowed Unsecured Claims that are not entitled to priority, including, without limitation, claims arising from the rejection of executory contracts and the Gordian claim. Claims in this class will be paid in full satisfaction, settlement, release and discharge either (i) in cash in the full amount of such Holder's Allowed Unsecured Claim, on or within three (3) Business Days of the Effective Date, (ii) pursuant to the terms of Debtors' obligations to the holder of such claim, or (iii) as may be agreed by Debtors and the holder of such claim. A condition to confirmation of the Plan is that the aggregate amount of unsecured claims against Debtors does not exceed one million dollars ($1,000,000).
Class 3: Series E Preferred Shareholder Interests (Impaired)	If the Rights Offering conditions are satisfied or waived as provided in the Plan, Series E Preferred Shares shall be exchanged for Senior Secured Convertible Debt of the Company in the principal amount equal to the liquidation amount of the Series E Preferred Shares and accumulated dividends thereon. If the Rights Offering conditions are not satisfied or waived, the Series E Preferred Shares shall be converted into 100% of the Company common shares, subject to certain terms.
Class 4: Common Shareholder Interests (Impaired)	On the Effective Date all common shareholders shall have the opportunity to participate in the purchase of the Company's common shares in a Rights Offering. If all the Rights Offering conditions are satisfied, or waived by the Debtors and the DIP Lender, as applicable, then each participating common shareholder shall receive the number of Company shares as subscribed to in the Rights Offering. The Rights Offering shall be available to all common shareholders and must be completed by the ballot deadline. Unless waived by the Debtor and the DIP Lender, common shareholders who do not participate in the Rights Offering will have their common shares canceled and shall not be entitled to, and shall not receive or retain any property or interest in property of the Company.
Class 5: Other Equity Interests	On the Effective Date, all other equity interests, as well as any and all securities, warrants, and options, shall be canceled and each holder shall not be entitled to receive any property of the Company. Class 5 is deemed to have rejected the Plan and, therefore, holders of other equity interests are not entitled to vote to accept or reject the Plan.

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The Plan has certain conditions precedent to the occurrence of the Plan's Confirmation Date including: (a) entry of an order finding that the Disclosure Statement contains adequate information pursuant to Bankruptcy Code section 1126; (b) entry of a Final Order approving the DIP Loan; and (c) a determination that Debtors have no more than $1,000,000 in Allowed Unsecured Claims in the aggregate.

The above summary of the Plan's Disclosure Statement describes the classification and treatment of Allowed Claims and Interests. The Company reserves the right to modify the Plan in accordance with section 1127 of the Bankruptcy Code, both prior to and after the Effective Date. In the event of any discrepancy or conflict between the summary include herein and the Plan itself, the Plan will control. Claims to be paid in cash under the Plan will be paid from the proceeds of the Plan Funding or from the Rights Offering.

Note
4.Related Party Transactions

During the three months ended June 30, 2008, the Company recorded expenses of $90,500 (2007 - $208,799) for consulting fees and salaries to directors and officers of the Company. As of June 30, 2008, there were unpaid expense reimbursements owing to directors and officers of $9,270 (2007 - $8,008) and unpaid liabilities for salaries and consulting services totaling $76,429 (2007 - $Nil). At June 30, 2008 and March 31, 2008, the Company owed John D. Carlson, President, Chief Executive Officer and Director of the Company, $60,000 for payments he made directly to the Company's law firm on its behalf for services rendered relating to the Chapter 11 Cases. Subject to per claimant and other limitations, officers and directors may present a priority claim to the Company in a filing under the Bankruptcy Code. The total of priority claims for officers and directors at June 30, 2008 has been presented on the Consolidated Balance Sheets as Accounts payable – related parties and is not expected to be subject to compromise. The remainder of the obligations to officers and directors are expected to be subject to compromise and are presented on the Consolidated Balance Sheet for June 30, 2008 as liabilities subject to compromise. See Note 7 for additional information.

On February 1, 2008, Mr. Carlson loaned $50,000 to the Company and the Company issued a short-term promissory note to Mr. Carlson. On March 1, 2008, Mr. Carlson loaned the Company an additional $25,000 in exchange for cancellation of the previous short-term note and issuance of a new short-term promissory note with a principal balance of $75,318. On March 12, 2008, William A. Lansing, then chairman of the Company's board of director, loaned $25,000 to the Company and the Company issued a short-term promissory note to Mr. Lansing. Interest on the promissory notes (collectively, the "Notes") accrues from the date of issuance at the rate of eight percent (8%) per annum; however, as of June 2, 2008, the Company ceased accruing interest on these obligations as a result of the filing of the Chapter 11 Cases. Repayment of principal, together with accrued interest, may be made at any time without penalty. In the event that any amount payable under the Notes is not paid in full when due, the Company shall pay, on demand, interest on such amount at the rate of twelve percent (12%) per annum. Upon any "Event of Default," as defined in the Notes, the entire unpaid balance of the applicable promissory note may be declared immediately due and payable by the noteholder; however, this action may be stayed as a result of the Chapter 11 Cases. As of June 30, 2008 and March 31, 2008, there was $75,318 and $25,000 payable outstanding under the Notes to Messrs. Carlson and Lansing, respectively, excluding accrued interest payable. These amounts are presented on the Consolidated Balance Sheet for June 30, 2008 as liabilities subject to compromise. See Note 7 for additional information.

