

TORRENT ENERGY CORP
Form 10-K
July 16, 2007

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

FORM 10-K

(Mark One)

ANNUAL REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934

For the fiscal year ended **March 31, 2007**

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

For the transition period from [] to []

Commission file number 000 19949

Torrent Energy Corporation

(Exact name of registrant as specified in its charter)

Colorado

(State or other jurisdiction of incorporation or organization)

84-1153522

(I.R.S. Employer Identification No.)

1 SW Columbia Street; Suite 640

Portland, Oregon

(Address of principal executive offices)

97258

(Zip Code)

Issuer's telephone number: 503.224.0072

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

Title of each class

Nil

Name of each exchange on which registered

Nil

Securities registered pursuant to Section 12(g) of the Act: Shares of Common Stock, \$0.001 par value
(Title of class)

Indicate by check mark if the registrant is a well-known seasoned issuer, as defined in Rule 405 of the Securities Act. Yes [] No [X]

Indicate by check mark if the registrant is not required to file reports pursuant to Section 13 or Section 15(d) of the Act. Yes [] No [X]

Indicate by check mark whether the issuer (1) filed all reports required to be filed by Section 13 or 15(d) of the

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 if disclosure of delinquent filers pursuant to Item 405 of Regulation S-K is not contained in this form, and will not 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-K or any amendment to this Form 10-K. []

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

Large accelerated filer [] Accelerated filer [] Non-accelerated filer [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 issuer's revenues for its most recent fiscal year. \$ Nil

State the aggregate market value of the voting and non-voting common equity held by non-affiliates computed by reference to the price at which the common equity was sold, or the average bid and asked prices of such common equity, as of a specified date within 60 days. (See definition of affiliate in Rule 12b 2 of the Exchange Act.)

34,821,953 shares of common stock at \$1.06 per share = \$36,911,270

⁽¹⁾ Closing price on July 6, 2007.

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

36,561,953 shares of common stock issued and outstanding as of July 6, 2007

PART I

ITEM 1. BUSINESS

Torrent Energy Corporation is an exploration stage energy company committed to the pursuit of unconventional natural gas niche opportunities located primarily in North America. As used in this annual report, the terms our Company, we, us and our mean Torrent Energy Corporation, and our wholly owned subsidiaries, Methane Energy Corp. and Cascadia Energy Corp., unless otherwise indicated. A brief history of our Company is provided in the section entitled Corporate History below.

This annual report contains forward-looking statements as that term is defined in the Private Securities Litigation Reform Act of 1995. These statements relate to future events or our future financial performance. In some cases, you can identify forward-looking statements by terminology such as may, should, expects, plans, anticipates, believes, estimates, predicts, potential or continue or the negative of these terms or other comparable terminology. These statements are only predictions and involve known and unknown risks, uncertainties and other factors, including the risks in the section entitled Risk Factors, that may cause our company or our industry's actual results, levels of activity, performance or achievements to be materially different from any future results, levels of activity, performance or achievements expressed or implied by these forward-looking statements.

Although we believe that the expectations reflected in the forward-looking statements are reasonable, we cannot guarantee future results, levels of activity, performance or achievements. Except as required by applicable law, including the securities laws of the United States, we do not intend to update any of the forward-looking statements to conform these statements to actual results.

Our audited consolidated financial statements are stated in United States dollars and are prepared in accordance with United States Generally Accepted Accounting Principles. All references to CDN\$ refer to Canadian dollars.

Corporate History

We were formed by the merger of Scarab Systems, Inc., a Nevada corporation, with iRV, Inc., a Colorado corporation, on July 17, 2002. We were initially involved in the business of providing services to the e-commerce industry. However, we ceased all activities in the e-commerce industry by the end of the fiscal year ended March 31, 2003. Scarab Systems, Inc. was a privately owned corporation incorporated on October 8, 2001. Subsequent to completion of the reorganization, Scarab Systems, Inc. transferred all its assets and liabilities to iRV, Inc. The directors and executive officers of iRV, Inc. were subsequently reconstituted. iRV, Inc. changed its name to Scarab Systems, Inc. on March 24, 2003.

We were given two options in fiscal year 2002 to acquire all the issued and outstanding shares of 485017 B.C. Ltd., a British Columbia company doing business as MarketEdge Direct. These options were given to us as security against a subscription receivable of \$337,500 for 675,000 shares of our common stock from the shareholders of MarketEdge Direct. MarketEdge Direct was in the business of providing a wide range of marketing products and services.

Effective August 7, 2002, we exercised both of the options and acquired all the issued and outstanding shares of MarketEdge Direct. Due to disappointing financial results of MarketEdge Direct, on March 28, 2003, we entered into an agreement with the former shareholders of MarketEdge Direct to sell MarketEdge Direct back to them. As a result, all the issued and outstanding shares of MarketEdge Direct that we acquired were sold back to the former MarketEdge Direct shareholders for the return to treasury of 540,000 shares of our common stock.

On March 28, 2003, we acquired all the issued and outstanding shares of Catalyst Technologies, Inc., a British Columbia corporation. Catalyst was a Vancouver-based, web design and Internet application developer. Catalyst specialized in the development of web-sites and Internet software design, primarily for the health and nutraceutical industry. The acquisition of Catalyst was treated as a non-material business combination in fiscal year 2003, and we discontinued Catalyst's operations during the fiscal year ended March 31, 2004 due to a lack of working capital and disappointing financial results.

On April 30, 2004, we incorporated an Oregon subsidiary company named Methane Energy Corp. in anticipation of acquiring oil and gas properties in the State of Oregon. On May 11, 2004, Methane Energy Corp. entered into a lease purchase and sale agreement with GeoTrends-Hampton International, LLC to purchase GeoTrends-Hampton International's undivided working interest in certain oil and gas leases for the Coos Bay Basin prospect located onshore in the Coos Bay Basin of Oregon. To acquire these oil and gas leases, we paid a total of \$300,000 in cash, issued 1,800,000 restricted shares of our common stock in three performance-based tranches, and granted a 4% overriding royalty interest upon production from lands and leases in the Coos Bay project area. The lease purchase and sale agreement closed on June 22, 2004. On closing, we paid \$100,000 in cash and issued 600,000 shares of our common stock. We subsequently paid the remaining \$200,000 cash consideration and have issued an additional 1,200,000 shares of our common stock to satisfy the remaining components of the purchase obligation.

Pursuant to the lease purchase and sale agreement with GeoTrends-Hampton International, LLC, we acquired leases of certain properties in the Coos Bay area of Oregon that are believed to be prospective for oil and gas exploration. Additional leases were subsequently acquired from the State of Oregon and from private property owners; and as of July 6, 2007, we have amassed approximately 118,000 acres under lease with annual lease rental payments totaling approximately \$93,000. We continue to seek additional lease properties in the Coos Bay area.

As a result of the change in our business focus, we received shareholder approval on July 13, 2004 to change our name from Scarab System, Inc. to Torrent Energy Corporation.

On June 29, 2005, we incorporated a Washington subsidiary company named Cascadia Energy Corp. in anticipation of acquiring oil and gas properties in the State of Washington. Cascadia Energy Corp. executed a lease option agreement dated August 9, 2005 with Weyerhaeuser Company to lease 100,000 acres that it could select from an overall 365,000 acre block in the Chehalis Basin located in Lewis, Cowlitz and Skamania Counties of Washington. We have commenced an exploratory work program on certain acreage, searching for possible hydrocarbon deposits. Cascadia Energy Corp. was also granted a two year first right of refusal on the balance of the Weyerhaeuser acreage.

Initial cash consideration for this option was \$100,000 and, on or before the end of the initial first year, Cascadia Energy Corp. was to elect either to undertake a work commitment of \$285,715 pertaining to the full 100,000 acres (proportionately reduced if Cascadia Energy Corp. elects to evaluate less than the entire acreage) or pay Weyerhaeuser \$285,715 in lieu of the work commitment or such lesser amount if less than the full 100,000 acres is chosen to be evaluated, but in no event less than 50,000 acres. In February 2007, Weyerhaeuser extended the initial period for completion of the \$285,715 work commitment to August of 2007.

From October 2006 through May 2007, Cascadia Energy Corp has entered into three additional lease agreements with Weyerhaeuser totaling 36,991 acres, two that required payment of upfront lease bonuses of \$428,610 and one which requires annual lease payments of \$1,275. Certain of these agreements include a provision requiring Cascadia Energy Corp. to commence a well within the first two years of the lease, or the lease will terminate and we would be required to make a payment of \$75,000 to Weyerhaeuser.

On May 9, 2006, Cascadia Energy Corp., entered into an option to acquire oil & gas leases with Pope Resources LP located in the Chehalis Basin. 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. for a purchase price of \$1 per net mineral acre or \$15,280. The initial term of this option is for a period of 18 months ending on November 9, 2007. If Cascadia Energy Corp. expends \$200,000 on operations and activities during the initial term, the lease term shall be extended for an additional year. If the conditions for extension of the initial term are not satisfied, this option will terminate as of the expiration of the initial term and, as additional consideration, Cascadia Energy Corp. will pay Pope Resources LP an additional sum of \$30,560.

During the last year, Cascadia Energy Corp has also acquired various lease acreage in the Chehalis Basin from the State of Washington adjacent or contiguous to its other holdings. As of July 6, 2007, the total acreage under lease from the State of Washington was 23,735 acres with lease terms of four years. This acreage was acquired in lease auctions for aggregate consideration of \$37,719.

Our total holdings in the Chehalis Basin of Washington as of July 6, 2007 were approximately 176,000 acres with future annual lease payments totaling approximately \$38,993, along with lease terms that include approximately \$500,000 in exploration expenditure commitments prior to November 2007. We continue to seek additional lease properties in the Chehalis Basin.

Cascadia Energy Corp. has also entered into a joint venture agreement dated August 12, 2005 with St. Helens Energy, LLC, a 100 percent owned subsidiary of Comet Ridge Limited, an Australian coal seam gas explorer listed on the Australian Stock Exchange, and headquartered in Perth, Western Australia. Under this agreement, St. Helens Energy, LLC holds a 40 percent interest in the Washington exploration project. Cascadia Energy Corp. serves as operator of the joint venture and St. Helens Energy, LLC actively assists in evaluating the area and developing exploratory leads and prospects.

The joint venture provides for Cascadia Energy Corp. and its joint venture partner, St. Helens Energy, LLC, to share the costs of exploring, developing and operating any economic natural gas resources discovered in the Chehalis Basin area. Both capital and operating costs, as well as any resulting revenues associated with the project area, are to be allocated 60 percent to Cascadia Energy Corp. and 40 percent to St. Helens Energy, LLC. Cascadia Energy Corp. acts as the operator of the venture and submits authorizations for expenditures to its joint venture partner for approval on a periodic basis. At any time, St. Helens Energy, LLC may decline to participate; i.e. non-consent, in which case Cascadia Energy Corp. will absorb 100 percent of the cost of a specific authorization for expenditure and receive 100 percent of any net revenues derived from the specific expenditure. Alternatively, Cascadia Energy Corp. might also choose not to undertake the expenditure absent joint venture partner participation.

Other than as set out herein, we have not been involved in any bankruptcy, receivership or similar proceedings, nor have we been a party to any material reclassification, merger, consolidation or purchase or sale of a significant amount of assets not in the ordinary course of our business.

Current Business

We are an exploration stage company engaged in the exploration for coalbed methane in the Coos Bay region of Oregon and in the Chehalis Basin region of Washington State. Through one of our wholly owned subsidiaries, Methane Energy Corp., we now hold leases to approximately 118,000 acres of prospective coalbed methane lands in the Coos Bay Basin. Methane Energy Corp. operates the exploration project in the Coos Bay Basin. Through our other wholly-owned subsidiary, Cascadia Energy Corp., we are evaluating approximately 176,000 acres under private and state leases located in the Chehalis Basin.

Coos Bay Basin Exploration Prospect

The Coos Bay Basin is located along the Pacific coast in southwest Oregon, approximately 200 miles south of the Columbia River and 80 miles north of the California border. The onshore portion of the Coos Bay Basin is elliptical in outline, elongated in a north-south direction and covers over 250 square miles. More than 150,000 acres in the Coos Bay Basin is underlain by the Coos Bay coal field and appears prospective for coalbed methane gas production. The current leasehold position owned by Methane Energy Corp. covers most of the lands believed to be prospective for coalbed methane production in the Coos Bay Basin. Additional leasing, title and curative work continues. Most areas in Coos County are accessible year-round via logging and fire control roads maintained by the county or timber companies. In addition, numerous timber recovery staging areas are present and in many cases can be modified for drill-site locations.

The Coos Bay Basin is basically a structural basin formed by folding and faulting and contains a thick section of coal-bearing sediments. Coal-bearing rocks contained within the Coos Bay Basin form the Coos Bay Coal field. Coal mining from the Coos Bay field began in 1854 and continued through the mid 1950 s. Much of the coal was shipped to San Francisco. Since mining activity ended several companies such as Sumitomo, Shell and American Coal Company have done exploratory work and feasibility studies on the Coos Bay Coal Field but no mining operations were conducted. In addition, approximately 20 exploratory oil and/or gas wells have been drilled in the Coos Bay basin over the years from 1914 to 1993. Many of these wells encountered gas shows in the coal seams that were penetrated during drilling.

Coalbeds are contained in both the Lower and Upper Member of the Middle Eocene Coaledo Formation. The coal-bearing sandstones and siltstones of the Middle Eocene Coaledo formation are estimated to form a section up to 6,400 feet thick. Total net coal thickness for the Lower Coaledo Member can range up to 70 feet and over 30 feet for the Upper Coaledo Member. Coos Bay coal rank ranges from subbituminous to high-volatile bituminous, with a heating value of 8,300 to 14,000 British Thermal Units per pound (BTU/LB.), a low sulphur content, and a moderate percentage of ash.

On October 6, 2004, a multi-hole coring program was commenced on the Methane Energy Corp. leases. Coring was needed to collect coal samples so that accurate gas content data could be measured. Cores were collected, desorption work was done on the coals and evaluation completed by mid 2005. This data, as well as other geologic information, was provided to Sproule Associates, Inc., an international reservoir engineering firm, for an independent evaluation. To date, natural gas analyses performed on samples from Methane Energy Corp. coal samples and wells indicate that the gas is pipeline quality and that the coals are fully saturated with gas. It is important to note that technically recoverable gas volumes do not necessarily qualify as proved reserves, and we have not recorded any proven reserves at any of our projects at this time.

Drilling and testing programs were then initiated at three pilot sites Beaver Hill, Radio Hill and Westport. A total of twelve exploratory wells have been drilled. Five exploratory wells were drilled and completed at Beaver Hill; two exploratory wells were drilled at Radio Hill with one completion; and five exploratory wells were drilled at Westport with completions scheduled. Production and flow testing at the pilot well sites as well as continued development work are currently progressing.

Natural Gas Market

Until 2005, the port of Coos Bay was one of the largest population centers on the west coast not served by natural gas. A project to bring natural gas into the region via a 52-mile, 12-inch pipeline was approved, funded by Coos County and the State of Oregon, and completed in late 2004 with gas sales beginning in early 2005. While the line is owned by Coos County, the local gas distribution company, Northwest Natural Gas, operates the line. Northwest Natural Gas serves Coos County and most of western Oregon. The pipeline and its associated distribution system represent the most likely market option for delivery of gas, if produced by Methane Energy Corp. in the future. Estimates of local Coos County market requirements are over 10 million cubic feet of gas per day initially, which represents about 10% of ultimate pipeline capacity. Excess capacity is available for additional gas input.

Coos County is also likely to benefit from new industrial, commercial and residential development as natural gas is now available. Expansion of the market is likely to bring greater demand for and value to natural gas. Because of its west coast location, Coos Bay market prices would be subject to pricing standards of the New York Mercantile Exchange for most of the year.

Regional gas pricing hubs are located at Malin and Stanfield, Oregon. The closest pricing point, however, would be the Coos Bay City Gate, where Northwest Natural Gas's retail rates are set and regulated by Oregon's Public Utilities Commission. Seasonal or critical gas demand fluctuations could cause prices to exceed or fall below posted prices on a regular basis.

Exploration Objectives

The Coos Bay Basin is the southernmost of a series of sedimentary basins that are present in western Oregon and Washington west of the Cascade Range. The region containing this series of basins is generally referred to as the Puget-Willamette Trough. These basins contain thick sequences of predominantly non-marine, coal-bearing sedimentary rock sequences that are correlative in age, closely related in genesis, and very similar in many other characteristics. Methane Energy Corp. is primarily targeting natural gas from coal seams of the Coaledo Formation in the Coos Bay Basin. Secondary objectives are natural gas, and possibly oil, trapped in conventional sandstone reservoirs.

Indications of the hydrocarbon potential in the Puget-Willamette Trough are shown by natural gas production at the Mist Field in northwest Oregon, the presence of excellent quality sand reservoir development at the Jackson Prairie Gas Storage Field in southwest Washington, and numerous oil and/or gas shows from historic oil and gas exploration drilling activity.

Chehalis Basin Exploration Prospect

The Chehalis Basin is located about midway between Portland and Seattle in southwest Washington State, approximately 90 miles north of the Columbia River. The Chehalis Basin lies between the western foothills of the Cascade Range and the eastern border of the Coast Ranges and is a structurally-formed basin that contains and is flanked by a thick section of coal-bearing sediments. The coals are hosted by Lower-Middle-Upper Eocene continental sedimentary rocks. The coal-bearing Eocene sandstone and siltstone section is estimated to be approximately 6,600 feet thick.

The Chehalis Basin is more or less centered within the subbituminous and lignite coal fields of southwestern Washington. Subbituminous and lignite are various types of coal. The Centralia-Chehalis coal district lies to the north and portions of the Morton and Toledo coal fields lie to the east and south, respectively. The Centralia-Chehalis coal district is the largest of the subbituminous and lignite fields of southwestern Washington. At least 13 separate coal seams have been mined or are being mined from the district. Most coal suitable for mining has a subbituminous C rank, contains 14% to 35% moisture, 5% to 25% ash, and has a heating value ranging from 8,300 to 9,500 BTU/LB.

TransAlta currently operates a coal-fired power plant and a gas-fired power plant at their Centralia complex. The coal-fired plant produces 1,404 megawatts, enough electricity to supply a city the size of Seattle. In November 2006, the Centralia coal mine adjacent to the power plant closed due to the high cost of operations. Currently, coal to supply the gas-fired power plant is purchased Wyoming and Montana.

Coals in the Chehalis Basin are relatively thick and continuous. These coals contain a methane gas resource. Limited core and desorption work showed gas content ranging from 6 to 86 standard cubic feet per ton in the coal seams.

Two seams, the Blue and the Brown, each attain thicknesses of about 40 feet. Total net coal typically approaches 75 feet and in places, exceeds 100 feet in thickness. More than 250,000 acres in the Chehalis Basin appears prospective for methane production from the coals. In addition, conventional gas potential is present.

During the 1980's Kerr-McGee conducted a shallow coal exploration drilling program along the southwest flank of the Chehalis Basin. They encountered a number of gas shows associated with both coals and sandstones. One of the show wells was offset by Duncan Oil in 2001 and it flow tested 714 thousand cubic feet per day from a sand zone.

Our subsidiary, Cascadia Energy Corp., currently controls, through lease options and oil and gas leases, approximately 176,000 acres in the Chehalis Basin. We are also exploring lease opportunities for additional acres and have identified specific leasehold ownership positions falling within our Chehalis Basin exploration prospect area. Access to virtually all areas in our Chehalis Basin project area is excellent year-round via logging and fire control roads maintained by the forest service or the timber industry. Likewise, numerous potential drill-site locations are already constructed as timber recovery staging areas and may be available to be utilized in the initial testing phase of the drilling program. In April 2007, we commenced drilling three stratigraphic/information holes. For the next 12 months ending March 31, 2008, we plan to acquire additional leasehold rights in the Chehalis Basin project area to secure control of prospective acreage adjacent or contiguous to our existing leases.

Natural Gas Market

Our Chehalis Basin project area is located in close proximity to the Interstate 5 corridor that parallels the route of the principal interstate pipeline providing natural gas to utility, commercial and industrial customers in Washington and Oregon. With anticipated declines in Canadian-sourced natural gas, we believe that robust markets will exist for any gas produced from the Chehalis Basin. Because of its west coast location and ready connection to a major interstate pipeline, Chehalis Basin market prices would be subject to pricing standards of the New York Mercantile Exchange for most of the year. Regional gas pricing hubs are located at Malin and Stanfield, Oregon. However, seasonal or critical gas demand fluctuations could cause prices to exceed or fall below posted prices on a regular basis.

Exploration Objectives

The Chehalis Basin is located towards the northern end of a series of sedimentary basins that are present in Oregon and Washington west of the Cascade Range. The region containing this series of basins is generally referred to as the Puget-Willamette Trough. These basins contain thick sequences of predominantly non-marine, coal-bearing sedimentary rock sequences that are correlative in age, closely related in genesis, and very similar in many characteristics. Cascadia Energy Corp. is primarily targeting natural gas from coal seams of the Cowlitz Formation in the Chehalis Basin. Secondary objectives are natural gas, and possibly oil, trapped in conventional sandstone reservoirs.

Indications of the hydrocarbon potential in the Puget-Willamette Trough are shown by natural gas production at the Mist Field in northwest Oregon, the presence of excellent quality sand reservoir development at the Jackson Prairie Gas Storage Field in southwest Washington, and numerous oil and/or gas shows from historic oil and gas exploration drilling activity.

The Coalbed Methane Industry

During the past two decades, coalbed methane has emerged as a viable source of natural gas compared to the late 1980s when no significant production outside of the still dominant San Juan Basin in New Mexico, and the Black Warrior Basin in Alabama. According to data from the U.S. Department of Energy's Energy Information Administration, coalbed methane production totaled 1.72 trillion cubic feet in 2004, an increase of 7.5% over 2003. This production accounted for nearly 9% of the country's total dry-gas output of 19.7 trillion cubic feet. Coalbed methane production currently comes from fifteen basins located in the Rocky Mountain, Mid-Continent and Appalachian regions. Various evaluation, exploration and development projects are underway in at least four other basins, including Coos Bay and Chehalis basins. One of the coalbed methane industry's leading information specialists estimates that the number of producing wells nationwide (including those close to achieving production) is approaching 35,000. By comparison, more than 405,000 wells produce natural gas nationwide. However, none of this production of natural gas currently comes from Oregon or Washington. All of the natural gas presently consumed in the Pacific Northwest must be delivered by interstate pipelines from Western Canada and Wyoming.

We believe the success of coalbed methane developments has been largely the result of improved drilling and completion techniques (including horizontal/lateral completions), better hydraulic fracture designs and significant cost reductions as a result of highly dependable gas content and coalbed reservoir performance analysis. Also aiding this sector's growth is the apparent shortage of quality domestic conventional exploration and development projects.

We also believe that a major factor driving the growth in coalbed methane production is its relatively low finding and development costs. Coalbed methane fields are often found where deeper conventional oil and gas reservoirs have already been developed. Therefore, considerable exploration-cost reducing geologic information is often readily available. This available geological information, combined with comparatively shallow depths of prospective coalbed reservoirs, reduces finding and development costs.

A number of government agencies and industry organizations use various statistical methodologies to estimate the volume of potentially recoverable coalbed methane using currently available technology and specific economic conditions. The Potential Gas Committee, which provides the most frequent assessments of the country's natural gas resource base, estimates technically recoverable coalbed methane resources of 106.5 trillion cubic feet for the Lower 48 States as of year end 2004. This represents approximately 15% of the total estimated in-place coalbed methane resource of 700 trillion cubic feet. It is important to note that technically recoverable gas volumes do not necessarily qualify as proved reserves, and we have not recorded any proved reserves at our projects in Oregon or Washington at this time.

Coalbed Methane

Natural gas normally consists of 80% or more methane with the balance comprising such hydrocarbons as butane, ethane and propane. In some cases it may contain minute quantities of hydrogen sulfide, referred to as sour gas.

Coalbed methane is, generally, a sweet gas consisting of 95% methane and thus is normally of pipeline quality. Coalbed methane is considered an unconventional natural gas resource because it does not rely on conventional trapping mechanisms, such as a fault or anticline, or stratigraphic traps. Instead coalbed methane is absorbed or attached to the molecular structure of the coals which is an efficient storage mechanism as coalbed methane coals can contain as much as seven times the amount of gas typically stored in a conventional natural gas reservoir such as sandstone or shale. The absorbed coalbed methane is kept in place as a result of a pressure equilibrium often from the presence of water. Thus the production of coalbed methane in many cases requires the dewatering of the coals to be exploited. This process usually requires the drilling of adjacent wells and sometimes takes 6 to 36 months to complete. Coalbed methane production typically has a low rate of production decline and an economic life typically of 10 to 20 years.

The principal sources of coalbed methane are either biogenic, producing a dry gas which is generated from bacteria in organic matter, typically at depths less than 1,000 feet, or thermogenic, which is a deeper wet gas formed when organic matter is broken down by temperature and pressure.

The three main factors that determine whether or not gas can be economically recovered from coalbeds are: (1) the gas content of the coals; (2) the permeability or flow characteristics of the coals; and (3) the thickness of the coalbeds. Gas content is measured in terms of standard cubic feet per ton and varies widely from 430 standard cubic feet per ton in the deep (2,000 to 3,500 feet) San Juan, New Mexico thermogenic coals, and only 60 standard cubic feet per ton for the shallow (300 to 700 feet deep) Powder River, Wyoming biogenic coals. The San Juan coals are considered to have the industry's highest permeability. Relatively high permeability, which can affect the ability of gas to easily travel to the borehole, is an important factor for the success of coalbed methane wells, but is not absolutely required. The thickness of coalbeds from which coalbed methane is economically produced varies from as little as a few feet in some areas of the gas-rich (300 standard cubic feet) Raton Basin to as much as 75 net feet of coalbed thickness at the relatively gas-poor Powder River Basin.

Competition

Coalbed methane in the United States is produced by several major exploration and production companies and by numerous independents. The majors include BP American and ConocoPhillips in the San Juan Basin and, to a lesser extent, Chevron USA in the Black Warrior Basin. A number of large and mid-size independents, including Anadarko Petroleum Corporation, CMS Energy Corporation, CNX Gas Corporation, Devon Energy Corporation, Dominion Resources, Inc., El Paso Corporation, EnCana Corporation, Energen Corporation, Equitable Resources, Inc., Fidelity Exploration & Production Company, GeoMet Inc., J.M. Huber Corporation, Lance Oil & Gas Corporation, Penn Virginia Corporation, Pennaco Energy Inc., Pioneer Natural Resources Company, The Williams Companies, Inc., XTO Energy Inc. and Yates Petroleum Corporation, have established production in one or more basins. Dozens of smaller independents, many of whom originally began with conventional oil and gas production and operating a small number of wells, have found profitable niches in coalbed methane. Other new entrants to coalbed methane continue to acquire prospective acreage and to conduct test drilling. By virtue of their strategic property holdings, affiliates of several of the country's largest coal mining companies also have become active in coalbed methane, such as Consol Energy Inc., Jim Walter Resources, Inc., Peabody Energy Corporation, USX Corporation and Westmoreland Coal Company.

Government Regulation

Our oil and gas operations are subject to various United States federal, state and local governmental regulations. Matters subject to regulation include drilling and discharge permits for drilling operations, drilling and abandonment bonds, reports concerning operations, the spacing of wells, pooling of properties and taxation. >From time to time, regulatory agencies have imposed price controls and limitations on production by restricting the rate of flow of oil and gas wells below actual production capacity in order to conserve supplies of oil and gas. The production, handling, storage, transportation and disposal of oil and gas, by-products thereof, and other substances and materials produced or used in connection with oil and gas operations are also subject to regulation under federal, state, and local laws and regulations relating primarily to conservation and the protection of human health and the environment. To date, expenditures related to complying with these laws, and for remediation of existing environmental contamination, have not been significant in relation to the results of operations of our Company. The requirements imposed by such laws and regulations are frequently changed and subject to interpretation, and we are unable to predict the ultimate cost of compliance with these requirements or their effect on our operations.

Employees

As at July 6, 2007, we had sixteen non-union, full time employees, two of which are executives. We consider our relations with our employees to be good.

ITEM 1A. RISK FACTORS

Much of the information included in this annual report includes or is based upon estimates, projections or other forward-looking statements. Such forward-looking statements include any projections or estimates made by us and our management in connection with our business operations. These include (i) the potential prospective for coalbed methane and conventional natural gas production in the Coos Bay Basin and the Chehalis Basin, (ii) the potential pipeline capacity in the port of Coos Bay area, and (iii) greater market for natural gas in Coos County and the Pacific Northwest region in general. While these forward-looking statements, and any assumptions upon which they are based, are made in good faith and reflect our current judgment regarding the direction of our business, actual results will almost always vary, sometimes materially, from any estimates, predictions, projections, assumptions, or other future performance suggested herein. We undertake no obligation to update forward-looking statements to reflect events or circumstances occurring after the date of such statements.

Such estimates, projections or other forward-looking statements involve various risks and uncertainties as outlined below. We caution readers of this annual report that important factors in some cases have affected and, in the future, could materially affect actual results and cause actual results to differ materially from the results expressed in any such estimates, projections or other forward-looking statements. In evaluating us, our business and any investment in our business, readers should carefully consider the following factors.

Risks Relating to Our Business:

Our independent auditors have expressed substantial doubt about our ability to continue as a going concern, which may hinder our ability to obtain future financing.

In their report dated July 2, 2007, our independent auditors stated that our consolidated financial statements for the fiscal year ended March 31, 2007 were prepared assuming that we would continue as a going concern. Our ability to continue as a going concern is an issue raised as a result of recurring losses from operations and periodic working capital deficiencies. Our ability to continue as a going concern is subject to our ability to obtain necessary funding from outside sources, including obtaining additional funding from the sale of our securities. Our continued net operating losses increase the difficulty in meeting such goals and there can be no assurances that such funding methods will prove successful.

We have a history of losses that may continue, which may negatively impact our ability to achieve our business objectives.

We have accumulated a deficit of \$16,645,776 to March 31, 2007 and incurred net losses applicable to common shareholders of \$7,765,427 for the fiscal year ended March 31, 2007; and \$5,295,572 for the fiscal year ended March 31, 2006. We cannot assure you that we can achieve or sustain profitability on a quarterly or annual basis in the future. Our operations are subject to the risks and competition inherent in the establishment of a business enterprise. There is no assurance that future operations will be profitable. We may not achieve our business objectives and the failure to achieve such goals would have an adverse impact on us.

If we are unable to obtain additional funding, our business operations will be harmed; and if we do obtain additional financing, our then existing shareholders may suffer substantial dilution.

We will require additional funds to sustain and expand our oil and gas exploration activities. We anticipate that we will require up to approximately \$18,500,000 to fund our continued operations for the fiscal year ending March 31, 2008. Additional capital will be required to effectively support our operations and to implement our business strategy. 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 our ability to grow and inhibit our ability to continue to conduct business operations. If we are unable to obtain additional financing, we will likely be required to curtail our exploration plans and possibly cease our operations. Any additional equity financing may result in substantial dilution to our then existing shareholders.

We have a limited operating history and if we are not successful in continuing to grow our business, then we may have to scale back or even cease our ongoing business operations.

Our Company has a limited operating history in the business of oil and gas exploration and must be considered to be an exploration stage company. We have no history of revenues from operations and have no significant tangible assets. We have yet to generate positive earnings and there is no assurance that we will ever operate profitably. Our success is significantly dependent on successful lease acquisition, drilling, completion and production programs. Our operations will be subject to all the risks inherent in the establishment of a developing enterprise and the uncertainties arising from the absence of a significant operating history.

We may be unable to locate recoverable reserves or operate on a profitable basis. We are in the exploration stage and potential investors should be aware of the difficulties normally encountered by enterprises in the exploration stage. If our business plan is not successful, and we are not able to operate profitably, investors may lose some or all of their investment in our Company.

If we are unable to retain the services of Mr. Carlson and other senior executives or if we are unable to successfully recruit qualified managerial and field personnel having experience in oil and gas exploration, we may not be able to continue our operations.

Our success depends to a significant extent upon the continued service of Mr. John Carlson, our president and chief executive officer, and a director. Loss of the services of Mr. Carlson could have a material adverse effect on our growth, revenues, and prospective business. We do not maintain key-man insurance on the life of Mr. Carlson. In addition, in order to successfully implement and manage our business plan, we will be dependent upon, among other things, successfully recruiting qualified managerial and field personnel who have experience in the oil and gas exploration industry. Competition for qualified individuals is intense. There are no assurances that we will be able to find and attract new employees; or to retain existing employees; or to find, attract and retain qualified personnel on acceptable terms.

As our properties are in the exploration and development stage, there is no assurance that we will establish commercially exploitable discoveries on our properties.

Exploration for economic reserves of oil and gas is subject to a number of risk factors. Few properties that are explored are ultimately developed into producing oil and/or gas wells. Our properties are in the exploration stage only and are without proven reserves of oil and gas. We may not establish commercially exploitable discoveries on any of our properties; and we may never have profitable operations.

We are unsure about the likelihood that we will discover and establish a profitable production of gas from coal seams in the Coos Bay or Chehalis Basin regions.

Currently, there is no commercial production of coal in the state of Oregon or Washington. Additionally, no coalbed methane gas production exists either in Washington or Oregon. Coalbed methane gas only accounts for a small percentage of all natural gas production in the United States. The closest coalbed methane production to the Coos Bay and Chehalis Basin occurs in the state of Wyoming. As a result, it is unlikely that we will discover any significant amount of coalbed methane in the Coos Bay or Chehalis Basins or be able to establish wells that will produce a profitable amount of coalbed methane gas.

Even if we are able to discover commercially exploitable resources on any of the properties on which we hold an interest, we may never achieve profitability or may not receive an adequate return on invested capital because the potential profitability of oil and gas ventures depends upon factors beyond the control of our Company.

The potential profitability of oil and gas properties is dependent upon many factors beyond our control. For instance, world prices and markets for oil and gas are unpredictable, highly volatile, potentially subject to governmental fixing, pegging, controls or any combination of these and other factors, and respond to changes in domestic, international, political, social and economic environments.

Additionally, due to worldwide economic uncertainty, the availability and cost of funds for production and other expenses have become increasingly difficult, if not impossible, to project. In addition, adverse weather conditions can also hinder drilling operations. These changes and events may materially affect our future financial performance. These factors cannot be accurately predicted and the combination of these factors may result in our Company not receiving an adequate return on invested capital.

Even if we are able to discover and complete a gas well, there can be no assurance the well will become profitable.

We have not yet established a commercially viable coalbed methane gas resource. Even if we are able to do so, a productive well may become uneconomic in the event water or other deleterious substances are encountered which impair or prevent the production of oil and/or gas from the well. In addition, production from any well may be unmarketable if it is impregnated with water or other deleterious substances. In addition, the marketability of oil and gas which may be acquired or discovered will be affected by numerous factors, including the proximity and capacity of oil and gas pipelines and processing equipment, market fluctuations of prices, taxes, royalties, land tenure, allowable production and environmental protection, all of which could result in greater expenses than revenue generated by the well.

The oil and gas industry is highly competitive and there is no assurance that we will be successful in acquiring more leases.

The oil and gas industry is intensely competitive. We compete with numerous individuals and companies, including many major oil and gas companies that have substantially greater technical, financial and operational resources. Accordingly, there is a high degree of competition for desirable oil and gas leases, for suitable properties for drilling operations, for necessary drilling equipment, as well as for access to funds. We cannot predict if the necessary funds can be raised or that any projected work will be completed. Our budget anticipates our acquiring additional leases for acreage in both the Coos Bay and Chehalis Basins. This acreage may not become available or, if it is available for leasing, we may not be successful in acquiring clear title to the leases. If we do not acquire the leases, we will not be able to completely fulfill our current business plan. Failure to carry out our business plan may reduce the likelihood of achieving profitable operations and may discourage investors from investing in our Company. If these things happen, we may not be able to raise additional funds when we need them and we may have to cease operations.

The marketability of natural resources will be affected by numerous factors beyond our control that may result in us not receiving an adequate return on invested capital to be profitable or viable.

The marketability of natural resources that may be acquired or discovered by us will be affected by numerous factors beyond our control. These factors include market fluctuations in oil and gas pricing and demand, the proximity and capacity of natural resource markets and processing equipment, governmental regulations, land lease tenure, land use, regulation concerning the importing and exporting of oil and gas, and environmental protection regulations.

The exact effect of these factors cannot be accurately predicted, but the combination of these factors may result in us not receiving an adequate return on invested capital to be profitable or viable.

Oil and gas operations are subject to comprehensive regulations that may cause substantial delays or require capital outlays in excess of those anticipated causing an adverse effect on our Company.

Oil and gas operations are subject to federal, state, and local laws relating to the protection of the environment, including laws regulating removal of natural resources from the ground and the discharge of materials into the environment. Oil and gas operations are also subject to federal, state, and local laws and regulations that seek to maintain health and safety standards by regulating the design and use of drilling methods and equipment. Various permits from government bodies are required for drilling operations to be conducted; no assurance can be given that such permits will be granted. Environmental standards imposed by federal, state, or local authorities may be changed, and any such changes may have material adverse effects on our activities. Moreover, compliance with such laws may cause substantial delays or require capital outlays in excess of those anticipated, thus causing an adverse effect on our business operations. Additionally, we may be subject to liabilities for pollution or other environmental damages. We believe that our operations comply, in all material respects, with all applicable environmental and health and safety regulations. To date, we have not been required to spend any material amounts on compliance with environmental and health and safety regulations. However, we may be required to do so in the future and this may affect our ability to expand or maintain our operations. Our operating partners maintain insurance coverage customary to the industry; however, we are not fully insured against all possible environmental and health and safety risks.

Oil and gas exploration and production activities are subject to certain environmental regulations that may prevent or delay the commencement or continuation of our operations.

In general, our oil and gas exploration and production activities are subject to certain federal, state and local laws and regulations relating to environmental quality and pollution control. Such laws and regulations increase the costs of these activities and may prevent or delay the commencement or continuation of a given operation. Compliance with these laws and regulations has not had a material effect on our operations or financial condition to date. Specifically, we are subject to legislation regarding emissions into the environment, water discharges and storage and disposition of hazardous wastes. In addition, legislation has been enacted which requires well and facility sites to be abandoned and reclaimed to the satisfaction of state authorities. However, such laws and regulations are frequently changed and we are unable to predict the ultimate cost of compliance. Generally, environmental requirements do not appear to affect us any differently or to any greater or lesser extent than other companies in the industry. We believe that our operations comply, in all material respects, with all applicable environmental regulations. Our operating partners maintain insurance coverage customary to the industry; however, we are not fully insured against all possible environmental risks.

Exploratory drilling involves many risks and we may become liable for pollution or other liabilities that may have an adverse effect on our financial position.

Drilling operations generally involve a high degree of risk. Hazards such as unusual or unexpected geological formations, power outages, labor disruptions, blow-outs, sour gas leakage, fire, inability to obtain suitable or adequate machinery, equipment or labor, and other risks are involved. We may become subject to liability for pollution or hazards against which we cannot adequately insure or against which we may elect not to insure. Incurring any such liability may have a material adverse effect on our financial position and operations.

There are a large number of shares issuable upon conversion or redemption of our Series E Convertible Preferred Stock and the sale of these shares may depress the market price of our common stock.

As of March 31, 2007, we had 33,424,941 shares of common stock issued and outstanding and 25,000 shares of Series E Convertible Preferred Stock outstanding. In addition, we may be obligated to issue between 10,000,000 to approximately 50,000,000 shares of our common stock upon conversion or redemption of the outstanding Series E Convertible Preferred Stock. Ten million shares of our common stock, including all of the shares issuable upon conversion or redemption of the Series E Convertible Preferred Stock may be sold pursuant to a registration statement that became effective on February 9, 2007. Additional shares associated with conversion or redemption of the Series E Convertible Stock may also become available for sale. The sale of these shares may adversely affect the market price of our common stock.

The issuance of shares upon conversion or redemption of the Series E Convertible Preferred Stock may cause immediate and substantial dilution to our existing stockholders.

The issuance of shares upon conversion or redemption of the Series E Convertible Preferred Stock may result in substantial dilution to the interests of other stockholders since we may choose to pay for our redemption of the Series E Convertible Preferred Stock through issuance of our common stock and the selling stockholders may also choose to convert and sell the full amount issuable on conversion. The upper limit of the number of shares of our common stock that may be issued from conversion or redemption of Series E Convertible Preferred Stock in the event of default is approximately 50,000,000 shares, which will have the effect of further diluting the proportionate equity interest and voting power of holders of our common stock.

Redemption of shares for cash under the terms of the Series E Convertible Preferred Stock may cause us to scale back or cease our operations if we are unable to obtain substitute funding under acceptable terms.

Enforcement of the conditional mandatory redemption requirement under the terms of the Series E Convertible Stock would result in a monthly cash outflow of more than \$1 million and could have a material adverse effect on our financial position and operations. Subsequent to March 31, 2007 and through July 1, 2007, the Series E Convertible Preferred Stock investor, Cornell Capital Partners, LP, has elected, in lieu of cash payments, to accept a limited redemption of \$2,350,000 of Series E Preferred Stock plus accrued dividends, which has been converted into 4,767,038 shares of our common stock at a conversion price of \$0.50 per share. However, there is no assurance that the Series E Convertible Preferred Stock investor will continue to waive the contractual redemption requirement.

Risks Relating to Our Shares of Common Stock:

If we fail to remain current in our reporting requirements, we could be removed from the OTC Bulletin Board which would limit the ability of broker-dealers to sell our securities and the ability of stockholders to sell their securities in the secondary market.

Companies trading on the OTC Bulletin Board, such as us, must be reporting issuers under Section 12 of the Securities Exchange Act of 1934, as amended, and must be current in their reports under Section 13, in order to maintain price quotation privileges on the OTC Bulletin Board. If we fail to remain current on our reporting requirements, we could be removed from the OTC Bulletin Board. As a result, the market liquidity for our securities could be severely adversely affected by limiting the ability of broker-dealers to sell our securities and the ability of stockholders to sell their securities in the secondary market.

Our shares of common stock is subject to the penny stock rules of the Securities and Exchange Commission and the trading market in our securities is limited, which makes transactions in our shares of common stock cumbersome and may reduce the value of an investment in our shares of common stock.

The Securities and Exchange Commission has adopted Rule 15c-9 which establishes the definition of a penny stock, for the purposes relevant to us, as any equity security that has a market price of less than \$5.00 per share or with an exercise price of less than \$5.00 per share, subject to certain exceptions. For any transaction involving a penny stock, unless exempt, the rules require:

- that a broker or dealer approve a person's account for transactions in penny stocks; and
- the broker or dealer receives from the investor a written agreement to the transaction, setting forth the identity and quantity of the penny stock to be purchased.

In order to approve a person's account for transactions in penny stocks, the broker or dealer must:

- obtain financial information and investment experience objectives of the person; and
- make a reasonable determination that the transactions in penny stocks are suitable for that person and the person has sufficient knowledge and experience in financial matters to be capable of evaluating the risks of transactions in penny stocks.

The broker or dealer must also deliver, prior to any transaction in a penny stock, a disclosure schedule prescribed by the Securities and Exchange Commission relating to the penny stock market, which, in highlight form:

- sets forth the basis on which the broker or dealer made the suitability determination; and
- that the broker or dealer received a signed, written agreement from the investor prior to the transaction.

Generally, brokers may be less willing to execute transactions in securities subject to the penny stock rules. This may make it more difficult for investors to dispose of our shares of common stock and cause a decline in the market value of our shares of common stock.

Disclosure also has to be made about the risks of investing in penny stocks in both public offerings and in secondary trading and about the commissions payable to both the broker-dealer and the registered representative, current quotations for the securities and the rights and remedies available to an investor in cases of fraud in penny stock transactions. Finally, monthly statements have to be sent disclosing recent price information for the penny stock held in the account and information on the limited market in penny stocks.

National Association of Securities Dealers Inc. sales practice requirements may also limit a stockholder's ability to buy and sell our shares of common stock.

In addition to the penny stock rules described above, the National Association of Securities Dealers Inc. has adopted rules that require that in recommending an investment to a customer, a broker-dealer must have reasonable grounds for believing that the investment is suitable for that customer. Prior to recommending speculative low priced securities to their non-institutional customers, broker-dealers must make reasonable efforts to obtain information about the customer's financial status, tax status, investment objectives and other information. Under interpretations of these rules, the National Association of Securities Dealers Inc. believes that there is a high probability that speculative low priced securities will not be suitable for at least some customers. The National Association of Securities Dealers Inc. requirements make it more difficult for broker-dealers to recommend that their customers buy our shares of common stock, which may limit your ability to buy and sell our shares of common stock and have an adverse effect on the market for its shares.

ITEM 2. PROPERTIES

Our principal office is located at 1 SW Columbia Street, Suite 640, Portland, Oregon 97258 and was leased for a term beginning October 1, 2006 and ending September 30, 2009 at a cost of \$4,400 per month. The office space consists of five offices, a conference room, space for modular workstations and a reception area totaling approximately 2,708 square feet.

In addition, Methane Energy Corp. leases an office at 200 North Adams, Coquille, Oregon, 97423. The lease runs from August 1, 2006 through July 31, 2008 at a cost of \$3,125 per month. The Coquille office is comprised of approximately 3,323 square feet, consisting of twelve offices, a kitchen, and space for modular workstations. We believe that our current office space and facilities are sufficient to meet our present needs and do not anticipate any difficulty securing alternative or additional space, as needed, on terms acceptable to us.

Through our subsidiary, Methane Energy Corp., we have leased approximately 118,000 of undeveloped acreage in the Coos Bay Basin as of June 2007. Sixteen thousand acres are leased from Menasha Development Corporation, 29,000 acres from Coos County, 14,000 acres from the State of Oregon, and approximately 59,000 acres from various companies and individual landowners. The total annual lease payments related to the 118,000 acres are approximately \$122,000. These leases typically have a five-year term with an option for an additional five years with renewal conditioned on continued payment of annual lease rentals. In addition, we have granted the landowners royalties, typically averaging 12.5% on gross sales resulting from the leases in addition to the 4% overriding royalty interest to be paid to the project originators.

We have recently completed the initial phases of a pilot well program designed to assess the coalbed methane production capability of the wells in the Coos Bay Basin. The test results will assist our management in determining exploration potential and economic viability of further development plans in the area. We contract for drilling rigs and related services from outside sources. Our coal and water samples are analyzed by independent testing labs, then interpreted by analysts such as Sproule Associates Inc. and MHA Petroleum Consultants for resource assessment.

Through our subsidiary, Cascadia Energy Corp., we have acquired mineral leasehold rights to 176,000 acres in the Chehalis Basin area of Washington State as of June 2007. We executed a one-year lease option agreement on August 9, 2005 with Weyerhaeuser Company to lease 100,000 acres that we may select from an overall 365,000 acreage block in the Chehalis Basin during the one-year option term and we also obtained a two-year first right of refusal on the balance of the acreage that we do not select during its initial selection process. Cash consideration of \$100,000 was paid for the lease option of which we paid \$60,000 and our joint venture partner, St. Helen's Energy LLC, paid the remaining \$40,000. In February 2007, we extended the term of this option for an additional year by committing to a work program of \$285,715 by August 2007, pertaining to the full 100,000 acres but may be proportionally reduced based on the number of acres selected for exploration activity during the initial option period. Alternatively, we may simply execute a lease agreement on the acreage at an annual rental rate of \$1.00 per acre.

From October 2006 through May 2007, Cascadia Energy Corp has entered into three additional lease agreements with Weyerhaeuser totaling 36,991 acres, two that required payment of upfront lease bonuses of \$428,610 and one that requires annual lease payments of \$1,275. Certain of these agreements include a provision requiring Cascadia Energy Corp. to commence a well within the first two years of the lease, or the lease will terminate and we would be required to make a payment of \$75,000 to Weyerhaeuser.

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 an option price of \$1 per net mineral acre or \$15,280. The initial term of this option is for a period of 18 months ending on November 9, 2007. If Cascadia Energy Corp. expends \$200,000 on operations and activities in the overall Cedar Creek area during the initial term, the initial term shall be extended for an additional year.

If the conditions for extension of the initial term are not satisfied, this option will terminate as of the expiration of the initial term and, as additional consideration, Cascadia Energy Corp. will pay Pope Resources LP an additional sum of \$30,560.

During the last 18 months, Cascadia Energy Corp. acquired through lease auctions an additional 23,735 acres from the State of Washington Land Trust for initial lease terms of five-years, which acreage is adjacent or contiguous to other of our acreage in the Chehalis Basin. This acreage was acquired for aggregate lease consideration of \$37,719 and has been included in the Chehalis Basin project area.

We have completed considerable geological and geophysical analysis on our Chehalis Basin project acreage and plan to continue exploratory activities. There is no assurance that we will raise sufficient capital to take advantage of our opportunity in Washington State.

ITEM 3. LEGAL PROCEEDINGS

We know of no material, existing or pending legal proceedings against our Company, nor are we involved as a plaintiff in any material proceeding or pending litigation. There are no proceedings in which any of our directors, officers or affiliates, or any registered or beneficial shareholder, is an adverse party or has a material interest adverse to our interest.

ITEM 4. SUBMISSION OF MATTERS TO VOTE OF SECURITIES HOLDERS

We held an annual general meeting of stockholders on December 8, 2006 in Coos Bay, Oregon. Proxies were solicited pursuant to Regulation 14A under the Securities Exchange Act of 1934, there was no solicitation in opposition to the management's nominees as listed in the proxy statement and all of management's nominees were elected. Our directors elected at this annual meeting included Michael Raleigh and Curtis Hartzler. Stockholders also approved the appointment of Peterson Sullivan PLLC as our independent auditors (17,394,455 shares voted for, 12,480 shares voted against, 20,020 shares abstained) and approved the amended 2006 Equity Incentive Plan to increase the maximum number of shares reserved for issuance under the plan, including options already granted, from 1,000,000 to 1,800,000 shares (4,006,068 shares voted for, 537,492 shares voted against, 157,757 shares abstained, 12,725,638 shares not voted).

PART II

ITEM 5. MARKET FOR COMMON EQUITY, RELATED STOCKHOLDER MATTERS AND ISSUER PURCHASE OF EQUITY SECURITIES

In the United States, our shares of common stock are traded on the National Association of Securities Dealers Inc. OTC Bulletin Board under the symbol TREN. The following quotations obtained from Stockwatch reflect the high and low bids for our shares of common stock based on inter-dealer prices, without retail mark-up, mark-down or commission and may not represent actual transactions.

The high and low bid prices of our shares of common stock for the periods indicated below are as follows:

Quarter Ended	High	Low
March 31, 2004	\$ 0.51	\$ 0.05
June 30, 2004	\$ 1.29	\$ 0.38
September 30, 2004 ⁽¹⁾	\$ 1.18	\$ 0.65
December 31, 2004	\$ 1.37	\$ 0.72
March 31, 2005	\$ 1.36	\$ 0.93
June 30, 2005	\$ 3.56	\$ 0.95
September 30, 2005	\$ 2.58	\$ 1.56
December 31, 2005	\$ 2.43	\$ 1.68
March 31, 2006	\$ 3.07	\$ 1.94
June 30, 2006	\$ 3.93	\$ 1.62
September 30, 2006	\$ 2.58	\$ 1.40
December 31, 2006	\$ 2.00	\$ 0.99
March 31, 2007	\$ 1.35	\$ 0.97

- (1) On July 30, 2004, our trading symbol changed from SBSY to TREN to reflect the change in our corporate name.

Holdings

Our shares of common stock are issued in registered form. Computershare Trust Company, Inc., 350 Indiana Street, Suite 800, Golden, CO 80401 (Telephone: 303.262.0600; Facsimile: 303.262.0604) is the registrar and transfer agent for our shares of common stock.