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Note 5. Oil and Gas Properties, Unproven

The Company's oil and gas properties are currently unproven and ongoing exploration activities are planned and will require the additional significant expenditures for the fiscal year ending March 31, 2009, which funding must be raised from external sources. These exploration activities include formation stimulation and production testing of existing wells drilled in our Coos Bay project and formation coring and gas desorption testing of wells still to be drilled in our Chehalis project. Assuming that additional funding from external sources is obtained, management estimates that it will take approximately six to twelve months to complete the first phase of exploration activities on certain of its unproved properties and at that time an assessment will be made for reclassification of a portion of the unproved reserves to proved reserves. Once properties have been classified as proven, then certain of the costs incurred would be included in the amortization computation.

Coos Bay Basin Property. On May 11, 2004, Methane Energy Corp. entered into a Lease Purchase and Sale Agreement (the "Agreement") with GeoTrends-Hampton International LLC ("GHI") to purchase GHI's undivided working interest in certain oil and gas leases in the Coos Bay Basin of Oregon. As consideration for the acquisition of these oil and gas leases, the Company paid a total of $300,000 in cash and issued 1,800,000 restricted common shares in three performance based tranches. The shares were valued at $0.38 per share, which was the fair value at the time that the agreement was negotiated. GHI also maintains an undivided overriding royalty interest of 4% upon production in the Coos Bay project area. The agreement closed on June 22, 2004. Subsequent to the completion of the Agreement, the principals of GHI were appointed as officers and directors of the Company and its subsidiaries.

Pursuant to the GHI Agreement, the Company acquired certain mineral leases located in the Coos Bay area of Oregon, which are prospective properties for oil and gas exploration and total approximately 50,000 acres. On July 1, 2004, the Company completed the negotiations with the State of Oregon on an additional leasing of 10,400 acres of land within the Coos Bay Basin in Oregon. The 10,400 acres of land are subject to annual lease payments of $1 per acre.

Chehalis Basin Property. On August 12, 2005, Cascadia Energy Corp. entered into a joint venture agreement ("Joint Venture") with St. Helens Energy LLC ("St. Helens"), a 100% owned subsidiary of Comet Ridge Limited, an Australian coal seam gas exploration company, which is listed on the Australian Stock Exchange. Pursuant to this agreement, Cascadia Energy Corp. will serve as operator of the Joint Venture with a 60% interest in the Joint Venture; while St. Helens will actively assist in evaluating the Chehalis Basin property, developing exploratory leads and prospects, and providing 40% of the funding to pursue exploration and development of the prospect. Cascadia Energy Corp. records its investment and related expenses associated with the Chehalis Basin project net of St. Helens' contribution.

In October 2006 through May 2007, Cascadia Energy Corp. entered into three lease agreements with Weyerhaeuser totaling 36,991 acres, two of which required payment of upfront lease bonuses of $428,610 and one which requires annual lease payments of $1,275. Certain provisions of these agreements require Cascadia Energy Corp. to commence a well within the first two years of the lease, or the lease will terminate and the Company would be required to make a payment of $75,000 to Weyerhaeuser in May of 2009.

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Since January 2006, Cascadia Energy Corp. has also acquired 23,735 acres from the State of Washington Trust. This acreage was acquired in lease auctions for aggregate lease consideration of $37,719, and has been included in the Chehalis Basin project.

On May 9, 2006, Cascadia Energy Corp. entered into an option to acquire oil & gas lease with Pope Resources LP. This option provides Cascadia Energy Corp. with the right to earn oil and gas leases covering 15,280 acres of mineral rights interests held by Pope Resources LP in Cowlitz and Lewis Counties, Washington, for a purchase price of $1 per net mineral acre or $15,280. The initial term of this option was for a period of 18 months ending on November 9, 2007. The option was extended for an additional year ending November 9, 2008.

On April 10, 2008, the Company granted a one year option to Citrus Energy Corporation and Oklaco Holding, LLP, (the "Citrus Group") which allows the Citrus Group to drill two wells on leases owned by Cascadia Energy Corp. and earn a working interest in any production from these wells. In the event the Citrus Group elects to drill these potential wells, then the Company would receive a cash equalization payment of $80,000 per well and would retain a royalty interest on any future production from the acreage earned by the Citrus Group.

The total costs incurred and currently excluded from amortization for the Company's oil and gas properties are summarized as follows:

	Acquisition Costs	Exploration Costs			Development Costs	
		Seismic and land	Drilling and gathering	Geological and geophysical		Total
Coos Bay Basin Property						
Three months Ended						
June 30, 2008	$ -	$ 41,003	$ 38,688	$ -	$ Nil	