On July 6, 2007, the shareholders list of our shares of common stock showed 125 registered holders of our shares of common stock and 36,561,953 shares of common stock outstanding. The number of record holders was determined from the records of our transfer agent and does not include beneficial owners of shares of common stock whose shares are held in the names of various security brokers, dealers, and registered clearing agencies.

Dividends

During the fiscal year ended March 31, 2007, we accrued or paid preferred stock dividends of \$695,339. See Notes 10 and 12 to our audited consolidated financial statements.

Equity Compensation Plan Information

The following table provides a summary of the number of options granted under our compensation plans, as well as options granted outside of our compensation plans, the weighted average exercise price and the number of options remaining available for issuance all as at March 31, 2007.

	Number of securities to be issued upon exercise of outstanding options	Weighted-Average exercise price of outstanding options, warrants and rights	Number of securities remaining available for future issuance under equity compensation plans
Equity compensation plans not approved by security holders ⁽¹⁾	200,000	\$ 0.50	Nil
Equity compensation plans approved by security holders ⁽²⁾	2,300,000	\$ 1.53	Nil
Equity compensation plans approved by security holders ⁽³⁾	1,465,000	\$ 2.09	335,000
Total	3,965,000	\$ 1.68	335,000

(1) Referring to our 2004 non-qualified stock option plan. Please see the 2004 Non- Qualified Stock Option Plan section below.

(2) Referring to our 2005 equity incentive plan. Please see the 2005 Non-Qualified Stock Option Plan section below.

(3) Referring to our 2006 equity incentive plan. Please see the 2006 Equity Incentive Plan section below

2004 Non-Qualified Stock Option Plan

On February 10, 2004, our board of directors adopted the 2004 Non-Qualified Stock Option Plan (the 2004 Plan) for our executives, employees and outside consultants and advisors. Under the plan, executives, employees and outside consultants and advisors may receive awards of non-qualified stock options. The purpose of the plan is to provide executives, employees and non-employee consultants and advisors with an increased incentive to make contributions to our Company. The aggregate number of shares of common stock that may be granted by our Company under the 2004 Plan will not exceed a maximum of 1,800,000 shares of common stock during the period of the plan. The 2004 Plan shall terminate upon the earlier of February 10, 2014 or the issuance of all shares of common stock granted under the plan. The option prices per share are determined by our board of directors when the stock option is granted.

During the year ended March 31, 2004, we granted 1,060,000 stock options to various consultants of our Company. Each option entitles the holder to acquire one share of common stock at an exercise price of \$0.10 per share. These options have vesting periods ranging from immediately to over seven months, and expire two years from date of grant.

During the fiscal year ended March 31, 2005, we granted a total of 1,340,000 stock options of which 740,000 were under the 2004 Plan and the other 600,000 were outside the plan. Of the total 1,340,000 options, 740,000 stock options were granted to various directors and consultants of our Company under the 2004 Plan. Each option entitles the holder to acquire one share of common stock at exercise prices ranging from \$0.10 to \$0.50 per share. Vesting of these options ranged from 100% immediately to 25% immediately and 25% every six months afterward until fully vested 18 months from the date of grant. These options expire five years from the date of grant.

Of the 600,000 stock options granted outside the 2004 Plan, 200,000 stock options with an exercise price of \$1.00 per share and another 200,000 with an exercise price of \$2.00 per share were granted pursuant to a mail distribution agreement with a third party. These options vested immediately and were exercisable until November 1, 2005. These options have a cashless exercise provision whereby the optionee can elect to receive shares of common stock in lieu of paying cash for the options based on a formula that includes using the average closing prices of the five trading days preceding the exercise date.

The other 200,000 stock options granted outside the 2004 Plan were to a consultant providing public and investor relations services. These options have an exercise price of \$0.83 per share, vested 25% immediately, and 25% every quarter thereafter. Either party may terminate the investor relations agreement with thirty days written notice.

As of March 31, 2007, 200,000 options with an exercise price of \$0.50 per share remained outstanding under the 2004 Plan.

2005 Equity Incentive Plan

On March 17, 2005, our board of directors adopted the 2005 Equity Incentive Plan for our executives, employees and outside consultants and advisors. Under the 2005 Equity Incentive Plan, executives, employees and outside consultants and advisors may receive awards as described in the 2005 Equity Incentive Plan. The purpose of the equity incentive plan is to provide long-term performance incentives to those key employees and consultants of our Company and our subsidiaries who are largely responsible for the management, growth and protection of the business of our Company and our subsidiaries. A maximum of 2,000,000 shares of our common stock are subject to the 2005 Equity Incentive Plan. As of December 31, 2005, a registration statement on Form S-8 was filed to register the common stock issuable under our 2005 Equity Incentive Plan with an amendment to increase the number of shares under the plan to 2,500,000. As of March 31, 2007, 2,500,000 options with an average exercise price of \$1.47 per share had been granted under the 2005 Equity Incentive Plan as further described below.

On April 1, 2005, 1,200,000 stock options were granted to directors and officers under the 2005 Equity Incentive Plan to purchase 1,200,000 shares of our common stock. On April 15, 2005, 300,000 stock options were granted to an officer of our subsidiary, Methane Energy Corp., under the 2005 Equity Incentive Plan to purchase 300,000 shares of our common stock with an exercise price of \$1.25 per share. On June 2, 2005, 200,000 stock options were granted to consultants under the 2005 Equity Incentive Plan to purchase 200,000 shares of our common stock with an exercise price of \$2.00 per share. On October 15, 2005, 250,000 stock options were granted to a newly hired employee of our subsidiary, Methane Energy Corp., under the 2005 Equity Incentive Plan to purchase 250,000 shares of our common stock with an exercise price of \$2.00 per share.

On November 22, 2005 40,000 stock options were granted to a consultant under the 2005 Equity Incentive Plan to purchase 40,000 shares of our common stock with an exercise price of \$2.00 per share. On January 16, 2006, 310,000 stock options were granted to a newly hired officer and to other employees and consultants under the 2005 Equity Incentive Plan with an exercise price of \$2.11 per share. In addition, we had previously granted a consultant the option to purchase 200,000 shares of our common stock at an exercise price of \$0.83 per share pursuant to a consulting agreement for public and investor relations with a third party in which 25% of the options vest immediately and 25% vest every quarter thereafter and either party may terminate the investor relations agreement with thirty days written notice. These options were originally granted outside of the 2005 Equity Incentive Plan, subsequently were revised to be included under the 2005 Equity Incentive Plan, and were exercised by the consultant during fiscal year 2007. There are currently no further options available for grant under the 2005 Equity Incentive Plan.

2006 Equity Incentive Plan

On May 10, 2006, our board of directors adopted the 2006 Equity Incentive Plan for our executives, employees and outside consultants and advisors. Under the 2006 Equity Incentive Plan, executives, employees and outside consultants and advisors may receive awards as described in the 2006 Equity Incentive Plan. The purpose of the equity incentive plan is to provide long-term performance incentives to those key employees and consultants of our Company and our subsidiaries who are largely responsible for the management, growth and protection of the business of our Company and our subsidiaries. A maximum of 1,800,000 shares of our common stock are subject to the 2006 Equity Incentive Plan. As of March 31, 2007, 1,465,000 options with an average exercise price of \$2.09 per share had been granted under the 2006 Equity Incentive Plan to directors and to employees. Under the 2006 Equity Incentive Plan, 355,000 options remain available for grant.

Recent Sales of Unregistered Securities

In May 2004, we issued 1,442,930 shares of our common stock and 1,442,930 warrants to purchase our shares of common stock at an exercise price of \$0.50 pursuant to a private placement in exchange for aggregate cash payments of \$505,025. We issued 300,071 shares of our common stock to two non-U.S. persons (as that term is defined in Regulation S of the Securities Act of 1933) or entities for aggregate payments of \$105,025 in an offshore transaction relying on Regulation S and/or Section 4(2) of the Securities Act of 1933. We also issued 1,142,859 shares of our common stock to two U.S. persons or entities for aggregate cash payments of \$400,000 and in reliance on Rule 506 of Regulation D and Section 4(2) of the Securities Act of 1933. Certain registration rights were granted to investors pursuant to this financing. No advertising or general solicitation was employed in offering the securities. The offerings and sales were made to a limited number of persons, all of whom were our accredited investors, business associates or executive officers, and transfer was restricted by us in accordance with the requirements of the Securities Act of 1933.

In June 2004, we issued 600,000 shares of our common stock pursuant to the lease purchase and sale agreement with Geo-Trends-Hampton International, LLC. These shares of common stock were issued in reliance on Rule 506 of Regulation D and Section 4(2) of the Securities Act of 1933, as amended. No advertising or general solicitation was employed in offering the securities. The offerings and sales were made to a limited number of persons, all of whom were our accredited investors, business associates or executive officers, and transfer was restricted by us in accordance with the requirements of the Securities Act of 1933.

In June 2004, we issued 300,000 shares of our common stock pursuant to an investor relation's agreement. These shares of common stock were issued to non-U.S. persons (as that term is defined in Regulation S of the Securities Act of 1933), in an offshore transaction relying on Regulation S and/or Section 4(2) of the Securities Act of 1933.

In June 2004, we issued 500,000 shares of our common stock and 500,000 warrants to purchase our shares of common stock pursuant to a private placement in exchange for aggregate cash payments of \$200,000. The shares of common stock were issued to three U.S. persons or entities in reliance on Rule 506 of Regulation D under the Securities Act of 1933. Certain registration rights were granted to investors pursuant to this financing. No advertising or general solicitation was employed in offering the securities. The offerings and sales were made to a limited number of persons, all of whom were our accredited investors, business associates or executive officers, and transfer was restricted by us in accordance with the requirements of the Securities Act of 1933.

In August 2004, we issued 2,200 shares of Series B convertible preferred stock for \$2,200,000. These shares were issued in reliance on Rule 506 of Regulation D under the Securities Act of 1933. Certain registration rights were granted to investors pursuant to this financing. No advertising or general solicitation was employed in offering the securities. The offerings and sales were made to a limited number of persons, all of whom were our accredited investors, business associates or executive officers, and transfer was restricted by us in accordance with the requirements of the Securities Act of 1933.

In February 2005, we issued 600,000 shares of our common stock pursuant to a lease purchase and sale agreement with Geo-Trends-Hampton International, LLC. These shares were issued in reliance on Rule 506 of Regulation D under the Securities Act of 1933. No advertising or general solicitation was employed in offering the securities. The offerings and sales were made to a limited number of persons, all of whom were our accredited investors, business associates or executive officers, and transfer was restricted by us in accordance with the requirements of the Securities Act of 1933.

In February 2005, we issued 2,500,000 shares of our common stock for \$2,500,000 pursuant to two securities purchase agreements entered into with two accredited investors. These shares were issued in reliance on Rule 506 of Regulation D under the Securities Act of 1933. No advertising or general solicitation was employed in offering the securities. The offerings and sales were made to a limited number of persons, all of whom were our accredited investors, business associates or executive officers, and transfer was restricted by us in accordance with the requirements of the Securities Act of 1933.

In July and September 2005 and January 2006 we issued in a series of related tranches a total of 12,500 shares of Series C convertible preferred stock for \$12,500,000. These shares were issued in reliance on Rule 506 of Regulation D under the Securities Act of 1933. Certain registration rights were granted to investors pursuant to this financing. No advertising or general solicitation was employed in offering the securities. The offerings and sales were made to a limited number of persons, all of whom were our accredited investors, business associates or executive officers, and transfer was restricted by us in accordance with the requirements of the Securities Act of 1933. The Series C convertible preferred stock was converted to 7,651,648 shares of our common stock, 2,083,614 of which were issued in fiscal 2006 and 5,568,034 of which were issued in our fiscal 2007 year end. The Series C convertible preferred stock has now been converted in full. On May 10, 2006, we issued 228,714 of our common shares in payment of \$343,712 due in accrued dividends on our Series C convertible preferred stock during the period it was outstanding. Dividends accrued on our Series C convertible preferred stock have now been paid in full.

In February 2006, we issued 600,000 shares of our common stock pursuant to a lease purchase and sale agreement with Geo-Trends-Hampton International, LLC. These shares were issued in reliance on Rule 506 of Regulation D under the Securities Act of 1933. No advertising or general solicitation was employed in offering the securities. The offerings and sales were made to a limited number of persons, all of whom were our accredited investors, business associates or executive officers, and transfer was restricted by us in accordance with the requirements of the Securities Act of 1933.

In June 2006 we committed to the issuance of 25,000 shares of Series E convertible preferred stock for \$25,000,000. These shares were issued in reliance on Rule 506 of Regulation D under the Securities Act of 1933. Certain registration rights were granted to investors pursuant to this financing. No advertising or general solicitation was employed in offering the securities. The offerings and sales were made to one accredited investor and transfer was restricted by us in accordance with the requirements of the Securities Act of 1933. The Series E convertible preferred stock is convertible into common stock by the holder at any time by dividing the dollar amount being converted by \$2.50. The holder of the Series E convertible preferred stock may only convert up to \$1,250,000 of Series E convertible preferred stock into common shares in any 30 day period. Commencing on the earlier of the month following acceptance of the registration statement and December 1, 2006, we were required to convert up to 5% of the initial investment each month, payable in shares valued at \$2.50 if the stock trading price is \$2.50 or above; in stock valued at \$1.67 or in cash at the initial investment amount plus 20% if the stock trading price is between \$1.67 and \$2.50; and in cash at the initial investment amount plus 20% if the stock trading price is below \$1.67.

The first conditional mandatory redemption payment was due on December 1, 2006 with additional payments due on the first trading day of each subsequent month in an amount sufficient to ratably retire the Series E Convertible Preferred Stock over the period ending August 1, 2008. The Series E Convertible Preferred Stock investor chose to waive the monthly conditional mandatory redemption payments otherwise due on December 1, 2006 through March 31, 2007. Subsequent to March 31, 2007 and through July 1, 2007, the investor has elected, in lieu of a cash payment, to accept a limited redemption, totaling \$2,350,000 plus accrued and unpaid dividends, which has been converted into 4,767,038 shares of our common stock at a conversion rate of \$0.50 per share.

We have no assurance that the Series E convertible preferred stock investor will continue to limit the contractual redemption requirement or to accept payment in shares of our common stock at the \$0.50 per share conversion rate.

As a condition of the Series E convertible preferred stock private placement mentioned in the preceding paragraph, we filed a registration statement registering 10,000,000 common shares for conversion from Series E convertible preferred stock. The registration statement was declared effective on February 9, 2007; and all proceeds from the issuance of the Series E convertible preferred stock have been received.

On July 21, 2006, we entered into an agreement with GeoMechanics International, Inc. (GMI) pursuant to which GMI provided certain technical services to the Coos Bay project during the 2006/2007 drilling season in return for 125,000 shares of our common stock. These technical services were valued at \$227,500 and included geomechanical evaluation, modeling and advisory services.

In addition to representations by the above-referenced persons, we have made independent determinations that all of the above-referenced persons, who represented that they were accredited, were accredited or sophisticated investors and that they were capable of analyzing the merits and risks of their investment, and that they understood the speculative nature of their investment. Furthermore, all of the above-referenced persons were provided with access to our Securities and Exchange Commission filings.

Except as expressly set forth above, the individuals and entities to whom we issued securities as indicated in this section of the annual report are unaffiliated with us.

Purchases of Equity Securities by the Issuer and Affiliated Purchasers

We did not purchase any of our shares of common stock or other securities during the fiscal year ended March 31, 2007.

ITEM 6. SELECTED FINANCIAL DATA

The following selected financial data as of and for the dates indicated have been derived from our consolidated financial statements. You should read the following selected financial data together with our consolidated financial statements and related footnotes and Management's Discussion and Analysis of Financial Condition and Results of Operations.

The selected consolidated statement of operations data of our Company for the year ended March 31, 2007 and the consolidated balance sheet data of our Company as of March 31, 2007, 2006 and 2005 are derived from our consolidated financial statements that have been audited by Peterson Sullivan PLLC. The selected consolidated statement of operations data of our Company for the two year period ended March 31, 2004 and 2003 and the consolidated balance sheet data of our Company as of March 31, 2004 and 2003 are derived from our consolidated financial statements that have been audited by Moore Stephens Ellis Foster Ltd., Chartered Accountants. The historical results are not necessarily indicative of the operating results to be expected in the future.

Consolidated Statement of Operations Data (Dollars in Thousands)	Year Ended March 31,				
	2007	2006⁽³⁾	2005	2004⁽²⁾	2003⁽¹⁾
Sales or Operating Revenue	Nil	Nil	Nil	Nil	Nil
Loss from Continuing Operations	\$ (6,360)	\$ (4,036)	\$ (2,419)	\$ (375)	\$ (417)
General and Administrative Expenses	\$ 6,654	\$ 4,193	\$ 2,419	\$ 412	\$ 347
Exploration Costs	\$ 14,668	\$ 13,602	\$ 2,775	\$ -	\$ -
Other Income (Expense)	\$ 294	\$ 157	\$ 1	\$ 37	\$ (70)
Net Loss Applicable to Common Shareholders	\$ (7,765)	\$ (5,296)	\$ (2,701)	\$ (375)	\$ (396)
Basic and Diluted Net Loss per Avg. Shares Outstanding	\$ (0.24)	\$ (0.22)	\$ (0.17)	\$ (0.04)	\$ (0.05)
Consolidated Balance Sheet Data (Dollars in Thousands)	Year Ended March 31				
	2007	2006	2005⁽³⁾	2004	2003⁽²⁾
Working capital	\$3,072	\$ 1,152	\$ 1,969	\$ (15)	\$ (210)
Total assets	\$ 38,957	\$ 19,927	\$ 5,648	\$ 13	\$ 1
Long-term obligations and redeemable preferred stock	\$ 9	\$ -	\$ -	\$ -	\$ -
Cash dividends per common Share	\$ -	\$ -	\$ -	\$ -	\$ -

- (1) We were incorporated under the name of iRV, Inc. on July 17, 2002. We were initially involved in the business of providing services to the e-commerce industry. However, we ceased all activities in the e-commerce industry by the end of the fiscal year ended March 31, 2003.
- (2) We changed our name to Scarab Systems, Inc. on March 24, 2003 and acquired all the issued and outstanding shares of Catalyst Technologies, Inc., which was in the web design and Internet application development business.
- (3) We changed our business to oil and gas exploration when we first incorporated our subsidiary, Methane Energy Corp. on April 30, 2004. Since that time, we have focused our business operations on exploration of oil and gas.

ITEM 7. MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS

You should read the following discussion of our financial condition and results of operations together with our audited consolidated financial statements and the related notes for the years ended March 31, 2007, 2006 and 2005 which appear elsewhere in this annual report. The following discussion contains forward-looking statements that reflect our plans, estimates and beliefs. Our actual results could differ materially from those discussed in the forward looking statements. Factors that could cause or contribute to such differences include, but are not limited to, those discussed below and elsewhere in this annual report, particularly in Item 1 Description of Business Risk Factors of this annual report.

Overview

Until June 22, 2004, when we completed our acquisition of certain oil and gas leases in the Coos Bay region, our business was to provide services to the e-commerce industry. Historically, these services have been comprised of marketing, e-commerce development and the sale and distribution of transaction processing and payment services. Since none of these services were sufficient to provide us with a sustainable foundation, we commenced reviewing opportunities in the resource sector in late fiscal 2004. Accordingly, the accumulated losses of \$883,317 to March 31, 2004 reflect our past activities that have been either discontinued or abandoned.

Our restructuring accelerated from January 1, 2004 to March 31, 2004 (final quarter of fiscal 2004) and was finalized from April 1, 2004 to June 30, 2004 (first quarter of fiscal 2005). We decided to investigate and pursue a number of conventional oil and gas opportunities as well as a number of unconventional (coalbed methane) acquisition candidates. Due diligence on a coalbed methane opportunity was completed in April and May of 2004, resulting in the announcement on May 20, 2004 of the purchase of certain Oregon-based oil and gas lease assets from an independent company. Two private placements from April 1, 2004 to June 30, 2004 (first quarter of fiscal 2005) allowed us to complete the lease acquisitions and to commence leasing additional mineral rights under the land surrounding the existing oil and gas leases. We now have a coalbed methane exploration project in Oregon on which to focus.

Additional private placements from July 1, 2004 to September 30, 2004 (second quarter of fiscal 2005) and from January 1, 2005 to March 31, 2005 (fourth quarter of fiscal 2005) allowed us to complete additional lease acquisitions, core hole drilling, marketing and public relations, and pay legal and professional fees related to the Oregon properties. Private placements completed between April 1, 2005 and June 30, 2006 provided sufficient funding to complete a pilot well program on the Oregon prospect from which we plan to obtain production evaluation data, and to acquire option rights and lease rights on prospective acreage in the State of Washington, and to begin core holes drilling on prospective acreage in the State of Washington. Additional financings will be required to support further leasing activities and related exploratory drilling and testing programs on both our Oregon and Washington prospects.

Land Acquisition

We currently lease approximately 118,000 acres in the Coos Bay Basin of Oregon and 60,720 acres in the Chehalis Basin of Washington with up to an additional 115,280 acres in the Chehalis Basin subject to lease option agreements. Our objective is to achieve a land lease position of approximately 125,000 acres in the Coos Bay Basin and approximately 180,000 acres in the Chehalis Basin by the end of fiscal 2008, although there is no assurance that we can reach these goals.

Exploration Activities

We are planning to continue an aggressive drilling and exploration program in the Coos Bay Basin. Based on existing data, which provided substantial subsurface information and substantive indications of economic viability, we are planning to continue our current completion program and extend our drilling program during fiscal 2008, with up to ten new wells planned in the Westport area of Coos Bay. Contingent upon successful completion results, we plan to connect any producing wells to the Coos County pipeline.

We also plan to continue our exploratory activities in the Chehalis Basin area with up to five stratigraphic and pilot wells to be drilled in the latter half of 2007 and early 2008. Retrieval, analysis and testing of core samples obtained from these wells will provide a basis for structuring a plan for a potential resource development program.

We will require additional funds to sustain and expand our oil and gas exploration activities. We anticipate that we will require up to approximately \$18,500,000 to fund our continued operations for the fiscal year ending March 31, 2008. Additional capital will be required to effectively support our operations and to otherwise implement our overall business strategy.

Major expenditures expected for the next 12 months include the following:

Well drilling, completion and testing:	\$ 12,000,000
Land and leasing expenditures:	800,000
Geological and geophysical expenditures:	400,000
Operating expenses:	1,000,000
General and administrative:	4,300,000
Total	\$ 18,500,000

The continuation of our business is dependent on obtaining further financing, positive results from exploratory activities, and achieving a profitable level of business. In the event that our properties continue to show promise but we don't have the resources to develop them, we would likely seek partners to assist in that development which would dilute our interest in the property, or we may sell our interest outright. Alternatively, we could seek additional financing which could dilute our existing shareholders' interests. Furthermore, if at any stage we determine that it is not expected that our properties can be commercially developed, we may abandon further development work and our interests in the properties.

There are no assurances that we will be able to obtain further funds required for our continued operations. As noted herein, we are pursuing various financing alternatives to meet our immediate and long-term financial requirements. There can be no assurance that additional financing will be available when needed or, if available, that it can be obtained on commercially reasonable terms. If we are not able to obtain the additional financing on a timely basis, we will be unable to conduct our operations as planned, and we will not be able to meet our other obligations as they become due. In such event, we will be forced to scale down or perhaps even cease our operations. Further, there can be no assurance that our exploration will result in any commercial findings of oil and gas.

Liquidity and Capital Resources

Our cash on hand was \$5,941,577 as of March 31, 2007 compared to \$2,658,719 at March 31, 2006. Our working capital surplus was \$3,071,530 as of March 31, 2007 as compared to \$1,151,881 at March 31, 2006.

During the fiscal year ended March 31, 2007, we received net proceeds of \$23,115,000 from the issuance of shares of our preferred stock. This compares to net proceeds of \$3,444,285 from common stock issues and \$11,552,000 from preferred stock issues during the fiscal year ended March 31, 2006.

During the fiscal year ended March 31, 2007, we expended cash of \$13,463,412 on our Coos Bay and Chehalis Basin projects compared to \$11,435,664 during the fiscal year ended March 31, 2006. Expenditures on the Coos Bay project for the year ending March 31, 2007 were \$13,056,712 and included \$385,434 in seismic and lease costs, \$12,250,086 in drilling costs for the pilot well program and \$421,192 for geological and geophysical consulting fees. During the comparative period in the prior year, our expenditures for Coos Bay were \$11,152,801 and included \$522,043 for seismic and lease costs, \$9,997,602 in drilling costs and \$633,156 for geological and geophysical consulting fees.

During the fiscal year ended March 31, 2007, cash expenditures for our Chehalis Basin project totaled \$406,700 and included \$319,344 for seismic and lease costs, \$25,843 in drilling costs and \$61,513 for geological and geophysical consulting. During the same period in the prior year, our expenditures for the Chehalis Basin project area were \$282,863 and included \$224,588 for seismic and lease costs and \$58,725 for geological and geophysical consulting. The Chehalis Basin expenditures are net of the 40% participation by our joint venture partner.

Series B Convertible Preferred Shares

We are authorized to issue up to 5,000 shares of Series B preferred stock, par value \$0.01. On August 27, 2004, we closed a private placement of 2,200 shares of Series B Convertible Preferred Stock (Series B Stock) for \$2,200,000 in gross proceeds. Our Series B Stock is non-voting, carry a cumulative dividend rate of 5% per year, and are convertible into shares of common stock at any time by dividing the dollar amount being converted by the lower of \$1.20 or 80% of the lowest volume weighted average trading price per share of our common stock for 10 trading days. The holder of the Series B Stock may only convert up to \$250,000 of Series B Stock into shares of common stock in any 30-day period. We may redeem the Series B Stock by paying 120% of the invested amount together with any unpaid dividends. As a condition of the private placement, we agreed to file a registration statement registering up to 5,000,000 shares of common stock in order to receive all of the proceeds of the private placement.

During the fiscal year ended March 31, 2005, 500 Series B convertible preferred shares were converted into 614,358 shares of our common stock at an average price of \$0.83 per share of common stock. In the fiscal year ended March 31, 2006, all of the remaining 1,700 Series B convertible preferred shares were converted into 1,795,253 shares of our common stock at an average price of \$1.06 per share of common stock. Please refer to Note 9 to our audited consolidated financial statements.

Series C Convertible Preferred Shares

We are authorized to issue up to 25,000 shares of Series C preferred stock, par value \$0.01. On July 19, 2005, we closed a private placement of Series C Convertible Preferred Stock (Series C Stock) at \$1,000 per share for 12,500 shares. Our Series C Stock is non-voting, carries a cumulative dividend rate of 5% per year, and is convertible into shares of common stock at any time by dividing the dollar amount being converted by the lower of \$3.00 or 85% of the lowest volume weighted average trading price per share of our common stock for 5 trading days. As a condition of the private placement, we agreed to file a registration statement registering up to 12,500,000 shares of common stock in order to receive all of the proceeds of the private placement. Please refer to Note 10 to our audited consolidated financial statements.

During the second fiscal quarter ended September 30, 2005, we completed a \$12,500,000 Series C Stock offering. Under the terms of this financing, we received gross proceeds of \$6,000,000 on closing and an additional \$3,500,000 upon filing a registration statement on Form SB 2 registering the converted shares of common stock for resale. An additional \$3,000,000 in gross proceeds was received upon effectiveness of the registration statement. The registration statement was accepted by the Securities Exchange Commission on January 12, 2006; and on January 13, 2006 our Company received \$2,775,000 in proceeds from payment of the final tranche, net of a 7.5% finders fee. These proceeds are being used to fund our Coos Bay program and for general working capital. For more details please review our Form 8-K filing of July 20, 2005 and refer to Note 10 to our audited consolidated financial statements.

The Series C Stock was converted to 7,651,648 shares of our common stock, 2,083,614 of which were issued in fiscal 2006 and 5,568,034 of which were issued in fiscal 2007. The Series C Stock has now been converted in full.

Series E Convertible Preferred Shares

We are authorized to issue up to 25,000 shares of Series E preferred stock, par value \$0.01. On June 28, 2006, we closed a private placement of Series E Convertible Preferred Stock at \$1,000 per share for 25,000 shares. Our Series E Convertible Preferred Stock is non-voting, carries a cumulative dividend rate of 5% per year, and is convertible into shares of common stock at any time by dividing the dollar amount being converted by \$2.50. The holder of the Series E Convertible Preferred Stock may only convert up to 1,250 Series E Convertible Preferred Stock into common shares in any 30 day period. We may, in our discretion, waive this conversion limitation; and this conversion limitation shall not apply upon the occurrence and continuance of an event of default. We are also required to redeem a certain amount of Series E Convertible Preferred Stock each month starting the month after this registration statement becomes effective or December 1, 2006, whichever is earlier. If the closing trading price of our common stock exceeds \$2.50 for the five consecutive trading days immediately before a redemption date, then we will not need to make the redemption. We may elect to pay for the redemption of Series E Convertible Preferred Stock by cash or through issuance of our common stock. If we choose to pay for the redemption of Series E Convertible Preferred Stock in cash, we will need to pay the liquidation amount of the Series E Convertible Preferred Stock to be redeemed plus a 20% redemption premium. If we choose to pay for the redemption of Series E Convertible Preferred Stock through issuance of our common stock, the number of shares of our common stock to be issued is determined by dividing the liquidation amount of the Series E Convertible Preferred Stock to be redeemed by \$1.67. However, if the closing trading price of our common stock as of the redemption date falls below \$1.67, we will not be allowed to pay for the redemption through issuance of our common stock.

As a condition of the private placement, we agreed to file a registration statement registering up to 15,000,000 shares of common stock in order to receive all of the proceeds of the private placement. The Series E Convertible Preferred Stock investor modified this requirement to initially register 10,000,000 shares of common stock. On February 9, 2007, the registration statement was filed and approved by the Securities and Exchange Commission; and we have received all of the proceeds related to the private placement.

The first conditional mandatory redemption payment was due on December 1, 2006 with additional payments due on the first trading day of each subsequent month in an amount sufficient to ratably retire the Series E Convertible Preferred Stock over the period ending August 1, 2008. The Series E Convertible Preferred Stock investor chose to waive the monthly conditional mandatory redemption payments otherwise due on December 1, 2006 through March 31, 2007. Subsequent to March 31, 2007 and through July 1, 2007, the Series E Convertible Preferred Stock investor has elected, in lieu of a cash payment, to accept a limited redemption, totaling \$2,350,000 plus accrued and unpaid dividends, which has been converted into 4,767,038 shares of our common stock at a conversion rate of \$0.50 per share. We have no assurance that the Series E convertible preferred stock investor will continue to limit the contractual redemption requirement or to accept payment in shares of our common stock at the \$0.50 per share conversion rate. Please refer to Note 12 to our audited consolidated financial statements.

In accordance with the Financial Accounting Standards Board Statement of Financial Accounting Standards (SFAS) No. 150, Accounting for Certain Instruments with Characteristics of Both Liabilities and Equity, the Company has determined that this limited redemption amount of \$2,350,000 has met the characteristics of a liability and, therefore, has been classified as a current liability in the Company's financial statements for its fiscal year ended March 31, 2007. Subsequent to March 31, 2007 and prior to the issuance of these financial statements, the Company and the investor agreed to this limited redemption of 2,350 shares of the Series E Stock as a negotiated settlement to the conditional mandatory redemption provisions that would have required cash redemption payments of \$7,058,824 for 5,882 shares of Series E Stock. See Note 16 for additional discussion regarding this subsequent event related to the conditional mandatory redemption of the Series E Stock.

Warrants

We issued no warrants during the fiscal years ended March 31, 2007 and March 31, 2006. During the fiscal year ended March 31, 2005, we issued warrants attached to a private placement to purchase 1,442,930 shares of our common stock at a price of \$0.50 per share exercisable until May 19, 2006. We also issued warrants attached to a private placement to purchase 500,000 shares of our common stock at a price of \$0.55 per share exercisable until July 7, 2006. A total of 1,614,359 warrants were exercised in fiscal 2005. During the year ended March 31, 2006, 228,571 shares of common stock were issued pursuant to the exercise of share purchase warrants for proceeds of \$114,285. As of March 31, 2006, all previously issued warrants had been exercised. Please refer to Note 8 to our audited consolidated financial statements.

\$2,500,000 Private Placement

To obtain funding for our ongoing operations, we entered into two stock purchase agreements with two accredited investors on February 11, 2005 for the sale of 2,500,000 shares of our common stock for \$2,500,000. The investors provided us with an aggregate of \$2,500,000 on February 15, 2005, pursuant to the stock purchase agreements. The funds from the sale of the shares of common stock were used for business development purposes, working capital needs, and payment of consulting and legal fees.

\$3,300,000 Private Placement

In July 2005, we closed a private placement with three institutional investors resulting in gross proceeds of \$3,300,000 by issuing 1,650,000 shares of common stock at a price of \$2.00 per share. These placement proceeds were used to fund our pilot well program in Coos Bay, Oregon. For more details please review our Form 8-K filings dated July 20, 2005 and refer to Note 13 to our audited consolidated financial statements.

Additional Financing

We will require additional financing in order to complete our stated plan of operations for the next twelve months. There can be no assurance, however, that such financing will be available or, if it is available, that we will be able to structure such financing on terms acceptable to us and that it will be sufficient to fund our cash requirements until we can reach a level of profitable operations and positive cash flows. If we are unable to obtain the financing necessary to support our operations, we may be unable to continue as a going concern. We currently have no firm commitments for any additional capital.

The trading price of our shares of common stock and a downturn in the United States stock and debt markets could make it more difficult to obtain financing through the issuance of equity or debt securities. Even if we are able to raise the funds required, it is possible that we could incur unexpected costs and expenses, fail to collect significant amounts owed to us, or experience unexpected cash requirements that would force us to seek alternative financing. Further, if we issue additional equity or debt securities, stockholders may experience additional dilution or the new equity securities may have rights, preferences or privileges senior to those of existing holders of our shares of common stock. If additional financing is not available or is not available on acceptable terms, we will have to curtail our operations.

Results of Operations

As we have remained in the early stages of development, we have not yet generated any revenues from our operations.

The results of operations include the results of our Company and its wholly owned subsidiaries, Methane Energy Corp. and Cascadia Energy Corp., for the years ended March 31, 2007 and 2006; and our Company and its wholly owned subsidiary, Methane Energy Corp., for the year ended March 31, 2005.

During the years ended March 31, 2007, 2006 and 2005, our Company performed all of the administrative operations while the subsidiaries, Methane Energy Corp. and Cascadia Energy Corp., held the interests in the leases and operated the Coos Bay project and Chehalis Basin project, respectively.

Year ended March 31, 2007 compared to year ended March 31, 2006

Operating expenses during the year ended March 31, 2007 increased significant by over the twelve months ended March 31, 2006 due to expansion of our activities in both the Coos Bay project and the Chehalis Basin project. During the year ended March 31, 2007, we completed drilling on pilot production wells in the Westport area of the Coos Bay Basin of Oregon and commenced pre-drilling activities in the Chehalis Basin of Washington. The most significant operating expense increases were consulting fees, payroll expense, stock-based compensation, investor relations and travel.

Operating expenses were \$6,654,031 for the year ended March 31, 2007, compared with \$4,193,346 for the year ended March 31, 2006. The full-year impact of a growing internal staff dealing with all functions of a two-basin land-acquisition and exploration program led to payroll expenses of \$968,830 in fiscal 2007, a \$876,833 increase over the \$91,997 incurred during the previous fiscal year.

Consulting expense increased by \$475,897 from \$605,920 in fiscal 2006 to \$1,081,817 in fiscal 2007 primarily due to consulting services related to defining financing alternatives to fund our activities during fiscal 2007.

Stock-based compensation expenses of \$2,465,796 during fiscal 2007 rose by \$390,374 from fiscal 2006 of \$2,075,422. This occurred as we granted stock options to three new independent directors, our new president and chief executive, and other new employees during the most recent fiscal year.

Directors fees increased from \$25,000 in fiscal 2006 to \$77,500 in fiscal 2007. We increased our compensation to outside directors from \$10,000 per year to \$30,000 per year and were successful in attracting three new independent directors to our board.

Investor relations expenses were \$592,371 for the year ended March 31, 2007, compared with \$163,435 for the year ended March 31, 2006. This increase of \$428,936 was primarily a result of expenditures on a program intended to stimulate investor awareness during the period when our Series C Stock was being converted to common shares, which were being sold on the open market by the investors.

During the twelve months ended March 31, 2007, we paid \$105,442 for lease rentals related to our increasing portfolio of oil and gas leases. During the preceding twelve-month period we had paid a total of \$73,254 in lease rentals.

Office rental costs increased from \$59,472 in fiscal 2006 to \$132,273 in fiscal 2007, an increase of \$72,801. The increase came as a result of our moving into new office locations with additional space in both Coquille, Oregon, our operational office for Methane Energy Corp., and Portland, Oregon, our administrative office.

Travel costs for the year ended March 31, 2007 were \$383,779 as compared to \$287,563 for the same period last year. The additional travel costs totaling \$96,216 related to efforts to secure financing and to increased activity in both the Coos Bay Basin and the Chehalis Basin.

We invested excess cash in term deposits during the year ended March 31, 2007 resulting in interest revenue of \$294,053. Similar investments during the twelve months ended March 31, 2006 resulted in \$156,799 of interest revenue.

We recorded the remaining \$710,110 in value and a like amount in accretion related to the beneficial conversion feature on the Series C Stock during the year ended March 31, 2007. We also accrued \$35,270 for dividends on our Series C Stock.

Year ended March 31, 2006 compared to year ended March 31, 2005

Operating expenses increased considerably between the fiscal 2006 and fiscal 2007 periods due to our increased activity compared to the prior period when we were only beginning to re-establish our operations. During the year ended March 31, 2006, we completed drilling on the initial exploratory wells in the Coos Bay Basin of Oregon and commenced completion and testing operations. The most significant operating expenses increases consisted of consulting fees and payroll expense, lease rentals, insurance, legal and accounting fees, stock-based compensation and travel expenses.

Operating expenses were \$4,193,346 for the year ended March 31, 2006, compared with \$2,419,652 for the year ended March 31, 2005. A significant portion of the increase in expenditures was attributable to stock-based compensation expenses of \$2,075,422 (2005 - \$701,740) related to the granting of six tranches of stock options during the year ended March 31, 2006.

Consulting fees were \$605,920 for the year ended March 31, 2006, compared with \$288,845 for the previous twelve months. This increase is a result of our expanded operating and funding activities to develop the corporate infrastructure to properly manage and direct our coalbed methane projects. Additionally, we began adding permanent employees to handle both technical and administrative functions for us that added \$91,997 in payroll expense for the fiscal year 2006 as compared to the previous fiscal year. There is now a management team in place to continue the exploration of the Coos Bay project in Methane Energy Corp. and to start planning for the exploration of the Chehalis basin project in Cascadia Energy Corp.

Investor relations expenses were \$163,435 for the year ended March 31, 2006, compared with \$864,375 for the year ended March 31, 2005. A significant portion of the prior period investor relations expenses consists of \$450,000 in fees for a shareholder awareness mail distribution program that has not been renewed. Additionally, the reduced balance for the twelve months ending March 31, 2006 partially attributable to a reversal of prior year investor relations expenses of \$99,641. This reversal relates directly to the cancellation of 200,000 stock options that were originally granted during the fiscal year ended March 31, 2005.

During the twelve months ended March 31, 2006, we paid \$73,254 for lease rentals related to our increasing portfolio of oil and gas leases. During the preceding twelve-month period we had paid a total of \$15,017 in lease rentals.

Legal and accounting costs rose during the period primarily as a result of activities supporting multiple funding initiatives, improving our accounting infrastructure, and compliance with regulatory and audit requirements. As a result, our legal and accounting costs were \$402,127 for the year ended March 31, 2006, compared to \$128,719 for the twelve months ended March 31, 2005.

Travel costs for the year ended March 31, 2006 were \$287,563 as compared to \$86,593 for the same period last year. The additional travel costs were due to the requirements to bring the expertise into Oregon for our drilling program plus the travel required for our funding activities.

We invested excess cash in term deposits during the year ended March 31, 2006 resulting in interest revenue of \$156,799. Similar investments during the twelve months ended March 31, 2005 yielded \$1,027 in interest revenue.

We recorded the remaining \$105,081 for dividend accretion related to the beneficial conversion feature on the Series B Stock during the year ended March 31, 2006. We recorded \$845,763 in value and \$845,763 in accretion, both related to the beneficial conversion feature associated with the Series C Stock that was issued during the year ended March 31, 2006. We also accrued \$308,442 for dividends to be paid on the Series C Stock.

Contractual Obligations

As of March 31, 2007, the following table provides details of certain contractual obligations of the Company. For more information regarding these obligations, see the Company's audited consolidated financial statements and footnotes referenced below.

	<u>Total</u>	<u>Less than 1 year</u>	<u>1-3 years</u>
Convertible Series E Preferred Stock (see Note 12)	\$ 25,000,000	\$ 2,350,000	\$ 22,650,000
Operating Lease Obligations (see Note 15)	152,847	106,992	45,855
Long-term Note (see Note 2)	46,875	37,500	9,375
Total	\$ 25,199,722	\$ 2,494,492	\$ 22,705,230

Off-Balance Sheet Arrangements

None

New Accounting Pronouncements

In September 2006, the Financial Accounting Standards Board (FASB) issued Statement of Financial Accounting Standards (SFAS) No. 157, *Fair Value Measurements*. SFAS 157 addresses differences in the definition of fair value and guidance in applying the definition of fair value to the many accounting pronouncements that require fair value measurements. SFAS 157 emphasizes that (1) fair value is a market-based measurement that should be determined based on assumptions that market participants would use in pricing the asset or liability for sale or transfer and (2) fair value is not entity-specific but based on assumptions that market participants would use in pricing the asset or liability. Finally, SFAS 157 establishes a hierarchy of fair value assumptions that distinguishes between independent market participant assumptions and the reporting entity's own assumptions about market participant assumptions. SFAS 157 is effective for financial statements issued for fiscal years beginning after November 15, 2007, and interim periods within those fiscal years. We do not expect that SFAS 157 will have a material impact on our consolidated results of operations, financial position or liquidity.

In September 2006, the SEC staff issued Staff Accounting Bulletin 108 (SAB 108), *Financial Statements Considering the Effects of Prior Year Misstatements When Quantifying Misstatements in Current Year Financial Statements*. SAB 108 addresses how a registrant should quantify the effect of an error on the financial statements and concludes that a dual approach should be used to compute the amount of a misstatement. Specifically, the amount should be computed using both the "rollover" (current year income statement perspective) and "iron curtain" (year-end balance sheet perspective) methods. The provisions of SAB 108 are effective for our Company beginning April 1, 2007. We do not expect that the implementation of SAB 108 will have a material impact on our consolidated results of operations, financial position or liquidity.

In July 2006, FASB issued FASB Interpretation (FIN) No. 48, *Accounting For Uncertainty in Income Taxes-an interpretation of FASB Statement No. 109*. This Interpretation provides guidance for recognizing and measuring uncertain tax positions, as defined in SFAS No. 109, *Accounting for Income Taxes*. FIN No. 48 prescribes a threshold condition that a tax position must meet for any of the benefit of an uncertain tax position to be recognized in the financial statements. Guidance is also provided regarding derecognition, classification and disclosure of uncertain tax positions. FIN No. 48 is effective for fiscal years beginning after December 15, 2006. We do not expect that this Interpretation will have a material impact on our financial position, results of operations or cash flows.

In February 2006, FASB issued SFAS No.155, *Accounting for Certain Hybrid Financial Instruments an amendment of FASB Statements No. 133 and 140*. SFAS No. 155 clarifies certain issues related to definitions of, measurement of, and accounting for derivative instruments. Specifically, SFAS No. 155 permits fair value measurement for any hybrid financial instrument that contains an embedded derivative that otherwise would require bifurcation. It also clarifies which interest-only strips and principal-only strips are not subject to SFAS No. 133, *Accounting for Derivative Instruments and Hedging Activities*, and establishes a requirement to evaluate interests in securitized financial assets to identify interest that are freestanding derivatives or that are hybrid financial instruments that contain an embedded derivative requiring bifurcation. Finally, SFAS No. 155 clarifies that concentrations of credit risk in the form of subordination are not embedded derivatives and amends SFAS No. 140, *Accounting for Transfers and Servicing of Financial Assets and Extinguishments of Liabilities*, to eliminate the prohibition on a qualifying special-purpose entity from holding a derivative financial instrument that pertains to a beneficial interest other than another derivative financial instrument. The adoption of SFAS No. 155 will have no impact on our Company's consolidated financial statements.

In May 2005, the FASB issued SFAS No. 154, *Accounting Changes and Error Corrections*. SFAS No. 154 replaces APB Opinion No. 20 *Accounting Changes* and SFAS No. 3 *Reporting Accounting Changes in Interim Financial Statements*. SFAS No. 154 requires retrospective application to prior periods' financial statements of changes in accounting principle, unless it is impracticable to determine either the period-specific effects or the cumulative effect of the change. The adoption of SFAS No. 154 will have no impact on our Company's consolidated financial statements.

In March 2005, the FASB issued FIN No. 47, *Accounting for Conditional Asset Retirement Obligations*. Under the provisions of FIN 47, the term conditional asset retirement obligation as used in SFAS No. 143, *Accounting for Asset Retirement Obligations*, refers to a legal obligation to perform an asset retirement activity in which the timing and/or method of settlement are conditional on a future event that may or may not be within the control of the entity while the obligation to perform the asset retirement activity is unconditional. Accordingly, an entity is required to recognize a liability for the fair value of a conditional asset retirement obligation if the fair value of the liability can be reasonably estimated. The fair value of a liability for the conditional asset retirement obligation is required to be recognized when incurred generally upon acquisition, construction, or development and/or through the normal operation of the asset. We have adopted FIN No. 47 as of December 31, 2005. Adoption of this pronouncement did not have a significant effect on our 2005 consolidated financial statements, and we do not expect this pronouncement to have a significant effect on our future reported financial position or earnings.

Critical Accounting Policies and Estimates

Our consolidated financial statements have been prepared on a going concern basis. We have accumulated a deficit of \$16,645,776 from inception to March 31, 2007. Our ability to continue as a going concern is dependent upon our ability to generate profitable operations in the future and/or to obtain the necessary financing to meet our obligations and repay our liabilities arising from normal business operations when they come due. The outcome of these matters cannot be predicted with any certainty at this time. We have historically satisfied our working capital needs primarily by issuing equity securities and at March 31, 2007 we had working capital of \$3,071,530, largely as a result of completing private placements during the year ended March 31, 2007 that raised aggregate net proceeds of \$23,115,000. Management plans to continue to provide for our capital needs by issuing equity securities. These consolidated financial statements do not include any adjustments to the amount and classification of assets and liabilities that may be necessary should we be unable to continue as a going concern.

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 consolidated 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.

Income Taxes

We have adopted SFAS No. 109, *Accounting for Income Taxes*, which requires us to recognize deferred tax liabilities and assets for the expected future tax consequences of events that have been recognized in our consolidated financial statements or tax returns using the liability method. Under this method, deferred tax liabilities and assets are determined based on the temporary differences between the consolidated financial statements and tax bases of assets and liabilities using enacted tax rates in effect in the years in which the differences are expected to reverse.

Stock-based Compensation

Effective April 1, 2004, we adopted SFAS No. 123 *Accounting for Stock Based Compensation* as amended by SFAS No. 148 "Accounting for Stock-based Compensation - Transition and Disclosure". Effective April 1, 2006, we adopted FAS 123(R), *Share-Based Payment*, using the modified prospective approach. We recognize stock-based compensation expense using a fair value based method.

Prior to the adoption of these standards, we applied the disclosure provision of SFAS No. 123 for stock options granted to directors, officers and employees. As permitted by SFAS No. 123, we followed the intrinsic value approach of APB No. 25 *Accounting for Stock Issued to Employees* and the related interpretations. We have a stock option plan that is described more fully in Note 7 to our audited consolidated financial statements

Accounting for Derivative Instruments and Hedging Activities

We have adopted SFAS No. 133 *Accounting for Derivative and Hedging Activities*, which requires companies to recognize all derivative contracts as either assets or liabilities in the balance sheet and to measure them at fair value. If certain conditions are met, a derivative may be specifically designated as a hedge, the objective of which is to match the timing of gain and loss recognition on the hedging derivative with the recognition of (i) the changes in the fair value of the hedged asset or liability that are attributable to the hedged risk or (ii) the earnings effect of the hedged forecasted transaction.

For a derivative not designated as a hedging instrument, the gain or loss is recognized in income in the period of change. We have not entered into derivative contracts either to hedge existing risks or for speculative purposes, but we plan to use derivative contracts in the future solely for hedging prices on production.

Long-Lived Assets Impairment

Our long-term assets are reviewed when changes in circumstances require as to whether their carrying value has become impaired, pursuant to guidance established in SFAS No. 144, Accounting for the Impairment or Disposal of Long-Lived Assets. Management considers assets to be impaired if the carrying value exceeds the future projected cash flows from the related operations, undiscounted and without interest charges. If impairment is deemed to exist, the assets will be written down to fair value, and a loss is recorded as the difference between the carrying value and the fair value. Fair values are determined based on the quoted market values, discounted cash flows or internal and external appraisal, as applicable. Assets to be disposed of are carried at the lower of carrying value or estimated net realizable value.

Asset Retirement Obligations

We recognize a liability for future retirement obligations associated with our 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 we settle the obligation.

Oil and Gas Properties

We utilize the full cost method to account for our investment in oil and gas properties. Accordingly, all costs associated with acquisition, exploration and development of oil and gas reserves, including such costs as leasehold acquisition costs, interest costs relating to unproved properties, geological expenditures and direct internal costs are capitalized into the full cost pool. When we obtain proven oil and gas reserves, capitalized costs, including estimated future costs to develop the reserves and estimated abandonment costs, net of salvage, will be depleted on the units-of-production method using estimates of proved reserves. Investments in unproved properties and major development projects including capitalized interest, if any, are not amortized until proved reserves associated with the projects can be determined. If the future costs of exploration of unproved properties are determined uneconomical, the amounts of such properties are added to the capitalized cost to be amortized. As of March 31, 2007, all of our oil and gas properties were unproved and were excluded from amortization.

The capitalized costs included in the full cost pool are subject to a ceiling test, which limits such costs to the aggregate of the estimated present value, using an estimated discount rate, of the future net revenues from proved reserves, based on current economic and operating conditions and the estimated value of unproven properties. As at March 31, 2007, none of our unproved oil and gas properties was considered impaired.

ITEM 7A. QUANTITATIVE AND QUALITATIVE DISCLOSURES ABOUT MARKET RISK

Interest Rate and Credit Rating Risk

As of March 31, 2007, we had \$5,941,577 in cash, cash equivalents and short term investments, of which \$941,577 was held in our operating accounts and \$5,000,000 was invested in time deposits with 30-day maturities. Based on sensitivity analyses performed on the financial instruments held as of March 31, 2007, an immediate 10% change in interest rates is not expected to have a material effect on our near term financial condition or results.

Commodity Price Risk

As of March 31, 2007, we have no coalbed methane gas production. At such time as we do record commercial production volumes of coalbed methane gas, we will be subject to commodity price risk related to the sale of such production. Prospectively, commodity prices received for our production will be based on spot prices applicable to natural gas, which are volatile, unpredictable, and beyond our control. Accordingly until such time as we establish measurable production volumes, our vulnerability to fluctuations in the price of natural gas is negligible.

Exchange Rate Sensitivity

As of March 31, 2007, our suppliers bill us for drilling and other operating costs almost exclusively in U.S. dollars. Accordingly, a 10% change in the U.S./Canadian exchange rate is not expected to have a material effect on our near term financial condition or results.

ITEM 8. FINANCIAL STATEMENTS AND SUPPLEMENTAL DATA

Our audited consolidated financial statements are stated in United States dollars and are prepared in accordance with United States Generally Accepted Accounting Principles.

The following consolidated financial statements are filed as part of this annual report:

Report of Independent Registered Public Accounting Firm.

Audited Consolidated Balance Sheets as of March 31, 2007 and 2006.

Audited Consolidated Statements of Stockholders' Equity (Deficit) from October 8, 2001 (inception) to March 31, 2007.

Audited Consolidated Statements of Operations for the years ended March 31, 2007, 2006 and 2005.

Audited Consolidated Statements of Cash Flows for the years ended March 31, 2007, 2006 and 2005.

FINANCIAL STATEMENTS

TORRENT ENERGY CORPORATION

(formerly Scarab Systems, Inc.)

(An exploration stage enterprise)

Consolidated Financial Statements

March 31, 2007, 2006 and 2005

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REPORT OF INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRM

To The Audit Committee
Torrent Energy Corporation
Portland, Oregon

We have audited the accompanying consolidated balance sheets of Torrent Energy Corporation and Subsidiaries (an exploration stage company) ("the Company") as of March 31, 2007 and 2006, and the related consolidated statements of operations, stockholders' equity (deficit), and cash flows for the years ended March 31, 2007, 2006, and 2005, and for the period from October 8, 2001 (inception) to March 31, 2007. These financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on these financial statements based on our audits. The financial statements for the cumulative period from October 8, 2001 (inception) to March 31, 2004, were audited by other auditors whose report dated April 7, 2004, expressed an unqualified opinion on those statements although their opinion was modified for going concern considerations. The financial statements for the period from October 8, 2001 (inception) to March 31, 2004, include total revenues and net loss of \$0 and \$883,317, respectively. Our opinion on the statements of operations, stockholders' equity (deficit), and cash flows for the period from October 8, 2001 (inception) to March 31, 2007, insofar as it relates to amounts for prior periods through March 31, 2004, is based solely on the report of other auditors.

We conducted our audits in accordance with the standards of the Public Company Accounting Oversight Board (United States). Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. The Company has determined that it is not required to have, nor were we engaged to perform, an audit of its internal control over financial reporting. Our audit included consideration of internal control over financial reporting as a basis for designing audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Company's internal control over financial reporting. Accordingly, we express no such opinion. 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 Torrent Energy Corporation and Subsidiaries as of March 31, 2007 and 2006, and the results of their operations and their cash flows for the years ended March 31, 2007, 2006, and 2005, and for the cumulative period from October 8, 2001 (inception) to March 31, 2007, in conformity with accounting principles generally accepted in the United States.

The accompanying consolidated financial statements have been prepared assuming the Company will continue as a going concern. As discussed in Note 1 to the consolidated financial statements, the Company has experienced recurring losses from operations since inception and has a substantial accumulated deficit. These conditions raise substantial doubt about the Company's ability to continue as a going concern. Management's plans regarding these matters are also described in Note 1. The consolidated financial statements do not include any adjustments that might result from the outcome of this uncertainty.

/S/ PETERSON SULLIVAN PLLC

July 2, 2007
Seattle, Washington

TORRENT ENERGY CORPORATION

(formerly Scarab Systems, Inc.)

(An exploration stage enterprise)

Consolidated Balance Sheets

	March 31, 2007	March 31, 2006
ASSETS		
Current Assets		
Cash and cash equivalents	\$ 5,941,577	\$ 2,658,719
Joint venture receivables	147,928	46,745
Inventory	906,208	375,355
Prepaid expenses and deposits	511,135	398,620
Total Current Assets	7,506,848	3,479,439
Oil and gas properties, unproven (Note 4)	31,234,262	16,377,085
Other assets, net of depreciation of \$43,762 and \$2,533	215,999	70,759
Total Assets	\$ 38,957,109	\$ 19,927,283
LIABILITIES AND STOCKHOLDERS EQUITY (DEFICIT)		
Current Liabilities		
Accounts payable	\$ 1,379,204	\$ 1,931,985
Accounts payable related parties (Note 3)	8,545	87,131
Convertible Series E preferred stock subject to mandatory redemption, 2,350 shares outstanding (2006 Nil) (Note 12)	2,350,000	-
Preferred stock dividends payable	660,069	308,442
Current portion of long-term note	37,500	-
Total Current Liabilities	4,435,318	2,327,558
Long-term Liabilities		
Long-term note	9,375	-
Total Liabilities	4,444,693	2,327,558
Commitment and Contingencies (Notes 4 and 15)		
STOCKHOLDERS EQUITY (DEFICIT)		
Share Capital		
Convertible Series C preferred stock, \$0.01 par value, 25,000 shares authorized, 12,500 shares issued and Nil outstanding (2006 8,375)	-	84
Convertible Series E preferred stock, \$0.01 par value, 25,000 shares authorized, 25,000 shares issued and outstanding (2006 Nil)	226	-
Common stock, \$0.001 par value, 100,000,000 shares authorized, 33,424,941 shares issued and outstanding (2006 27,531,907)	33,425	27,532

Additional paid in capital	51,124,541	26,452,458
Deficit accumulated during the exploration stage	(16,645,776)	(8,880,349)
Total stockholders' equity (deficit)	34,512,416	17,599,725
Total liabilities and stockholders' equity (deficit)	\$ 38,957,109	\$ 19,927,283

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

TORRENT ENERGY CORPORATION

(Formerly Scarab Systems, Inc.)

(An Exploration Stage Enterprise)

**Consolidated Statements of Stockholders Equity (Deficit)
For the Period from October 8, 2001 (Inception) to March 31, 2007**

	Common Stock		Additional paid- in capital	Share subscriptions received/ (receivable)	Deficit accumulated during exploration stage	Total Stockholders equity (deficit)
	Shares	Amount				
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	-	-	-	337,500	-	337,500

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Direct						
Proceeds of share subscription	-	-	-	1,440	-	1,440
Return of stocks in connection with disposal of MarketEdge	(540,000)	(540)	(358,042)	-	-	(358,582)
Direct						
Proceeds of 96,000 share subscription at \$0.40 to \$0.50 per share	-	-	-	40,500	-	40,500
241,020 shares allotted for services rendered at \$0.10 to \$0.40 per share	-	-	33,306	-	-	33,306
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
	-	-	195,740	-	-	195,740

Issuance of stock options as compensation						
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)

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

TORRENT ENERGY CORPORATION

(Formerly Scarab Systems, Inc.)

(An Exploration Stage Enterprise)

**Consolidated Statements of Stockholders Equity (Deficit)
For the Period from October 8, 2001 (Inception) to March 31, 2007**

	Series B		Common Stock		Additional paid-in capital	Share subscriptions received/ (receivable)	Deficit accumulated during exploration stage	Total Stockholders equity (deficit)
	Preferred Stock 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	-	-	505,000
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 (Note 4)			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

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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 (Note 8)			1,614,359	1,614	825,565	-	-	827,184
Convertible Series B preferred stock issued under a private placement at \$1,000 per Series B share in August 2004, net of issuance costs (Note 9)	2,200	22	-	-	1,934,978	-	-	1,935,000
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 (Note 9)	-	-	-	-	315,245	-	-	315,245
Accretion of Series B preferred stock beneficial conversion feature	-	-	-	-	-	-	(210,163)	(210,163)
	-	-	-	-	-	-	(72,672)	(72,672)

Series B preferred stock dividend									
Issuance of stock options as compensation	-	-	-	-	701,740	-	-	-	701,740
Net (loss) for the year	-	-	-	-	-	-	(2,418,625)	(2,418,625)	(2,418,625)
Balance, March 31, 2005	1,700	\$ 17	20,984,966	\$ 20,985	\$ 8,413,243	-	\$ (3,584,777)	\$ (3,584,777)	4,849,466

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

TORRENT ENERGY CORPORATION

(Formerly Scarab Systems, Inc.)

(An Exploration Stage Enterprise)

**Consolidated Statements of Stockholders Equity (Deficit)
For the Period from October 8, 2001 (Inception) to March 31, 2007**

	Series B		Series C		Common Stock		Additional	Deficit	Total
	Preferred Stock	Preferred Stock	Preferred Stock	Preferred Stock	Common Stock	Common Stock	paid-in capital	accumulated	Stockholders
	Shares	Amount	Shares	Amount	Shares	Amount		during	equity (deficit)
								exploration	
								stage	
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)	(105,081)
Common stock issued for cashless exercise of stock options (Note 7)	-	-	-	-	89,502	89	(89)		
Cancellation of stock options as compensation (Note 7)	-	-	-	-	-	-	(99,641)		(99,641)
Common stock issued for exercise of warrants ranging from \$0.50 to \$0.55 per share (Note 8)	-	-	-	-	328,571	329	168,956		169,285
Common stock issued at \$2 per share under a	-	-	-	-	1,650,000	1,650	3,273,350		3,275,000

private placement in July 2005, net of issuance cost (Note 13)									
Convertible Series C preferred stock issued under a private placement at \$1,000 per Series C share in July 2005, net of issuance costs (Note 10)	-	-	12,500	125	-	-	11,551,875	-	11,552,000
Beneficial conversion feature on convertible Series C preferred stock (Note 10)	-	-	-	-	-	-	845,763	-	845,763
Accretion of Series C beneficial conversion feature (Note 10)	-	-	-	-	-	-	-	(845,763)	(845,763)
Series C stock dividend			-	-	-	-	-	(308,442)	(308,442)
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 2006	-	-	-	-	600,000	600	227,400	-	228,000

(Note 4)

Stock based compensation for the period	-	-	-	-	-	-	2,075,422	-	2,075,422
Net (loss) for the period	-	-	-	-	-	-	-	(4,036,286)	(4,036,286)
Balance, March 31, 2006	- \$	-	8,375 \$	84	27,531,907 \$	27,532 \$	26,452,458 \$	(8,880,349)\$	17,599,72

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

TORRENT ENERGY CORPORATION

(Formerly Scarab Systems, Inc.)

(An Exploration Stage Enterprise)

**Consolidated Statements of Stockholders Equity (Deficit)
For the Period from April 1, 2006 to March 31, 2007**

	Series B		Series C		Series E		Common Stock		Additional Paid-In Capital	Shares Issuable	S subsc Rec (Rec)
	Preferred Stock Shares	Amount	Preferred Stock Shares	Amount	Preferred Stock Shares	Amount	Shares	Amount			
Beneficial conversion feature on convertible Series C Preferred Stock (Note 10)	-	-	-	-	-	-	-	-	\$ 710,110	-	
Accretion of Series C beneficial conversion feature (Note 10)	-	-	-	-	-	-	-	-	-	-	
Series C Stock Dividend	-	-	-	-	-	-	-	-	-	-	
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	-	

(Note 10)

Convertible Series E Preferred Stock Issued under Private Placement at \$1,000 per Series E share net of Issuance costs (Note 12)	-	-	-	- 25,000	250	-	-	23,114,750	-
Convertible Series E Preferred reclassified to Liability per SFAS No. 150				(2,350)	(24)			(2,349,976)	
Series E Stock Dividend	-	-	-	-	-	-	-	-	-
Stock based Compensation for the period	-	-	-	-	-	-	-	2,465,796	
Common Stock issued for Services (Note 13)	-	-	-	-	-	-	125,0000	125	227,375
Exercise of stock options (Note 7)							200,000	200	165,800
Net (Loss) for the Period	-	-	-	-	-	-	-	-	-
Balance, March 31, 2007	- \$	-	- \$	- 22,650 \$	226	33,424,941 \$	33,425	\$ 51,124,541 \$	- \$

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

TORRENT ENERGY CORPORATION

(formerly Scarab Systems, Inc.)

(An exploration stage enterprise)

Consolidated Statements of Operations

	Cumulative October 8, 2001 (inception) to March 31, 2007	Year Ended March 31, 2007	Year Ended March 31, 2006	Year Ended March 31, 2005
Expenses				
Consulting (Note 3)	\$ 2,377,202	\$ 1,081,817	\$ 605,920	\$ 288,845
Directors' fees	110,000	77,500	25,000	7,500
Payroll expense	1,060,827	968,830	91,997	-
Depreciation and amortization	49,535	41,229	6,111	-
Insurance	279,824	116,776	114,229	48,819
Interest expense	7,500	-	-	7,500
Interest expense on long term debt	16,569	-	-	-
Investor relations	1,618,989	592,371	163,435	864,375
Legal and accounting	1,040,537	388,433	402,127	128,719
Lease rental expense	193,713	105,442	73,254	15,017
Office and Miscellaneous	419,683	183,433	127,291	49,449
Purchase investigation costs	103,310	-	-	103,310
Rent	254,648	132,273	59,472	19,520
Shareholder relations	214,481	18,634	105,126	90,721
Stock-based compensation	5,438,698	2,465,796	2,075,422	701,740
(Note 7)				
Shrinkage on inventory	52,473	26,821	25,652	-
Telephone	125,782	70,897	30,747	7,544
Travel	774,388	383,779	287,563	86,593
Operating (loss)	(14,138,159)	(6,654,031)	(4,193,346)	(2,419,652)
Other income (expense)				
Interest income	451,879	294,053	156,799	1,027
Gain on sale of equipment	261	-	261	-
Gain on settlement of debt	37,045	-	-	-
Write-off of goodwill	(70,314)	-	-	-
Loss from continued operations	(13,719,288)	(6,359,978)	(4,036,286)	(2,418,625)
Net income from discontinued operations	21,082	-	-	-
Net loss and comprehensive loss for the period	(13,698,206)	(6,359,978)	(4,036,286)	(2,418,625)
Series B preferred stock dividend	(72,672)	-	-	(72,672)
	(343,712)	(35,270)	(308,442)	-

Series C preferred stock dividend				
Series E preferred stock dividend	(660,069)	(660,069)	-	-
Dividend accretion of Series B preferred stock beneficial conversion feature (Note 9)	(315,244)	-	(105,081)	(210,163)
Dividend accretion of Series C preferred stock beneficial conversion feature (Note 10)	(1,555,873)	(710,110)	(845,763)	-
Net loss for the period applicable to common stockholders	\$ (16,645,776)	\$ (7,765,427)	\$ (5,295,572)	\$ (2,701,460)
Basic and diluted (loss) per share	\$	(0.24)	\$	(0.17)
Weighted average number of common shares outstanding		32,677,984	24,407,133	15,678,187

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

TORRENT ENERGY CORPORATION
(formerly Scarab Systems, Inc.)
(An exploration stage enterprise)
Consolidated Statements of Cash Flows

	Cumulative October 8, 2001 (inception) to March 31, 2007	Year Ended March 31, 2007	Year Ended March 31, 2006	Year Ended March 31, 2005
Cash flows provided by				
(used in) operating activities				
Net (loss) for the period	\$ (13,698,206)	\$ (6,359,978)	\$ (4,036,286)	\$ (2,418,625)
Adjustments to reconcile net loss to	-	-	-	-
net cash used in operating activities:	-	-	-	-
- depreciation and amortization	49,535	41,229	6,111	-
- stock-based compensation	5,438,698	2,465,796	2,075,422	701,740
- shrinkage on inventory	26,821	26,821	-	-
- foreign exchange	1,398	-	-	-
- write-off of goodwill	70,314	-	-	-
- debt forgiven	37,045	-	-	-
-gain on sale of equipment	(261)	-	(261)	-
- net income from the discontinued				
operations	(21,082)	-	-	-
- common shares issued for service				
rendered	195,306	-	-	162,000
- reversal of option expense				
charged for				
services	(99,641)	-	(99,641)	-
Changes in non-cash working				
capital				
items:	-	-	-	-
Joint venture receivables	(147,928)	(101,183)	(46,745)	-
Inventory	(933,029)	(557,674)	(375,355)	-
Prepaid expenses	(284,200)	(52,333)	(231,867)	-
Accounts payable	(1,877,343)	(1,857,814)	(644,985)	531,480
Net cash used in operating activities	(11,242,573)	(6,395,136)	(3,353,607)	(1,023,405)
Cash flows provided by (used in)				
investing activities				
Oil and gas properties	(27,218,510)	(13,463,412)	(11,435,664)	(2,319,434)
Loan	(62,684)	-	-	-
Proceeds from sale of equipment	7,415	-	7,415	-
Acquisition of other assets	(197,688)	(111,469)	(84,024)	-
Net cash used in investing activities	\$ (27,471,467)	\$ (13,574,881)	\$ (11,512,273)	\$ (2,319,434)

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

TORRENT ENERGY CORPORATION
(formerly Scarab Systems, Inc.)
(An exploration stage enterprise)
Consolidated Statements of Cash Flows (continued)

	Cumulative October 8, 2001 (inception) to March 31, 2007	Year Ended March 31, 2007	Year Ended March 31, 2006	Year Ended March 31, 2005
Cash flows provided by (used in) financing activities				
Proceeds from issuance of common stock	\$ 7,988,414	\$ -	\$ 3,444,285	\$ 3,996,204
Net proceeds from issuance of Series B preferred stock	1,935,000	-	-	1,935,000
Net proceeds from issuance of Series C preferred stock	11,552,000	-	11,552,000	-
Net proceeds from issuance of Series E Preferred stock	23,115,000	23,115,000	-	-
Payment of Series B preferred stock dividend	(72,672)	-	(72,672)	-
Proceeds from promissory notes	30,000	-	-	30,000
Repayment of promissory notes	(58,125)	(28,125)	-	(30,000)
Proceeds from shareholder loan	80,000	-	-	80,000
Repayment of shareholder loan	(80,000)	-	-	(80,000)
Proceeds from exercise of stock options	166,000	166,000	-	-
Net cash provided by financing activities	44,655,617	23,252,875	14,923,613	5,931,204
Increase in cash and cash equivalents	5,941,577	3,282,858	57,733	2,588,365
Cash and cash equivalents, beginning of period	-	2,658,719	2,600,986	12,621
Cash and cash equivalents, end of period	\$ 5,941,577	\$ 5,941,577	\$ 2,658,719	\$ 2,600,986
Supplemental cash flow information:				
Interest paid	\$ 13,013	\$ -	\$ -	\$ 7,500
Non-cash transactions:				

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Common stock issued pursuant to						
conversion of promissory note	\$	55,000	\$	-	\$	-
Common stock issued for investor						
relations services	\$	162,000	\$	-	\$	162,000
Common stock issued for prepaid						
technical services	\$	227,500	\$	227,500	\$	-
Forgiveness of accrued consulting fees						
payable to directors and officers	\$	110,527	\$	-	\$	-
Common stock issued for oil and gas						
properties	\$	684,000	\$	-	\$	228,000
Property acquired through issuance of						
note	\$	75,000	\$	75,000	\$	-
Settlement of Series B earned dividends						
with issuance of common stock	\$	343,712	\$	343,712	\$	-
Payment of Series C dividends with						
issuance of common stock	\$	35,270	\$	35,270	\$	-

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

TORRENT ENERGY CORPORATION
(formerly SCARAB SYSTEMS INC.)

(An exploration stage enterprise)

Notes to Consolidated Financial Statements

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.

Torrent was formed by the merger of Scarab Systems, Inc., a Nevada corporation into iRV, Inc., a Colorado corporation. Scarab Systems, Inc. (Nevada) was a privately owned Nevada corporation incorporated on October 8, 2001. The effective date of the merger transaction between Scarab Systems, Inc. (Nevada) and iRV, Inc. was July 17, 2002. Subsequent to the completion of the reorganization, Scarab Systems, Inc. (Nevada) transferred all its assets and liabilities to iRV, Inc. and ceased operations. The directors and executive officers of iRV, Inc. were subsequently reconstituted. iRV, Inc. changed its name to Scarab Systems, Inc. on March 24, 2003. The corporate charter of Scarab Systems Inc. (Nevada) was revoked in 2002. The Company was initially providing services to the e-commerce industry but ceased all activity in the e-commerce industry by the end of the fiscal year 2003.

On March 28, 2003, the Company acquired all the issued and outstanding shares of Catalyst Technologies, Inc., a British Columbia corporation (Catalyst). Catalyst was a Vancouver, British Columbia based, web design and Internet application developer. The acquisition of Catalyst was treated as a non-material business combination in the fiscal year 2003 and the Company abandoned Catalyst during the fiscal year 2004 due to a lack of working capital and disappointing financial results.

In fiscal year 2005, the Company changed its business to focus on the exploration and development of oil and gas properties. On April 30, 2004, the Company incorporated a wholly-owned Oregon subsidiary company named Methane Energy Corp. to acquire oil and gas properties in the State of Oregon. On June 29, 2005, the Company incorporated a wholly-owned Washington subsidiary company named Cascadia Energy Corp. to acquire oil and gas properties in the State of Washington.

These consolidated financial statements have been prepared in conformity with U.S. generally accepted accounting principles applicable to a going concern which contemplates the realization of assets and the satisfaction of liabilities and commitments in the normal course of business. The general business strategy of the Company is to explore its newly-acquired oil and gas properties. The Company has not generated any revenue to date and has incurred operating losses and requires additional funds to meet its obligations and maintain its operations. Management's plan in this regard is to raise equity and/or debt financing as required. These conditions 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 this uncertainty.

TORRENT ENERGY CORPORATION**(formerly SCARAB SYSTEMS INC.)**

(An exploration stage enterprise)

Notes to Consolidated Financial Statements

	March 31, 2007	March 31, 2006
Deficit accumulated during the exploration stage	\$ (16,645,776)	\$ (8,880,349)
Working capital surplus	\$ 3,071,530	\$ 1,151,881

The consolidated financial statements for the fiscal years ended March 31, 2007, 2006 and 2005 were 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, working capital deficiency, and the ability to obtain necessary funding from outside sources, including obtaining additional funding from the sale of securities. The existence of the Series E Convertible Preferred Stock issue presents significant potential for dilution that impacts the Company's ability to obtain funding from the sale of securities on terms that are considered acceptable. Consequently, the Company is considering other financing alternatives including, but not limited to, expanding joint venture partner participation and selected asset sales.

The Company's ongoing exploration activities require the expenditure of approximately \$18.5 million for the fiscal year ending March 31, 2008, 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 the Company, if at all. The inability to obtain additional capital will restrict the Company's ability to grow and inhibit its ability to continue to conduct business operations. If the Company is unable to obtain additional financing, it will likely be required to curtail its exploration plans and possibly cease operations. Any additional equity financing may result in substantial dilution to the Company's then existing shareholders.

Note 2. Summary of Significant Accounting Policies

a) Principles of Consolidation

The accompanying 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

These consolidated financial statements are stated in U.S. dollars and have been prepared in accordance with the U.S. generally accepted accounting principles.

c) Cash and Cash Equivalents

Cash equivalents are comprised of certain highly liquid instruments with original maturities of three months or less. As of March 31, 2007, cash balance was \$941,577 (2006: \$416,955) and cash equivalents consist of short-term deposits of \$5,000,000 (2006: \$2,241,764).

TORRENT ENERGY CORPORATION

(formerly SCARAB SYSTEMS INC.)

(An exploration stage enterprise)

Notes to Consolidated Financial Statements

d) Joint Venture Receivables

The accompanying financial statements as of March 31, 2007, 2006 and 2005 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 Partner and bills its Joint 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 March 31, 2007 and 2006, net joint venture receivables were \$147,928 and \$46,745, respectively. At March 31, 2007 and 2006, the Company had established no allowance for bad debt, deeming its receivables as likely to be collected.

e) Inventory

Inventory is comprised primarily of 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.

f) Oil and Gas Properties

The Company utilizes the full cost method to account for its investment in oil and gas properties. Accordingly, all costs associated with acquisition, exploration and development of oil and gas reserves, including such costs as leasehold acquisition costs, interest costs relating to unproved properties, geological expenditures and direct internal costs are capitalized into the full cost pool. As of March 31, 2007, the Company has no properties with proven reserves. When the Company obtains proven oil and gas reserves, capitalized costs, including estimated future costs to develop the reserves and estimated abandonment costs, net of salvage, will be depleted on the units-of-production method using estimates of proved reserves. Investments in unproved properties and major development projects including capitalized interest, if any, are not amortized until proved reserves associated with the projects can be determined. If the future exploration of unproved properties is determined uneconomical, the amount of such properties will be added to the capitalized cost to be amortized. As of March 31, 2007, all of the Company's oil and gas properties were unproved and were excluded from amortization.

TORRENT ENERGY CORPORATION
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Notes to Consolidated Financial Statements

The capitalized costs included in the full cost pool are subject to a ceiling test, which limits such costs to the aggregate of the estimated present value, using an estimated discount rate, of the future net revenues from proved reserves, based on current economic and operating conditions and the estimated value of unproven properties. This ceiling test is performed by the Company on an annual basis. As of March 31, 2007, none of the Company's unproved oil and gas properties were considered impaired.

g) Other Assets

Equipment, fixtures and mobile trailers are stated at cost and depreciated over the estimated useful lives of the assets, which range from three to fifteen years, using the straight-line method. Repairs and maintenance are charged to expense as incurred. When assets are sold or retired, the cost and related accumulated depreciation are removed from the accounts and any resulting gain or loss is included in income. The Company amortizes leasehold improvements over the life of the lease. During the fiscal year 2007, the Company recorded leasehold improvements of \$75,000 in Other Assets which was borrowed at 0% interest from the landlord and is being repaid during the term of the lease. As of March 31, 2007, the total liability for repayment of leasehold improvements was \$46,875. For the fiscal year ended March 31, 2007, the Company incurred \$25,000 in amortization of leasehold improvements. Depreciation expense of the fiscal year ended March 31, 2007 was \$16,229 (2006 -\$6,111; 2005 Nil).

h) Stock Subject to Mandatory Redemption

In May 2003, FASB issued SFAS No. 150, Accounting for Certain Instruments with Characteristics of Both Liabilities and Equity. This statement establishes standards for how an issuer classifies and measures certain financial instruments with characteristics of both liabilities and equity. In applying SFAS No. 150, the Company has determined that a portion of the Series E Convertible Preferred Stock (Series E Stock) met the characteristics of a liability and, therefore, has been classified as a current liability on the Company's balance sheet as of March 31, 2007. (See Note 12).

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

TORRENT ENERGY CORPORATION

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Notes to Consolidated Financial Statements

j) Concentration of Credit Risk

The Company maintains its cash and cash equivalents with high credit quality financial institutions that are guaranteed by either the Federal Deposit Insurance Corporation (FDIC), up to \$100,000, or by the Canadian Deposit Insurance Corporation (CDIC), up to CDN\$60,000. At March 31, 2007 and 2006, cash in banks exceeded aggregate deposit insurance limits by \$5,589,611 and \$2,506,579, respectively. The Company has not experienced any losses on deposits.

k) Foreign Currency Transactions

The Company and its wholly owned subsidiaries maintain their accounting records in U.S. dollars, their functional currency. The Company translates foreign currency transactions into its functional currency in the following manner:

At the transaction date, each asset, liability, revenue and expense is translated into U.S. dollars by the use of the exchange rate in effect at that date. At the period end, monetary assets and liabilities are remeasured by using the exchange rate in effect at that date. Differences in the values of monetary assets and liabilities resulting from changes in exchange rates are recorded as foreign exchange gains and losses and are included in results of operations.

l) Fair Value of Financial Instruments

The fair values of financial instruments are estimated at a specific point-in-time, based on relevant information about financial markets and specific financial instruments. As these estimates are subjective in nature, involving uncertainties and matters of significant judgment, they cannot be determined with precision. Changes in assumptions can significantly affect estimated fair values. The carrying value of cash and cash equivalents, accounts payable and accrued liabilities, accounts payable - related parties and stock subject to mandatory redemption approximate their fair value because of the short term nature of these instruments. The Company is not exposed to significant currency or interest risks arising from these financial instruments.

m) Income Taxes

The Company has adopted Statement of Financial Accounting Standards (SFAS) No. 109, *Accounting for Income Taxes* , which requires the Company to recognize deferred tax liabilities and assets for the expected future tax consequences of events that have been recognized in the Company's financial statements or tax returns using the liability method. Under this method, deferred tax liabilities and assets are determined based on the temporary differences between the financial statements and tax bases of assets and liabilities using enacted tax rates in effect in the years in which the differences are expected to reverse.

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Notes to Consolidated Financial Statements

The difference between taxes computed by applying the U.S. tax rate in affect and the actual tax benefit recorded is due to the valuation allowance on the Company's deferred tax assets. The Company evaluates its valuation allowance requirements on an annual basis based on projected future operations. When circumstances change and this causes a change in management's judgment about the realization of deferred tax assets, the impact of the change on the valuation allowance is reflected in current income.

n) Comprehensive Income

The Company has adopted SFAS No. 130, "*Reporting Comprehensive Income*", which for instance requires inclusion of foreign currency translation adjustments, reported separately in its Statement of Stockholders' Equity (Deficit), in other comprehensive income. The Company has no other comprehensive income for the years ended March 31, 2007, 2006 and 2005.

o) Stock-Based Compensation

The Company has three stock-based compensation plans, which are described more fully in Note 7. Effective April 1, 2006, the Company adopted SFAS No. 123R *Share-based Payments* (SFAS No. 123R) using the modified prospective method. Prior to April 1, 2006, the Company accounted for those plans under the recognition and measurement provision of SFAS No. 123 "*Accounting for Stock-based Compensation* (as amended by SFAS No. 148 *Accounting for Stock-based Compensation - Transition and Disclosure*) using a fair value based method to recognize stock-based compensation expense. Accordingly, the adoption of SFAS No. 123R did not have a material effect on the Company's income from operations, cash flows or basic and diluted loss per share, as compared to results that would have resulted from a continuation of the accounting the Company used under SFAS No. 123.

p) Loss Per Share

Loss per share is computed using the weighted average number of shares outstanding during the year. The Company has adopted SFAS No. 128, *Earnings Per Share* . Diluted loss per share is equivalent to basic loss per share as the stock options, warrants and convertible preferred stock to acquire common shares as disclosed in the notes are anti-dilutive.

TORRENT ENERGY CORPORATION
(formerly SCARAB SYSTEMS INC.)

(An exploration stage enterprise)

Notes to Consolidated Financial Statements

Fiscal Year Ended March 31,	2007	2006	2005
Net Loss	\$ (6,359,978)	\$ (4,036,286)	\$ (2,418,625)
Less Preferred stock dividends	(695,339)	(308,442)	(72,672)
Less Dividend accretion on preferred stock beneficial conversion	(710,110)	(950,844)	(210,163)
Net loss applicable to common stockholders	\$ (7,765,427)	\$ (5,295,572)	\$ (2,701,460)
Weighted Average Shares Outstanding	32,677,984	24,407,133	15,678,187
Basic and Diluted Earnings per Share	\$ (0.24)	\$ (0.22)	\$ (0.17)

q) Long-Lived Assets Impairment

Long-term assets of the Company are reviewed when changes in circumstances require as to whether their carrying value has become impaired, pursuant to guidance established in SFAS No. 144 , *Accounting for the Impairment or Disposal of Long-Lived Assets* . Management considers assets to be impaired if the carrying value exceeds the future projected cash flows from the related operations (undiscounted and without interest charges). If impairment is deemed to exist, the assets will be written down to fair value, and a loss is recorded as the difference between the carrying value and the fair value. Fair values are determined based on the quoted market values, discounted cash flows or internal and external appraisal, as applicable. Assets to be disposed of are carried at the lower of carrying value or estimated net realizable value.

r) 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. As of March 31, 2007, the Company has not yet assessed the value of any asset retirement obligation that may be associated with the exploration activities.

s) Recent Accounting Pronouncements

In September 2006, FASB issued SFAS No. 157 (SFAS 157), *Fair Value Measurements*. SFAS 157 addresses differences in the definition of fair value and guidance in applying the definition of fair value to the many accounting pronouncements that require fair value measurements. SFAS 157 emphasizes that (1) fair value is a market-based measurement that should be determined based on assumptions that market participants would use in pricing the asset or liability for sale or transfer and (2) fair value is not entity-specific but based on assumptions that market participants would use in pricing the asset or liability. Finally, SFAS 157 establishes a hierarchy of fair value assumptions that distinguishes between independent market participant assumptions and the reporting entity's own assumptions about market participant assumptions.

TORRENT ENERGY CORPORATION

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Notes to Consolidated Financial Statements

SFAS 157 is effective for financial statements issued for fiscal years beginning after November 15, 2007, and interim periods within those fiscal years. We do not expect that FAS 157 will have a material impact on our consolidated results of operations, financial position or liquidity.

In July 2006, FASB issued FASB Interpretation No. 48 (FIN48), *Accounting for Uncertainty in Income Taxes-an interpretation of FASB Statement No. 109*. FIN 48 provides guidance for recognizing and measuring uncertain tax positions, as defined in SFAS No. 109, *Accounting for Income Taxes*. FIN 48 prescribes a threshold condition that a tax position must meet for any of the benefit of an uncertain tax position to be recognized in the financial statements. Guidance is also provided regarding derecognition, classification and disclosure of uncertain tax positions. FIN 48 is effective for fiscal years beginning after December 15, 2006. The Company does not expect that this Interpretation will have a material impact on its financial position, results of operations or cash flows.

In September 2006, the SEC staff issued Staff Accounting Bulletin 108 (SAB 108), *Financial Statements Considering the Effects of Prior Year Misstatements When Quantifying Misstatements in Current Year Financial Statements*. SAB 108 addresses how a registrant should quantify the effect of an error on the financial statements and concludes that a dual approach should be used to compute the amount of a misstatement. Specifically, the amount should be computed using both the rollover (current year income statement perspective) and iron curtain (year-end balance sheet perspective) methods. The provisions of SAB 108 are effective for the Company beginning April 1, 2007. The Company does not expect that the implementation of SAB 108 will have a material impact on its consolidated results of operations, financial position or liquidity.

In February 2007, FASB issued SFAS No. 159, *"The Fair Value Option for Financial Assets and Liabilities"* ("SFAS 159"). SFAS 159 provides the option to report certain financial assets and liabilities at fair value, with the intent to mitigate volatility in financial reporting that can occur when related assets and liabilities are record on different bases and is effective for fiscal years beginning after November 15, 2007. The Company is in the process of evaluating the impact of SFAS 159 on its results of operations and financial position.

Note 3. Related Party Transactions

During the year ended March 31, 2007, the Company paid or accrued \$857,766 (2006 - \$447,661; 2005 - \$164,690) in consulting fees to directors and officers of the Company. In addition, the Company paid officers and directors of the Company \$46,558 (2006 - \$169,767; 2005 - \$116,030) in compensation for activities relating to the Company's oil and gas leases and \$56,823 (2006 - \$261,785; 2005 - \$138,894) for geological and geophysical activities both of which are included in the costs of the oil and gas properties.

As of March 31, 2007, there was \$8,545 (2006 - \$87,131; 2005 - \$242,936) representing unpaid expense reimbursement owing to directors and officers. See Notes 4 and 13.

Note 4. Oil and Gas Properties, Unproven

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.

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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.

Related to its exploration program, Methane Energy Corp. had escrowed \$1,000,000 through an attorney to provide assurance of payment to the company from which it obtained the drilling rig being used to complete a Pilot Exploration Program in the Coos Bay Basin. On March 13, 2005 the escrow was reduced by \$749,650 by mutual agreement to satisfy a portion of the amounts then owing. The remaining balance, including interest earned on the escrowed funds, totaled \$284,848 at March 31, 2007. The balance of the deposit remains fully refundable upon payment of all obligations owed to the owner of the drilling rig or, alternatively, may be applied to satisfy all or a portion of sums owed at that time. As of March 31, 2007, amounts owing and attributable to this arrangement totaled \$536,570 and are included in accounts payable.

Chehalis Basin Property. On August 9, 2005, Cascadia Energy Corp., the Company's wholly-owned subsidiary, executed a lease option agreement with Weyerhaeuser Company to lease 100,000 acres that it may select from an overall 365,000 acreage in the Chehalis Basin located in Washington State. Cascadia Energy Corp. commenced an exploratory work program in 2006 for possible hydrocarbon deposits on acreage it selected from the acreage block. Cascadia Energy Corp. also has been granted a two-year first right of refusal on the balance of the Weyerhaeuser acreage that it does not select during its initial selection process. Cash consideration of \$100,000 was paid for the lease option of which the Company paid \$60,000 (See Joint Venture below). In addition, Cascadia Energy Corp. may extend the term of its option for an additional year by committing to a work program of \$285,715, pertaining to the full 100,000 acres with proportional reduction should the Company reduce the number of acres selected for exploration activity during the initial option period. Alternatively, the Company may simply execute a lease agreement on the acreage at a rate of \$1.00 per acre per year. In February 2007, Weyerhaeuser Company extended the initial period for completion of the \$285,715 work commitment to August 2007. The Company has scheduled a drilling program in the project area sufficient to extend the term of the lease option agreement.

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From October 2006 through May 2007, Cascadia Energy Corp has entered into three additional 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.

Since January 2006, Cascadia Energy Corp. has also acquired 23,735 acres from the State of Washington Trust, which acreage lies directly adjacent or contiguous to Cascadia Energy Corp. s initial 100,000 acres leased from Weyerhaeuser. 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 is for a period of 18 months ending on November 9, 2007. If Cascadia Energy Corp. expends \$200,000 on operations and activities in the overall Cedar Creek area during the initial term, the initial term shall be extended for an additional year. If the conditions for extension of the initial term are not satisfied, this option will terminate as of the expiration of the initial term and, as additional consideration, Cascadia Energy Corp. will pay Pope Resources LP an additional sum of \$30,560.

On October 10, 2006, the Company acquired an additional 25,664 leased acres in southwestern Washington, contiguous to its existing controlled acreage. The additional leased acreage, having an initial lease term of four years, brings the Company s total holdings in the Cedar Creek area of Washington to approximately 155,000 acres under terms that include approximately \$500,000 in exploration expenditure commitments prior to November 2007.

Coincident with the Weyerhaeuser transaction, Cascadia Energy Corp. has also entered into a joint venture agreement (Joint Venture) dated August 12, 2005 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 area, 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. During the period commencing with the inception of the Chehalis Basin project and ending March 31, 2007, the Joint Venture had expended a total of \$580,246 of which St. Helens s unpaid share as of March 31, 2007 equaled \$147,928 (2006 - \$46,745) and is included in Joint Venture Receivables.

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

	Property acquisition	Seismic and land	Drilling and gathering	Geological and geophysical	Total
Coos Bay Basin					
Property					
Year ended					
March 31, 2007	\$ -	\$ 414,067	\$ 13,343,032	\$ 588,510	\$ 14,345,609
Year ended					
March 31, 2006	228,000	524,396	11,828,139	733,378	13,313,913
Year ended					
March 31, 2005	756,000	499,847	1,262,564	257,023	2,775,434
Inception through					
March 31, 2004	-	-	-	-	-
Total	\$ 984,000	\$ 1,438,310	\$ 26,433,735	\$ 1,578,911	\$ 30,434,956

Chehalis Basin

Property

Year ended

March 31, 2007 \$ - \$ 354,756 \$ 93,899 \$ 62,913 \$ 511,568

Year ended

March 31, 2006 - 224,588 - 63,150 287,738

Year ended

March 31, 2005 - - - - -

Inception through

March 31, 2004 - - - - -

Total \$ - \$ 579,344 \$ 93,899 \$ 126,063 \$ 799,306

Total Oil and Gas

Properties \$ 984,000 \$ 2,017,654 \$ 26,527,634 \$ 1,704,974 \$ 31,234,262

As of March 31, 2007, the Company has commitments for future land lease payments for the next five years as follows:

For Fiscal Year Ended March 31,

2008	\$ 132,307
2009	111,389
2010	111,389
2011	113,084
2012	104,469
Thereafter	350,251
	Total\$ 922,889

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If production occurs on these leases, then the Company is obligated to pay the a royalty to landowners equal to an average 12.5% on gross sales of methane gas, in addition to the Coos Bay Basin Property 4% overriding royalty discussed above.

As of March 31, 2007, all of the Company's oil and gas properties are considered unproven. Based on the status of the Company's exploration activities, management has determined that no impairment has occurred.

Note 5. Environmental Matters

The Company has established procedures for continuing evaluation of its operations to identify potential environmental exposures and to assure compliance with regulatory policies and procedures. Management monitors these laws and regulations and periodically assesses the propriety of its operational and accounting policies related to environmental issues. The nature of the Company's business requires routine day-to-day compliance with environmental laws and regulations. The Company incurred no material environmental investigation, compliance and remediation costs in the year ending March 31, 2007. The Company is unable to predict whether its future operations will be materially affected by these laws and regulations. It is believed that legislation and regulations relating to environmental protection will not materially affect the results of operations of the Company.

Note 6. Income Tax

In filing its fiscal year 2006 federal income tax return, the Company changed its method of accounting for Intangible Drilling Costs (IDC) from expensing in the year incurred to amortizing over a ten year period. The effect of this change was to decrease the net operating loss carry-forwards available to offset future income and to decrease deferred tax liabilities as of March 31, 2006. The change in net deferred tax assets is offset by corresponding change in the valuation allowance of \$254,000. This change in accounting for IDC did not affect the financial statements for the years ending March 31, 2006 and 2005. The table below reflects the new method of accounting of IDC for fiscal years ending March 31, 2007, 2006, and 2005.

There was no income tax benefit attributable to net losses for fiscal years 2007, 2006 and 2005. The significant deferred tax assets and (liabilities) are comprised of the following:

Amounts cumulative through March 31,	2007	2006	2005
Net operating loss carry-forwards	\$ 4,103,000	\$ 1,873,000	\$ 840,000
Stock-based compensation and warrant expense	1,849,000	1,011,000	305,000
Intangible drilling costs	(919,000)	(227,000)	-
Valuation allowance	(5,033,000)	(2,657,000)	(1,145,000)
Net deferred tax assets	\$ -	\$ -	\$ -

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The valuation allowance increased by \$2,376,000 for the fiscal year ended March 31, 2007 (2006: \$1,512,000; 2005: \$1,145,000). As of March 31, 2007, the Company has an estimated cumulative net operating loss carry-forward for tax purposes of \$12,067,200 (2006 - \$5,509,200; 2005 - \$2,470,000). This amount may be applied against future federal taxable income, which if not used, will expire commencing 2024 to 2027. Due to stock ownership changes, the Company's ability to utilize these losses to offset future taxable income may be limited.

Note 7. Stock Options

On March 31, 2007, the Company had three stock-based compensation plans as described below. On February 10, 2004, the Company adopted the 2004 Non-Qualified Stock Option Plan (the 2004 Plan) authorizing 1,800,000 shares to be issued. The 2004 Plan terminates upon the earlier of February 10, 2014 or the issuance of all shares authorized under the 2004 Plan. The option exercise prices per share are determined by the Board of Directors when the stock option is granted. Each option entitled the holder to acquire one common share at exercise prices ranging from \$0.10 to \$0.50 per share. Vesting of these options ranged from 100% immediately to 25% immediately and 25% every six months afterward until fully vested. These options expire five years from the date of grant.

In addition to the 2004 Plan, the Company issued 600,000 options outside the 2004 Plan. Of the 600,000 stock options granted outside the 2004 Plan, 200,000 stock options with an exercise price of \$1.00 per share and another 200,000 with an exercise price of \$2.00 per share were granted pursuant to a Mail Distribution Agreement with a third party (Optionee). These options vested immediately and were exercisable until November 1, 2005. In 2005, 200,000 options with an exercise price of \$1.00 were exercised. The 200,000 options with an exercise price of \$2.00 per share were forfeited due to the early cancellation of the service agreement for which the options were granted. Since the services were not provided, the compensation expense was reversed and is included in the Statement of Stockholders Equity (Deficit). The other 200,000 stock options granted outside the 2004 Plan were to a consultant of the Company for public and investor relations services. These options were exercised in January 2007 at the exercise price of \$0.83 per share.

On March 17, 2005, the Company adopted the 2005 equity incentive plan (the 2005 Plan) for executives, employees and outside consultants and advisors. A maximum of 2,000,000 shares of the Company's common stock were initially subject to the 2005 Plan. The 2005 Plan was later amended to increase the number of shares under the plan by 500,000 to a total of 2,500,000 shares. On August 31, 2005, a Form S-8 registration statement was filed to register the 2005 Plan.

During the year ended March 31, 2006, the Company granted 2,300,000 stock options to various directors and consultants of the Company under the 2005 Plan. Each option entitles the holder to acquire one common share at exercise prices ranging from \$1.25 to \$2.11 per share.

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These options vest 25% immediately and 25% every six months afterward until fully vested 18 months from the date of grant. These options expire five years from the date of grant.

On May 10, 2006, the Company adopted the 2006 Equity Incentive Plan (the 2006 Plan) for executives, employees and outside consultants and advisors with 1,800,000 options available for grant. The purpose of the equity incentive plan is to provide long-term performance incentives to those key employees and consultants of our Company and our subsidiaries who are largely responsible for the management, growth and protection of the business of the Company and its subsidiaries. Under the 2006 Plan, options vest 25% immediately and 25% every six months afterward until fully vested 18 months from the date of grant and these options expire five years from the date of grant. As of March 31, 2007, there were 355,000 options remaining available for grant under the 2006 Plan.

For all the above stock-based compensation plans, the Company charged compensation expense \$2,465,796 in fiscal year 2007 (2006: \$2,075,422; 2005: \$701,740). The Company recognizes compensation cost using the graded vesting attribution method. Since the Company is currently in the exploration stage and has not yet recognized income, no income tax benefits have been realized. No costs related to the stock-based compensation plans have been capitalized as part of the Company's assets. The Company does not repurchase shares to fulfill the requirements of options that are exercised. Further, the Company issues new shares when options are exercised.

A summary of stock option activity for the year ended March 31, 2007 and changes during the year the ended is presented below:

	Shares	Weighted Average Exercise Price
Options outstanding at March 31, 2006	2,700,000	\$ 1.40
Granted	1,465,000	\$ 2.09
Exercised	(200,000)	\$.83
Options outstanding at March 31, 2007	3,965,000	\$ 1.68
Option Exercisable at March 31, 2007	2,897,500	\$ 1.58

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Range of Exercise Prices	Options Outstanding		Options Exercisable	
	Number Outstanding	Weighted Average Remaining Contractual Life (yrs.)	Number Exercisable	Weighted Average Remaining Contractual Life (yrs.)
\$ 0.50	200,000	2.35	200,000	
\$ 1.25	1,500,000	3.02	1,500,000	
\$ 1.27	75,000	4.88	18,750	
\$ 1.43	665,000	4.62	166,250	
\$ 2.00	490,000	3.30	417,500	
\$ 2.11	310,000	3.80	232,500	
\$ 2.18	175,000	4.36	87,500	
\$ 2.97	550,000	4.11	275,000	
	3,965,000	3.60	2,897,500	3.33

The fair value of each option granted has been estimated as of the date of the grant using the Black-Scholes option pricing model and uses the assumption noted in the following table. No dividends were assumed due to the nature of the Company's current business strategy.

Amounts for Fiscal Year Ended,	2007	2006	2005
Expected volatility	106% - 115%	121% - 137%	254% - 265%
Weighted-average volatility	112%	133%	254%
Expected Term	4 years	4 years	1 - 5 years
Risk-free return	4.56% - 5.02%	3.55% - 4.33%	2.75%

The weighted average grant date fair value of options granted during the year ended March 31, 2007 was \$1.59 (2006: \$1.15; 2005: \$0.69). The total intrinsic value of options exercised during the fiscal year ended March 31, 2007 was \$94,000 (2006: \$182,000; 2005: \$313,750). The total aggregate intrinsic value of outstanding options and exercisable options as of March 31, 2007 was \$102,000 and \$102,000, respectively.

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The table below summarizes the changes in the Company's nonvested stock options that occurred during the fiscal year ended March 31, 2007:

	<u>Shares</u>	<u>Weighted Average Grant- Date Fair Value</u>
Nonvested at March 31, 2006	1,350,000	\$1.19
Granted	1,465,000	1.59
Vested	(1,747,500)	1.34
Forfeited	-	-
Nonvested at March 31, 2007	1,067,500	1.50

As of March 31, 2007, the Company had \$550,484 of unrecognized compensation expense related to nonvested stock-based compensation arrangements. This unrecognized compensation expense is expected to be recognized over a weighted average period of .89 years. The total fair value of the shares vested during the fiscal year ended March 31, 2007 was \$2,334,229 (2006: \$1,251,250; 2005: \$342,000), with a remaining weighted average contractual term of 3.6 years.

Note 8. Warrants

In May 2004, the Company issued warrants attached to a private placement to purchase 1,442,930 shares of common stock at \$0.50 per share exercisable until May 19, 2006. These warrants were fully exercised during fiscal years 2005 and 2006.

In July 2004, the Company issued warrants attached to a private placement to purchase 500,000 shares of common stock at \$0.55 per share exercisable until July 7, 2006. These warrants were fully exercised during fiscal year 2006. As of fiscal year ended March 31, 2007, there were no remaining warrants outstanding.

Note 9. Series B Convertible Preferred Stock (Series B Stock)

On August 27, 2004, the Company entered into a private placement for its Series B Convertible Preferred Stock at \$1,000 per share for \$2,200,000 in gross proceeds (the Series B Stock). The Series B Stock are senior to the common stock with respect to the payment of dividends and other distribution on the capital stock of the Company, including distribution of the assets of the Company upon liquidation. No cash dividends or distributions shall be declared or paid or set apart for payment on the common stock in any year unless cash dividends or distributions on the Series B Stock for such year are likewise declared and paid or set apart for payment. No declared and unpaid dividends shall bear or accrue interest. Upon any liquidation, dissolution, or winding up of the Company, whether voluntary or involuntary before any distribution or payment shall be made to any of the holders of common stock or any series of preferred stock, the holders of Series B Stock shall be entitled to receive out of the assets of the Company, whether such assets are capital, surplus or earnings, an amount equal to \$1,000 per share of the Series B Stock plus all declared and unpaid dividends thereon, for each shares of Series B Stock held by them.

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The Series B Stock are non-voting, carry a cumulative dividend rate of 5% per year, when and if declared by the Board of Directors of the Company, and are convertible into common stock at any time by dividing the dollar amount being converted (included accrued but unpaid dividends) by the lower of \$1.20 or 80% of the lowest volume weighted average trading price per common share of our Company for 10 trading days. The holder of the Series B Stock may only convert up to \$250,000 of Series B Stock into common shares in any 30 day period. The Company may redeem the Series B Stock by paying 120% of the invested amount together with any unpaid dividends. In the event that the volume weighted average price of the Company's common stock is equal to or greater than two dollars for twenty consecutive trading days, the Company must redeem in an amount of Series B Stock equal to 20% of the dollar volume of the common stock traded during the previous 20 days.

As a condition of the Series B Stock private placement agreement, the Company to filed a registration statement (the Registration Agreement) registering 5,000,000 shares of common stock into which the Series B Stock would be converted. This Registration Statement became effective on May 5, 2005.

Each share of Series B Stock was to be automatically converted into common stock immediately upon the consummation of the occurrence of a stock acquisition, merger, consolidation, or reorganization of the Company.

Net proceeds received totaled \$1,935,000 after payment of \$220,000 in finders' fees (10% of gross proceeds) and \$45,000 in legal fees. The transaction resulted in a beneficial conversion feature calculation in accordance with EITF 98-5 *Accounting for Convertible Securities with Beneficial Conversion Features or Contingently Adjustable Conversion Ratios*, of \$315,244 which was accreted over nine months commencing October 1, 2004 (the minimum period that the preferred stockholder can convert all of their Series B Stock). The Company recorded accretion of \$210,163 as a dividend for the year ended March 31, 2005. As of March 31, 2005, the Company accrued preferred stock dividends of \$72,672, payment of which occurred during the three months ended September 30, 2005.

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The Company issued the following common shares pursuant to conversion of the Series B Preferred stocks:

Conversion Date	Shares of Series B Stock	Conversion Price	Shares of Common Stock
January 21, 2005	100	\$ 0.7824	127,812
February 8, 2005	100	0.7625	131,148
February 14, 2005	150	0.8000	187,500
February 28, 2005	100	0.8934	111,932
March 8, 2005	50	0.8934	55,966
April 1, 2005	100	0.8386	119,252
April 6, 2005	5	0.7735	6,464
April 7, 2005	100	0.7735	129,282
April 28, 2005	125	0.7860	159,033
April 29, 2005	125	0.7860	159,033
May 2, 2005	395	0.7860	502,544
May 18, 2005	125	1.0887	114,816
May 25, 2005	125	1.1962	104,498
June 1, 2005	125	1.1962	104,498
June 8, 2005	475	1.2000	395,834
Total	2,200	\$ 0.9130	2,409,612

Note 10. Series C Convertible Preferred Stock (Series C Stock)

On July 19, 2005, the Company also closed a private placement in its Series C Convertible Preferred Stock at \$1,000 per share for 12,500 shares (the Series C Stock). The Series C Stock was senior to the common stock with respect to the payment of dividends and other distributions on the capital stock of the Company, including distribution of the assets of the Company upon liquidation. No cash dividends or distributions shall be declared or paid or set apart for payment on the common stock in any year unless cash dividends or distributions on the Series C Stock for such year are likewise declared and paid or set apart for payment. No declared and unpaid dividends shall bear or accrue interest. Upon any liquidation, dissolution, or winding up of the Company, whether voluntary or involuntary before any distribution or payment shall be made to any of the holders of common stock or any series of preferred stock, the holders of Series C Stock shall be entitled to receive out of the assets of the Company, whether such assets are capital, surplus or earnings, an amount equal to \$1,000 per share of the Series C Stock plus all declared and unpaid dividends thereon, for each shares of Series C Stock held by them.

The Series C Stock are non-voting, carry a cumulative dividend rate of 5% per year, when and if declared by the Board of Directors of the Company, and are convertible into common stock at any time by dividing the dollar amount being converted (included accrued but unpaid dividends) by the lower of \$3.00 or 85% of the volume weighted average trading price per common stock of the Company for 5 trading days.

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The holder of the Series C Stock may only convert up to a maximum of \$950,000 of Series C Stock into common stock in any 30 day period. The Company may redeem the Series C Stock by paying 120% of the invested amount together with any unpaid dividends. Each share of Series C Stock will automatically convert into common stock at the conversion price then in effect two years from the date of issuance of each share.

As a condition of the Series C stock private placement agreement the Company filed a registration statement (the Registration Agreement) registering 12,500,000 shares of common stock into which the Series C Stock would be converted. This Registration Statement was declared effective on January 12, 2006. Each share of Series C Stock will be automatically converted into common stock immediately upon the consummation of the occurrence of a stock acquisition, merger, consolidation, or reorganization of the Company.

Net proceeds received as of March 31, 2006 totaled \$11,552,000 after payment of finders fees and legal costs of \$937,500 and \$10,500 respectively. The transaction resulted in a beneficial conversion feature calculation in accordance with EITF 98-5 *Accounting for Convertible Securities with Beneficial Conversion Features or Contingently Adjustable Conversion Ratios* , and EITF 00-27 *Application of Issue No. 98-5 to Certain Convertible Instruments* , of \$1,555,873 which was accreted over twenty-four months commencing July 15, 2005. Accretion of \$710,110 was recorded for the fiscal year ended March 31, 2007.

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The Company issued the following common shares pursuant to conversion of the Series C Stock:

Conversion Date	Shares of Series C Stock	Conversion Price	Shares of Common Stock
December 6, 2005	375	\$ 1.6443	228,061
January 23, 2006	375	1.8464	203,098
January 31, 2006	375	1.7447	214,937
February 2, 2006	375	1.8664	200,922
February 3, 2006	375	1.9684	190,510
February 7, 2006	375	2.2064	169,960
February 15, 2006	375	2.2599	165,937
February 16, 2006	375	2.1978	170,625
February 21, 2006	375	2.2747	164,857
March 9, 2006	375	2.0182	185,809
March 20, 2006	375	1.9852	188,898
April 5, 2006	750	1.9243	389,752
April 19, 2006	1,100	1.7255	637,496
May 5, 2006	1,750	1.5423	1,134,669
May 8, 2006	4,775	1.5028	3,177,403
Total	12,500	\$ 1.6840	7,422,934

During the fiscal years 2007 and 2006, the Company accrued dividends on the Series C Stock of \$35,270, and \$308,442, respectively. On May 10, 2006, the Company reached agreement with the purchaser of the Series C Stock to accept shares of common stock in lieu of cash in payment of the aggregate accrued dividend due of \$343,712. A total of 228,714 shares of the Company's common stock were issued on May 10, 2006 in satisfaction of the accrued dividend obligation.

Note 11. Series D Convertible Preferred Stock (Series D Stock)

In anticipation of entering into an investment agreement under which it was planned to sell 25,000 shares of its Series D Stock, the Company's Board of Directors authorized 50,000 shares of preferred stock.

No shares of Series D Stock have been issued; and on September 29, 2006, the Company's Board of Directors approved the cancellation of the Series D Stock designation.

Note 12. Series E Convertible Preferred Stock (Series E Stock)

On June 28, 2006, the Company closed a private placement agreement under which it sold 25,000 shares of its Series E Convertible Preferred Stock at \$1,000 per share (the Series E Stock). The Series E Stock is senior to the common stock with respect to the payment of dividends and other distributions on the capital stock of the Company, including distribution of the assets of the Company upon liquidation.

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No cash dividends or distributions shall be declared or paid or set apart for payment on the common stock in any year unless cash dividends or distributions on the Series E Stock for such year are likewise declared and paid or set apart for payment. No declared and unpaid dividends shall bear or accrue interest. Upon any liquidation, dissolution, or winding up of the Company, whether voluntary or involuntary before any distribution or payment shall be made to any of the holders of common stock or any series of preferred stock, the holders of Series E Stock shall be entitled to receive out of the assets of the Company an amount equal to \$1,000 per share of the Series E Stock plus all declared and unpaid dividends thereon, for each share of Series E Stock held by them.

The Series E Stock are non-voting, carry a cumulative dividend rate of 5% per year, when and if declared by the Board of Directors of the Company, and are convertible into common stock at any time by dividing the dollar amount being converted (included accrued but unpaid dividends) by \$2.50 per share if the Company's common shares are trading at an average price of \$2.50 per share or higher for the five trading days preceding a conversion date. If the Company's common shares are trading at an average price greater than \$1.67 but less than \$2.50 per share the Company may, at its exclusive option, force conversion at a price of \$1.67 per share or may redeem the Series E Stock for cash at the original investment amount plus a 20% redemption premium.

As a condition of the Series E Stock, the Company filed a registration statement (the Registration Agreement) registering 15,000,000 shares of common stock into which the Series E Stock would be converted. This Registration Statement was declared effective on February 9, 2007. Subsequently, the Series E Stock investor agreed to an initial registration of 10,000,000 shares to facilitate the Company's compliance with a revision of SEC guidelines related to the form of registration. The 5,000,000 additional shares of Series E Stock will be registered on a separate registration statement.

Net proceeds from the Series E Stock received during the fiscal year ended March 31, 2007 was \$23,115,000, after the payment of issuance costs of \$1,885,000.

Beginning December 1, 2006, the Company has a conditional mandatory redemption requirement equal to the pro rata amortization of the remaining outstanding Series E Stock over the period that ends August 2008. If the Company's common shares are trading at an average price less than \$1.67 per share on a conditional mandatory redemption date, the Company will pay cash at the original investment amount per share plus a 20% redemption premium. The holder of the Series E Stock may only convert up to a maximum of \$1,250,000 of Series E Stock into common stock in any 30 day period. Each share of Series E Stock will be automatically converted into common stock immediately upon the consummation of the occurrence of a stock acquisition, merger, consolidation, or reorganization of the Company. The Series E Convertible Preferred Stock investor, Cornell Capital Partners, chose to waive the monthly conditional mandatory redemption payments otherwise due on December 1, 2006 through March 31, 2007.

TORRENT ENERGY CORPORATION
(formerly SCARAB SYSTEMS INC.)

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Notes to Consolidated Financial Statements

In accordance with SFAS No. 150, Accounting for Certain Instruments with Characteristics of Both Liabilities and Equity, the Company has determined that the limited redemptions due from April 1, 2007 through July 1, 2007 totalling \$2,350,000 have met the characteristics of a liability and, therefore, have been classified as a current liability in the Company's financial statements for its fiscal year ended March 31, 2007. Subsequent to March 31, 2007 and through July 1, 2007, the investor has elected, in lieu of a cash payment, to accept a limited redemption, totaling \$2,350,000 plus accrued and unpaid dividends, which has been converted into 4,767,038 shares of the Company's common stock at a conversion rate of \$0.50 per share. These shares met the condition of being mandatorily redeemable based on the trailing five day stock price preceeding the assessment date. See Note 16 for additional discussion regarding this subsequent event related to the conditional mandatory redemption of the Series E Stock.

Note 13. Common Stock

On July 21, 2006, the Company entered into an agreement with GeoMechanics International, Inc. (GMI) pursuant to which GMI shall provide certain technical services to the Coos Bay project during the 2006/2007 drilling season in return for 125,000 shares of the common stock of the Company. These technical services were valued at \$227,500 and include geomechanical evaluation, modeling and advisory services. The Company recorded the related services as prepaid expense, subject to amortization as the services are provided. During the fiscal year ended March 31, 2007, a total of \$167,318 in related services was amortized from the prepaid expense account and recorded in oil and gas properties.

On July 19, 2005, the Company received gross proceeds of \$3,300,000 pursuant to a private placement of 1,650,000 shares of common stock at \$2.00 per share. Finders' fees paid on this transaction totalled \$25,000.

Note 14. Shareholder Loan

During the year ended March 31, 2005, the Company received proceeds of \$80,000 from a shareholder. On January 17, 2005, the shareholder loan was repaid in full with no interest. No imputed interest was recorded as it is deemed insignificant.

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Notes to Consolidated Financial Statements

Note 15. Commitments

On January 1, 2007, the Company entered into a consulting agreement for public and investor relations services with a third party for a twelve month period ending December 31, 2007. The agreement provides for payment of CND \$7,500 per month with reimbursement of certain expenses incurred by the consultant.

On January 1, 2007, the Company entered into an additional consulting agreement for public and investor relations services with a third party for a six-month period ending June 30, 2007. The agreement provides for payment of \$7,000 per month with reimbursement of certain expenses incurred by the consultant.

The Company has entered into various operating lease agreements involving office spaces and equipment. These leases are non-cancellable and expire in various dates through fiscal year 2009. Future minimum lease payments under these non-cancellable operating leases as of March 31, 2007 were \$106,992 for fiscal year 2008 and \$45,855 for the fiscal year 2009. Rent expense incurred by the Company for the fiscal year ended March 31, 2007 was \$132,273 (2006: \$59,472; 2005: \$19,520).

Note 16. Subsequent Events

As described in Note 12 regarding the Company's Series E Convertible Preferred Stock, the Company is obliged under certain circumstances to redeem its Series E shares from the investors in ratable monthly increments ending with a final redemption on August 1, 2008. The investor elected to waive the conditional mandatory redemption requirement through March 31, 2007. Subsequent to March 31, 2007, the investor has elected, in lieu of a cash payment, to accept temporarily a limited redemption, totaling to date \$2,350,000 or 2,350 shares of the Series E Stock, plus accrued and unpaid dividends which has been converted into 4,767,038 shares of common stock based on a conversion rate of \$.50 per share. The Company has no assurance that the investor will continue to limit the contractual redemption or to accept payment in shares of common stock for the contractual redemption in the future.

On May 22, 2007, Cascadia Energy Corp. acquired an additional 8,194 acres from the State of Washington Trust, which acreage is adjacent or contiguous to Cascadia Energy Corp.'s other acreage in the Chehalis Basin. This acreage was acquired in a lease auction for the aggregate consideration of \$48,949 and this acreage has been included in the Joint Venture referenced in Note 4 above.

Supplemental Information Quarterly Financial Data (Unaudited)

	Financial Information by Quarter (Unaudited)			
	June 30	September 30	December 31	March 31
For the fiscal year ended March 31, 2007				
Net Loss	\$(2,405,440)	\$(2,023,157)	\$(1,717,966)	\$(1,618,864)
Basic and diluted (loss) per share	\$(0.08)	\$(0.06)	\$(0.05)	\$(0.05)
For the fiscal year ended March 31, 2006				
Net Loss	\$(1,345,998)	\$(1,172,269)	\$(1,118,433)	\$(1,658,872)
Basic and diluted (loss) per share	\$(0.06)	\$(0.05)	\$(0.04)	\$(0.07)
For the fiscal year ended March 31, 2005				
Net Loss	\$(675,319)	\$(442,507)	\$(1,053,514)	\$(530,120)
Basic and diluted (loss) per share	\$(0.05)	\$(0.03)	\$(0.07)	\$(0.01)

ITEM 9. CHANGES IN AND DISAGREEMENTS WITH ACCOUNTANTS ON ACCOUNTING AND FINANCIAL DISCLOSURES

Ernst & Young LLP was dismissed on March 28, 2006 as our independent auditors. Ernst & Young LLP's report dated June 3, 2005, on our consolidated balance sheet as of March 31, 2005, and the related consolidated statement of stockholders' equity (deficit) from October 8, 2001 (inception) to March 31, 2005, consolidated statement of operations for the year ended March 31, 2005 and for October 8, 2001 (inception) to March 31, 2005 and consolidated statement of cash flows for the years ended March 31, 2005 and for October 8, 2001 (inception) to March 31, 2005, did not contain an adverse opinion or disclaimer of opinion, or qualification or modification as to uncertainty, audit scope, or accounting principles. However Ernst & Young LLP included an explanatory paragraph in their report with respect to uncertainty as to our ability to continue as a going concern.

In connection with the audit of our consolidated financial statements, and in the subsequent interim periods, there were no disagreements with Ernst & Young LLP on any matters of accounting principles or practices, financial statement disclosure, or auditing scope and procedures which, if not resolved to the satisfaction of Ernst & Young LLP would have caused Ernst & Young LLP to make reference to the matter in their report. Ernst & Young LLP furnished us with a letter addressed to the Commission stating that they agree with the above statements. A copy of that letter, dated April 26, 2006, is filed as Exhibit 16 to our Form 8-K filed on April 27, 2006. We engaged Peterson Sullivan PLLC on March 28, 2006 as our principal accountant to audit our consolidated financial statements. The decision to change accountants was approved by our board of directors.

During the years ended March 31, 2005 and 2004, neither we nor anyone on our behalf consulted with Peterson Sullivan PLLC regarding either the application of accounting principles to a specified transaction, either completed or proposed, or the type of audit opinion that might be rendered on our consolidated financial statements, nor has Peterson Sullivan PLLC provided to us a written report or oral advice regarding such principles or audit opinion or any matter that was the subject of a disagreement or reportable events set forth in Item 304(a)(iv) and (v), respectively, of Regulation S-K with our former accountant.

ITEM 9A. CONTROLS AND PROCEDURES

As required under the Securities Exchange Act of 1934, as of the end of the period covered by this annual report, being March 31, 2007, we have carried out an evaluation of the effectiveness of the design and operation of our Company's disclosure controls and procedures. This evaluation was carried out under the supervision and with the participation of our Company's management, including our Company's president and chief executive officer and our chief financial officer. Based upon that evaluation, our Company's president and chief executive officer and our chief financial officer concluded that our Company's disclosure controls and procedures are effective as at the end of the period covered by this report. There have been no changes in our internal controls over financial reporting that have materially affected, or are reasonably likely to materially affect our internal controls over financial reporting.

Disclosure controls and other procedures are designed to ensure that information required to be disclosed in our reports filed or submitted under the Securities Exchange Act of 1934 is recorded, processed, summarized and reported, within the time period specified in the Securities and Exchange Commission's rules and forms. Disclosure controls and procedures include, without limitation, controls and procedures designed to ensure that information required to be disclosed in our reports filed under the Securities Exchange Act of 1934 is accumulated and communicated to management, including our president and chief executive officer and our chief financial officer as appropriate, to allow timely decisions regarding required disclosure.

ITEM 9B. OTHER INFORMATION

None.

PART III**ITEM 10. DIRECTORS, EXECUTIVE OFFICERS, AND CORPORATE GOVERNANCE**

As of July 6, 2007, our directors and executive officers, their ages, positions held, and duration as such, are as follows:

Name	Position Held with our Company	Age	Date First Elected or Appointed
John D. Carlson	President, Chief Executive Officer and Director	53	June 30, 2004
George L. Hampton III	Director	54	August 3, 2004
Curtis Hartzler	Director	50	October 6, 2006
William A. Lansing	Chairman and Director	61	May 2, 2006
Michael Raleigh	Director	50	October 6, 2006
Michael D. Fowler	Chief Financial Officer, Treasurer and Secretary	63	January 16, 2006

All directors of our Company hold office until the next annual meeting of the stockholders or until their successors have been elected and qualified. Currently there are four seats on our board of directors. Currently, each non-executive director receives \$7,500 per quarter for their services and is reimbursed for their expenses incurred to attend meetings. The officers of our Company are appointed by our board of directors and serve until their successors are appointed by the board of directors or until their death, resignation or removal from office. During the past fiscal year, there have been no changes to the procedures by which security holders may recommend nominees to our board of directors.

Business Experience

The following is a brief account of the education and business experience of each of our directors, executive officers and key employees during at least the past five years, indicating each person's principal occupation during the period, and the name and principal business of the organization by which he or she was employed.

John D. Carlson, President, Chief Executive Officer and Director

John D. Carlson became president and chief executive officer of our Company on January 16, 2006 and has been a director since June 2004. Mr. Carlson has also been chief operating officer of our Company's wholly owned subsidiary, Methane Energy Corp. since May 2005 and a director since January 2006. Mr. Carlson was also appointed director of our wholly owned subsidiary, Cascadia Energy Corp. in January 2006.

Mr. Carlson brings to our Company over 25 years experience as a registered professional petroleum engineer with work experience ranging from Amoco Canada to Sproule Associates Ltd. to several private and public oil and gas companies in Alberta. Since June 2005, Mr. Carlson has been a director of Triangle Petroleum Corporation. From February 2004 to July 2004, Mr. Carlson was president and a director of Pacific Rodera Energy Inc., a Calgary-based oil and gas exploration and development company.

From September 2003 to January 2004, Mr. Carlson was vice president, operations for Pacific Rodera Energy Inc. From September 2001 to December 2003, Mr. Carlson was president of Samson Oil and Gas Inc., a Hobbema, Alberta-based oil and gas exploration and development company where he was also general manager from January 2001 to August 2001. From 1984 to 2000, Mr. Carlson was an associate and senior petroleum engineer for Sproule Associates, Ltd. Mr. Carlson received a bachelor of science degree in civil engineering from the University of Calgary in 1977.

George L. Hampton III, Director

George L. Hampton III has been a director of our Company since August 2004. From 1994 to 1997, and from 2000 to present, Mr. Hampton has been a partner of GeoTrends-Hampton International, LLC, a coalbed methane exploration company based out of the Pacific Northwest. From 1998 to May 2005, Mr. Hampton was a member and geologic consultant for Hampton, Waechter & Associates, LLC, a Denver, Colorado-based geological company. Since June 1986, Mr. Hampton has been president and chief geological consultant for Hampton & Associates, Inc., a Denver, Colorado-based coalbed methane exploration company. From April 1998 to April 1999, Mr. Hampton was project manager and senior geologist for Pennaco Energy Corporation, a Denver, Colorado-based coalbed methane exploration company. From 1996 to 1997, Mr. Hampton was chief geologist for Thermal Energy Corporation, a Tulsa, Oklahoma-based coalbed methane exploration company. From 1995 to 2001, Mr. Hampton was founding partner and technical manager of Cairn Point Publishing, Inc., a Denver, Colorado-based publishing company that published International Coal Seam Gas Directory (1996) and The International Coal Seam Gas Report (1997). Mr. Hampton has written and co-written a half-dozen articles on coalbed methane exploration and has provided testimony before several state oil and gas commissions. Mr. Hampton received a bachelor of sciences degree in geology from Brigham Young University in 1977 and a masters degree in geology from Brigham Young University in 1979.

Curtis Hartzler, Director

Curtis Hartzler has been a director of our Company since October 2006. Mr. Hartzler has extensive oil and gas industry experience, having served in an executive capacity for both public and private resource companies in Calgary, Alberta. Since 2005, Mr. Hartzler has served as president of G2 Resources Ltd., a Calgary-based public oil and gas company. From 2003 to 2005, he was the president of Goose River Resources Ltd., also a Calgary-based public oil and gas company. Prior thereto, Mr. Hartzler's experience includes advisory board service with Rosetta Exploration Ltd. from 2001 to 2004 and service as a Director of Epic Oil & Gas Ltd., a public company which held coalbed methane leases in Washington state. He was president of Birchill Resources Ltd., a private oil and gas company from 1991 to 2000. Mr. Hartzler received a degree in mechanical engineering from the University of Calgary in 1972.

William A. Lansing, Director

William A. Lansing has been a director since May 2, 2006 and was appointed chairman of the board of directors in October 2006. Mr. Lansing has extensive experience in the forest products industry in senior executive roles.

From 2001 to April 2006, Mr. Lansing served as president, chief executive officer and a director of Menasha Forest Products Corporation. From 1970 to 2001, he was involved with Menasha Corporation, a family-owned multi-product company that is located in 23 states and foreign countries. Mr. Lansing took on various roles at Menasha Corporation including research forester from 1970 to 1973, chief forester from 1973 to 1975, assistant general manager from 1975 to 1978, general manager from 1978 to 1982, vice president and general manager from 1982 to 1995, and president from 1995 to 2001. Mr. Lansing received his bachelor of sciences degree from Humboldt State University in 1967 and a master of finance degree from Yale University in 1970 as well as completed post graduate advanced management programs at Stanford University.

Michael Raleigh, Director

Michael Raleigh has been a director of our Company since October 2006 and has 27 years of experience in the oil and gas industry. Since 2005, Mr. Raleigh has served as managing director of Domain Energy Advisors, LLC, an advisory service providing technical and commercial expertise to independently managed funds investing in private and public small cap exploration and production companies. From 1985 through 2004, Mr. Raleigh was affiliated with Schlumberger Oilfield Services and served in a variety of senior technical advisory roles providing petroleum engineering, management and business development expertise for projects ranging across North and South America, the United Kingdom North Sea, Russia, the Caspian Sea and the Middle East. Mr. Raleigh holds a 1979 bachelor of science degree in chemical engineering from Queen's University in Ontario, Canada and an MBA from the University of Colorado awarded in 1993.

Michael D. Fowler, Chief Financial Officer, Treasurer and Secretary

Michael Fowler became the chief financial officer, treasurer and secretary of our Company on January 16, 2006 and has been providing consulting services to our Company since September 2005. Mr. Fowler was also appointed chief financial officer, treasurer and secretary of our wholly-owned subsidiaries, Methane Energy Corp. and Cascadia Energy Corp., effective January 16, 2006.

Mr. Fowler brings to our Company 30 years of senior financial management experience from a variety of companies including Northwest Energy Company, Grand Valley Gas Company, First Interstate Bank of Utah, Pacific West Bank and Tatum LLC. From April 2000 to November 2000, Mr. Fowler served as chief financial officer of Asphalt Exchange Inc., a start-up e-commerce operation. From April 2001 to December 2002, he served as chief financial officer of Wellpartner Inc., a mail-order/on-line pharmacy operation. From February 2003 to November 2005, Mr. Fowler acted as consultant to various companies including Vanguard National Mortgage, MILA Financial Inc., Qsent, Inc., United Pacific Mortgage, Inc., Schnitzer Steel Corporation, Portland Teachers Credit Union, Endovascular Instruments, Inc., Apex Construction Systems, Inc. and Swan Island Networks, Inc. From July 2004 to November 2005, Mr. Fowler was part-time chief financial officer for Pacific West Bank, a start-up state-chartered bank. Mr. Fowler has more than twelve years of public company, senior financial management experience in various segments of the energy industry. He holds a master of business administration and a bachelor of sciences electrical engineering.

Family Relationships

There are no family relationships among our directors or officers.

Involvement in Certain Legal Proceedings

Our directors, executive officers and control persons have not been involved in any of the following events during the past five years:

1. any bankruptcy petition filed by or against any business of which such person was a general partner or executive officer either at the time of the bankruptcy or within two years prior to that time;
2. any conviction in a criminal proceeding or being subject to a pending criminal proceeding (excluding traffic violations and other minor offences);
3. being subject to any order, judgment, or decree, not subsequently reversed, suspended or vacated, of any court of competent jurisdiction, permanently or temporarily enjoining, barring, suspending or otherwise limiting his involvement in any type of business, securities or banking activities; or
4. being found by a court of competent jurisdiction (in a civil action), the Securities and Exchange Commission or the Commodity Futures Trading Commission to have violated a federal or state securities or commodities law, and the judgment has not been reversed, suspended, or vacated.

Audit Committee Financial Expert

The Company's Audit Committee of the Board of Directors is comprised of Mr. Lansing, Mr. Raleigh, and Mr. Hartzler. Our board of directors has determined that Mr. Lansing qualifies as an audit committee financial expert as defined in Item 401(e) of Regulation S-B, and is independent as the term is used in Item 7(d)(3)(iv) of Schedule 14A under the Securities Exchange Act of 1934, as amended.

Code of Ethics

Our Company's board of directors adopted a Code of Business Conduct and Ethics that applies to, among other persons, our Company's president and chief executive officer (being our principal executive officer) and our Company's chief financial officer (being our principal financial and accounting officer and controller), as well as persons performing similar functions.

As adopted, our Code of Business Conduct and Ethics sets forth written standards that are designed to deter wrongdoing and to promote:

- (1) honest and ethical conduct, including the ethical handling of actual or apparent conflicts of interest between personal and professional relationships;
- (2) full, fair, accurate, timely, and understandable disclosure in reports and documents that we file with, or submit to, the Securities and Exchange Commission and in other public communications made by us;
- (3) compliance with applicable governmental laws, rules and regulations;
- (4) the prompt internal reporting of violations of the Code of Business Conduct and Ethics to an appropriate person or persons identified in the Code of Business Conduct and Ethics; and
- (5) accountability for adherence to the Code of Business Conduct and Ethics.

Our Code of Business Conduct and Ethics requires, among other things, that all of our Company's personnel shall be accorded full access to our president and secretary with respect to any matter which may arise relating to the Code of Business Conduct and Ethics. Further, all of our Company's personnel are to be accorded full access to our Company's board of directors if any such matter involves an alleged breach of the Code of Business Conduct and Ethics by our president or secretary.

In addition, our Code of Business Conduct and Ethics emphasizes that all employees, and particularly managers and/or supervisors, have a responsibility for maintaining financial integrity within our Company, consistent with generally accepted accounting principles, and federal, provincial and state securities laws. Any employee who becomes aware of any incidents involving financial or accounting manipulation or other irregularities, whether by witnessing the incident or being told of it, must report it to his or her immediate supervisor or to our Company's president or secretary. If the incident involves an alleged breach of the Code of Business Conduct and Ethics by the president or secretary, the incident must be reported to any member of our board of directors. Any failure to report such inappropriate or irregular conduct of others is to be treated as a severe disciplinary matter. It is against our Company policy to retaliate against any individual who reports in good faith the violation or potential violation of our Company's Code of Business Conduct and Ethics by another.

Our Code of Business Conduct and Ethics for Senior Financial Officers was filed with the Securities and Exchange Commission as Exhibit 14.1 to our annual report on Form 10-KSB for the year ended March 31, 2005. We will provide a copy of the Code of Business Conduct and Ethics for Senior Financial Officers to any person without charge, upon request. Requests can be sent to: Torrent Energy Corporation, 1 SW Columbia Street, Suite 640; Portland, Oregon 97258.

Section 16(a) Beneficial Ownership Compliance

Section 16(a) of the Securities Exchange Act of 1934, as amended, requires our executive officers and directors and persons who own more than 10% of a registered class of our equity securities to file with the Securities and Exchange Commission initial statements of beneficial ownership, reports of changes in ownership and annual reports concerning their ownership of our shares of common stock and other equity securities, on Forms 3, 4 and 5, respectively. Executive officers, directors and greater than 10% shareholders are required by the Securities and Exchange Commission regulations to furnish us with copies of all Section 16(a) reports they file.

Based solely on our review of the copies of such forms received by our Company, or written representations from certain reporting persons that no Form 5s were required for those persons, we believe that, during the fiscal year ended March 31, 2007, all filing requirements applicable to our officers, directors and greater than 10% beneficial owners as well as our officers, directors and greater than 10% beneficial owners of our subsidiaries, Methane Energy Corp. and Cascadia Energy Corp. were complied with, with the exception of the following:

Name	Number of Late Reports	Number of Transactions Not Reported on a Timely Basis	Failure to File Requested Forms
John Douglas Carlson	Nil	Nil	Nil
George L. Hampton III	2 ⁽¹⁾	2	Nil
Curtis Hartzler	Nil	Nil	Nil
William A. Lansing	Nil	Nil	Nil
Michael Raleigh	Nil	Nil	Nil
Michael D. Fowler	Nil	Nil	Nil
Thomas J. Deacon	1 ⁽¹⁾	1	Nil
Steve Pappajohn	4 ⁽¹⁾	4	Nil

(1) The named officer, director or greater than 10% shareholder, as applicable, filed a late Form 4 - Statement of Changes in Beneficial Ownership.

ITEM 11. EXECUTIVE COMPENSATION

The following tables set forth certain information regarding our chief executive officer and each of our most highly-compensated executive officers whose total annual salary and bonus for the fiscal years ending March 31, 2007, 2006 and 2005 exceeded \$100,000:

SUMMARY COMPENSATION TABLE									
Name and principal position	Fiscal Year	Salary (\$)	Bonus (\$)	Stock Awards (\$)	Option Awards (\$)	Non-equity Incentive Plan Compensation (\$)	Change in Pension Value and Non-qual. Deferred Comp Earnings (\$)	All Other Compensation (\$)	Total (\$)
John D. Carlson, President & Chief Executive Officer, Director	2007	198,584(1)	500(2)	-	575,000(3)	-	-	-	774,
	2006	157,627(1)	-	-	177,626(3)	-	-	10,000(4)	345,
	2005	-	-	-	42,477(3)	-	-	2,500(4)	44,
Mark Gustafson, Chairman, President & Chief Executive Officer, Treasurer & Secretary	2007	65,045(5)	79,500(6)	-	-	-	-	-	144,
	2006	152,261(5)	-	-	355,252(7)	-	-	5,000(8)	512,
	2005	60,990(5)	-	-	199,112(7)	-	-	2,500(8)	262,
Michael D. Fowler, Chief Financial Officer, Treasurer & Secretary	2007	180,000(9)	15,500(2),(10)	-	-	-	-	-	195,
	2006	45,000(9)	5,000(10)	-	417,617(11)	-	-	-	467,
	2005	-	-	-	-	-	-	-	-

(1) John D. Carlson became our president and chief executive officer on January 16, 2006. On January 16, 2006, we entered into a letter of employment with Mr. Carlson where we agreed to pay him an annual base salary of \$200,000 commencing January 16, 2006. Of the \$157,627 that was paid to Mr. Carlson in fiscal 2006, \$41,667 relates to annual salary and \$115,960 relates to payments for consulting services prior to his appointment as president and chief executive officer.

(2) John D. Carlson was paid a Christmas bonus of \$500 as were all other employees of our Company.

(3) We granted to Mr. Carlson stock options to purchase 250,000 shares of our common stock on May 10, 2006 as consideration for his service as president and chief executive officer. The options are exercisable at \$2.97 per share until May 10, 2011 and vest over 18 months with 25% vesting immediately and additional 25% increments vesting every six months until November 10, 2007.

We granted to Mr. Carlson stock options to purchase 200,000 shares of our common stock on April 1, 2005 as an incentive for acting as a director of our Company. The options are exercisable at a price of \$1.25 per share until April 1, 2010. These options vest over 18 months, as to 25% immediately and 25% every six months until September 17, 2006.

We granted to Mr. Carlson stock options to purchase up to 45,000 shares of our common stock on August 3, 2004 as an incentive for acting as a director of our Company. The options are exercisable at a price of \$0.50 per share until August 3, 2009. These options vest over 18 months, as to 25% immediately and 25% every six months until fully vested on December 31, 2005.

(4) John D. Carlson was paid a retainer of \$2,500 in fiscal 2005 and \$10,000 in fiscal 2006 as compensation for acting as a director of our Company.

(5) Mark Gustafson was our chairman and a director from September 21, 2004 to October 6, 2006. He was also our president, chief executive officer, acting chief financial officer from September 21, 2004 to January 16, 2006. On December 17, 2004, we entered into a consulting agreement with MGG Consulting (wholly-owned by Mr. Gustafson), to provide for services as our president, chief executive officer and acting chief financial officer. We agreed to pay MGG Consulting \$8,000 per month commencing December 1, 2004 unless terminated at any time by either party upon written notice. We then entered into a consulting agreement with MGG Consulting on January 1, 2005 whereby the agreement was revised to pay MGG Consulting the sum of \$1,000 per day commencing January 1, 2005. Effective April 1, 2005, the agreement was again amended to reduce the compensation rate to \$800 per day. Effective January 16, 2006, the compensation rate was restored to \$1,000 per day, which was his rate of compensation for service as our chairman and director until his resignation on October 6, 2006. Please also refer to Item 12 Certain Relationships and Related Transactions in this annual report.

(6) Mr. Gustafson was paid a bonus of \$79,500 for his work in completing the Series E convertible preferred stock financing during fiscal 2007.

(7) We granted to Mr. Gustafson stock options to purchase up to 400,000 shares of our common stock on April 1, 2005 as compensation for services as our president, chief executive officer and acting chief financial officer. The options are exercisable at a price of \$1.25 per share until April 1, 2010. These options vest over 18 months, as to 25% immediately and 25% every six months until fully vested on September 17, 2006.

We granted to Mark Gustafson stock options to purchase up to 540,000 shares of our common stock on May 7, 2004 as compensation for consulting services provided to our Company prior to becoming our president, chief executive officer, acting chief financial officer and a director. The options are exercisable at a price of \$0.10 per share until May 7, 2009. All of these options have been exercised.

(8) Mr. Gustafson was paid a retainer of \$2,500 in fiscal 2005 and \$5,000 in fiscal 2006 as compensation for acting as a director of our Company

(9) Michael D. Fowler became our chief financial officer, treasurer and secretary on January 16, 2006. Prior to this time, he was acting as a consultant to our Company. In December 2005, we entered into a letter of employment with Mr. Fowler where we agreed to pay him an annual base salary of \$180,000 and to pay an annual performance-based bonus of up to \$20,000. The terms of the letter of employment were approved at our board meeting held on January 13, 2006 where we officially appointed Mr. Fowler as our chief financial officer, treasurer and secretary effective January 16, 2006. During the year ended March 31, 2007, Mr. Fowler received \$15,000 in performance-based bonuses and a \$500 Christmas bonus, which was also paid to all other employees of the Company.

(10) On August 11, 2005, we entered into a contract with Tatum LLC to provide the services of Michael D. Fowler as a consultant to our Company. During fiscal 2005, we paid Tatum LLC \$66,500 for consulting services provided by Mr. Fowler to December 31, 2005 and \$50,000 for a resource placement fee when we hired Mr. Fowler. Since January 2006, we have paid Tatum LLC a resource fee of \$1,000 per month; and during this period, Mr. Fowler has held less than a 0.05 percent interest in Tatum LLC (see Item 12. Certain Relationships and Related Transactions).

(11) We granted to Mr. Fowler stock options to purchase up to 250,000 shares of our common stock on January 16, 2006 as compensation for services as our chief financial officer, treasurer and secretary. The options are exercisable at a price of \$2.11 per share until January 16, 2011. These options vest over 18 months, as to 25% immediately and 25% every six months until July 16, 2007.

Compensation Discussion and Analysis

General Philosophy. We compensate our senior management using a combination of salary, bonus and equity compensation designed to be competitive with comparable oil and gas companies while aligning management's incentives with the long-term interests of our stockholders. To date, our compensation setting process has consisted of targeting an overall compensation package sufficient to entice our senior management to accept the risks inherent in a development-stage enterprise and join our Company. Consequently we have provided no salary increases to our existing senior management team since their respective hire dates. We anticipate developing a comprehensive incentive compensation program at such time as we have further advanced the development of our Company to encompass gas production activities.

Base Salaries. We want to provide our senior management with a level of assured cash compensation in the form of base salary that is compatible with the financial resources of a development-stage company but which facilitates an appropriate lifestyle for our executives given their professional status and accomplishments. For our president and chief executive officer, we concluded that an initial base salary of \$200,000 was appropriate in this regard. For our chief financial officer, we concluded that an initial base salary of \$180,000 was appropriate.

Bonuses. Our objective is to award cash bonuses based on performance objectives. For our chief financial officer, we elected to select specific objectives related to successful completion of SEC filings for which he may earn up to a maximum of \$20,000 per year. For the fiscal year ended March 31, 2007, he was paid cash bonuses totaling \$15,000 in this regard and received a Christmas bonus of \$500, which was paid to all employees of our Company. During the year ended March 31, 2007, our president and chief executive officer has received only the \$500 Christmas bonus.

Equity Compensation. Our only form of equity compensation has been to award non-qualified stock options. We selected this form of equity compensation because of the accounting and tax treatments existing early in our Company's history and an expectation by our employees that stock options would provide upside to their compensation to balance their risk/reward expectations.

Other. We have no severance benefits policy for our senior executives and employment is at will. Similarly we have no company-funded retirement plans but do sponsor a 401(k) plan for which no company matching contributions have been made. Finally, we have no change of control protection for our executive management or for our employees.

Board Process. The Board of Directors has established a Compensation Committee, comprised exclusively of independent outside directors. Two members of the Compensation Committee have extensive executive level experience in other companies in the oil and gas industry and bring a perspective of reasonableness to compensation matters within our Company. Additionally, the chairman of the Compensation Committee currently serves in a similar board position on two other publicly traded companies and, in that capacity, regularly review compensation surveys for chief executive officers and other executive level personnel.

The Compensation Committee approves all compensation and awards to executive management, which includes the president and chief executive officer and the chief financial officer. Generally on its own initiative the Compensation Committee reviews the performance of the president and chief executive officer and the chief financial officer and will establish their compensation levels based on both the performance evaluation and on comparable position studies provided by independent sources. With respect to equity compensation, the Compensation Committee approves all option grants, generally based on the recommendation of the president and chief executive officer, and has delegated granting authority to the president and chief executive officer.

The following table provides a summary of plan-based equity awards to our current and past executive officers.

GRANTS OF PLAN-BASED AWARDS											
Name and principal position	Grant date	Estimated future payouts under non-equity incentive plan awards			Estimated future payouts under equity incentive plan awards			All other stock awards: Number of shares of stock or units (#)	All other option awards: Number of securities underlying options (#)	Exercise or base price of option awards (\$)	Market price at date of grant (\$)
		Threshold (\$)	Target (\$)	Maximum (\$)	Threshold (#)	Target (#)	Maximum (#)				
John D. Carlson, President & Chief Executive Officer, Director	July 28, 2004	-	-	-	-	-	-	-	45,000	\$ 0.50	\$ 0.95
	April 1, 2005	-	-	-	-	-	-	-	200,000	\$ 1.25	\$ 1.07
	May 10, 2006	-	-	-	-	-	-	-	250,000	\$ 2.97	\$ 2.97
Mark Gustafson, Chairman, President & Chief Executive Officer, Treasurer & Secretary	April 1, 2005	-	-	-	-	-	-	-	400,000	\$ 1.25	\$ 1.07
Michael D. Fowler, Chief Financial Officer, Treasurer & Secretary	January 16, 2006	-	-	-	-	-	-	-	250,000	\$ 2.11	\$ 2.11

Outstanding equity awards as of March 31, 2007 are summarized as follows:

OUTSTANDING EQUITY AWARDS AT FISCAL YEAR-END									
Name and principal position	Option Awards					Stock Awards			
	Number of securities underlying unexercised options (#) Exercisable	Number of securities underlying unexercised options (#) Unexercisable	Equity incentive plan awards: Number of securities underlying unexercised unearned options (#)	Option exercise price (\$)	Option expiration date	Number of shares of stock that have not vested (#)	Market value of shares that have not vested (\$)	Equity incentive plan awards: Number of unearned shares that have not vested (#)	Equity incentive plan awards: Market or payout value of unearned shares that have not vested (\$)
President John D. Carlson, & Chief Executive Officer, Director	45,000 200,000 125,000	- - 125,000	- - -	\$ 0.50 \$ 1.25 \$ 2.97	July 27, 2009 April 1, 2010 May 10, 2011	- - -	- - -	- - -	- - -
Mark Gustafson, Chairman, President & Chief Executive Officer, Treasurer & Secretary	400,000	-	-	\$ 1.25	April 1, 2010	-	-	-	-
Michael D. Fowler, Chief Financial Officer, Treasurer & Secretary	125,000	125,000	-	\$ 2.11	January 16, 2011	-	-	-	-

As indicated in the table below, no stock options were exercised by our executive officers during the fiscal year ended March 31, 2007.

OPTION EXERCISES AND STOCK VESTING				
Name and principal position	Number of shares acquired on exercise (#)	Value realized on exercise (\$)	Number of shares acquired on vesting (#)	Value realized on vesting (\$)
John D. Carlson, President & Chief Executive Officer, Director	-	-	-	-
Mark Gustafson, Chairman, President & Chief Executive Officer, Treasurer & Secretary	-	-	-	-
Michael D. Fowler, Chief Financial Officer, Treasurer & Secretary	-	-	-	-

Compensation of Directors

Compensation paid to our board of directors during the fiscal year ended March 31, 2007 is summarized as follows:

DIRECTOR COMPENSATION							
Name	Fees earned or paid in cash (\$)	Stock awards (\$)	Option awards (\$)	Non-equity incentive plan compensation (\$)	Non-qualified deferred compensation earnings (\$)	All other compensation (\$)	Total (\$)
George L. Hampton III	22,500	-	-	-	-	12,540 ⁽¹⁾	35,040
Curtis Hartzler	15,000	-	268,632 ⁽²⁾	-	-	-	283,632
William A. Lansing	25,000	-	690,000 ⁽³⁾	-	-	-	715,000
Michael Raleigh	15,000	-	-	-	-	-	283,632

			268,632 (4)			
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- (1) Mr. Hampton performed certain consulting services for our Company during the year ended March 31, 2007.
- (2) Fair value of the 250,000 options granted October 6, 2006 was computed pursuant to Financial Accounting Standard 123R.
- (3) Fair value of the 300,000 options granted May 10, 2006 was computed pursuant to Financial Accounting Standard 123R.
- (4) Fair value of the 250,000 options granted October 6, 2006 was computed pursuant to Financial Accounting Standard 123R.

Except as noted below, we have no formal plan for compensating our directors for their service in their capacity as directors, although such directors are expected in the future to receive stock options to purchase shares of common stock as awarded by our board of directors. On December 17, 2004, our board of directors approved a resolution to pay our directors a quarterly retainer of \$2,500 commencing January 1, 2005.

On May 1, 2006, our board of directors approved a resolution to pay new non-executive directors a quarterly retainer of \$5,000 commencing April 1, 2006. Directors are also entitled to reimbursement for reasonable travel and other out-of-pocket expenses incurred in connection with attendance at meetings of our board of directors. On September 29, 2006, our board approved a resolution to pay non-executive directors a quarterly retainer of \$7,500 commencing October 1, 2007. Our board of directors may award special remuneration to any director undertaking any special services on our behalf other than services ordinarily required of a director.

Employment Contracts and Termination of Employment and Change in Control Arrangements

We employed Mark Gustafson as our president, chief executive officer, acting chief financial officer and a director until January 16, 2006 pursuant to a consulting agreement dated December 17, 2004 between our Company and MGG Consulting, a company that is wholly-owned by Mr. Gustafson. We agreed to pay MGG Consulting \$8,000 per month commencing December 1, 2004 unless terminated at any time by either party upon written notice. We then entered into a consulting agreement with MGG Consulting on January 1, 2005 whereby the agreement was revised to pay MGG Consulting the sum of \$1,000 per day commencing January 1, 2005. Effective April 1, 2005, the agreement was again amended to reduce the compensation rate to \$800 per day. Effective January 16, 2006, the compensation rate was restored to \$1,000 per day, which was his rate of compensation for service as our chairman and director until his resignation on October 6, 2006.

Prior to Mr. Gustafson becoming our president, chief executive officer, acting chief financial officer and a director, we had entered into a consulting agreement dated February 16, 2004 with MGG Consulting where we granted 490,000 options to Mr. Gustafson as compensation for acting as a consultant to our Company. All of these options have been exercised. We entered into a consulting agreement dated March 24, 2004 with MGG Consulting where we granted 320,000 options to Mr. Gustafson as compensation for acting as a consultant to our Company. We also granted to Mr. Gustafson stock options to purchase up to 540,000 shares of our common stock on May 7, 2004 as compensation for consulting services provided to our Company. All of these options have been exercised.

We employ both John Carlson, our president and chief executive officer, and Michael Fowler, our chief financial officer, on an at will basis whereby no formal employment agreements exist. Both Mr. Carlson and Mr. Fowler have signed agreements to provide a minimum of 30 days notice in the event they chose to resign their positions.

We have no plans or arrangements in respect of remuneration received or that may be received by our executive officers to compensate such officers in the event of termination of employment as a result of resignation, retirement, change of control or a change of responsibilities following a change of control, where the value of such compensation exceeds \$100,000 per executive officer.

ITEM 12. SECURITIES OWNERSHIP OF CERTAIN BENEFICIAL OWNERS AND MANAGEMENT AND RELATED STOCKHOLDER MATTERS

The following table sets forth certain information regarding beneficial ownership of our shares of common stock as of July 6, 2007,

- by each person who is known by us to beneficially own more than 5% of our shares of common stock;
- by each of our officers and directors; and
- by all of our officers and directors as a group.

Name and Address of Beneficial Owner	Title of Class	Amount and Nature of Beneficial Owner⁽¹⁾	Percentage of Class⁽²⁾
John D. Carlson Box 13, Site 8, RR #1 Priddis, Alberta, Canada T0L 1W0	common stock	487,500 ⁽³⁾	1.32%
George L. Hampton III 11 Inverness Way South Englewood, Colorado, USA 80112	common stock	920,000 ⁽⁴⁾⁽⁵⁾	2.50%
Curtis Hartzler 49 Tuscany Estates Cres. NW Calgary, Alberta, Canada T3L 0B2	common stock	125,000 ⁽⁶⁾	0.34%
William A. Lansing 93962 Bridge View Lane North Bend, Oregon, USA 97459	common stock	230,000 ⁽⁷⁾	0.63%
Michael Raleigh Suite 550 10000 Memorial Drive Houston, Texas, USA 77024	common stock	125,000 ⁽⁸⁾	0.34%
Michael D. Fowler 17385 Wall Street Lake Oswego, Oregon, USA, 97034	common stock	250,000 ⁽⁹⁾	0.68%
All Officers and Directors As a Group (6 persons)	common stock	2,137,500	5.63%

- (1) Beneficial ownership is determined in accordance with the rules of the Securities and Exchange Commission and generally includes voting or investment power with respect to securities. Shares of common stock subject to options or warrants currently exercisable or convertible, or exercisable or

convertible within 60 days of July 9, 2007 are deemed outstanding for computing the percentage of the person holding such option or warrant but are not deemed outstanding for computing the percentage of any other person.

- (2) Percentage based on 36,561,953 shares of common stock outstanding on June 27, 2007 plus additional shares for options above.
- (3) Includes 257,500 options currently exercisable, which includes the exercisable portion of 250,000 options granted on May 10, 2006.
- (4) Includes 245,000 options currently exercisable.
- (5) Mr. Hampton owns 50% of GeoTrends-Hampton International LLC. On August 8, 2005, GeoTrends-Hampton International LLC transferred 450,000 shares of our common stock into the personal name of George L. Hampton III.
- (6) Includes 125,000 options currently exercisable, which includes the exercisable portion of 250,000 options granted on October 6, 2006.
- (7) Includes 225,000 options currently exercisable, which includes the exercisable portion of 300,000 options granted on May 10, 2006.
- (8) Includes 125,000 options currently exercisable, which includes the exercisable portion of 250,000 options granted on October 6, 2006.
- (9) Includes 187,500 options currently exercisable, which includes the exercisable portion of 250,000 options granted on January 16, 2006.

Changes in Control

We are unaware of any contract or other arrangement the operation of which may at a subsequent date result in a change in control of our Company.

ITEM 13. CERTAIN RELATIONSHIPS AND RELATED TRANSACTIONS

Other than as disclosed below, there have been no transactions, or proposed transactions, which have materially affected or will materially affect us in which any director, executive officer or beneficial holder of more than 10% of the outstanding shares of common stock, or any of their respective relatives, spouses, associates or affiliates, has had or will have any direct or material indirect interest.

We received proceeds of \$80,000 pursuant to a shareholder loan from Ettinger Investment Corp. The loan was to be repaid by January 22, 2005 or we would be required to pay interest at 12% per annum in respect of the loan. If the loan was repaid prior to January 22, 2005, the loan would bear no interest. On January 17, 2005, we repaid the shareholder in full with no interest.

During the fiscal years ended March 31, 2007, 2006 and 2005, we incurred consulting charges from MGG Consulting, which is wholly-owned by Mark Gustafson, our previous president, chief executive officer, acting chief financial officer until January 16, 2006. Please refer to Item 10 Executive Compensation Summary Compensation Table of this annual report.

During the year ended March 31, 2007, our Company recorded \$780,266 in consulting fees to our directors and officers. In addition, we paid our officers and directors \$46,558 for consulting fees relating to our oil and gas leases and \$56,823 for geological and geophysical consulting fees, both of which are included in the costs of the oil and gas properties. During the year ended March 31, 2007, our Company also paid directors fees to related parties serving in that capacity, a total of \$77,500.

During the year ended March 31, 2006, our Company paid Tatum LLC a total of \$119,500 of which \$3,000 was paid during the period Michael Fowler became our chief financial officer. During the year ended March 31, 2007, we paid Tatum LLC a total of \$26,250. During this period, Mr. Fowler held an ownership interest in Tatum LLC of less than 0.05 percent.

We have no policy regarding entering into transactions with affiliated parties.

Transactions with Promoters

The promoters of our Company are our directors and officers.

ITEM 14. PRINCIPAL ACCOUNTING FEES AND SERVICES

Audit Fees

The aggregate fees billed by Peterson Sullivan PLLC for professional services rendered for the audit of our annual consolidated financial statements included in our Annual Report on Form 10-K for the fiscal year ended March 31, 2007 are estimated at \$38,000. During the fiscal year ending March 31, 2007, fees billed by Peterson Sullivan PLLC for quarterly interim financial statement reviews and services in connection with registration statements and other filings with the Securities and Exchange Commission were \$30,577.

The aggregate fees billed by Peterson Sullivan PLLC for professional services rendered in connection with the audit of our consolidated financial statements included in our Annual Report on Form 10-KSB for the fiscal year ended March 31, 2006 were \$33,935. The aggregate fees billed by Peterson Sullivan PLLC for professional services rendered for the audit of our consolidated financial statements for the fiscal year ended March 31, 2005 and included in our Annual Report on Form 10-K for the fiscal year ended March 31, 2007 are estimated at \$15,000.

The aggregate fees billed by Ernst & Young LLP for professional services rendered for the audit of our annual consolidated financial statements included in our Annual Report on Form 10-KSB for the fiscal year ended March 31, 2005 were CDN\$30,000. During the fiscal year ending March 31, 2006, fees billed by Ernst & Young LLP for quarterly interim financial statement reviews and services in connection with registration statements and other filings with the Securities and Exchange Commission were CDN\$26,300.

Audit Related Fees

For the fiscal years ended March 31, 2007 and March 31, 2006, the aggregate fees billed for assurance and related services by Peterson Sullivan PLLC relating to the performance of the audit of our consolidated financial statements which are not reported under the caption *Audit Fees* above, were nil.

For the fiscal year ended March 31, 2006, the aggregate fees billed for assurance and related services by Ernst & Young LLP relating to the performance of the audit of our consolidated financial statements which are not reported under the caption "Audit Fees" above, were nil.

For the fiscal year ended March 31, 2005, the aggregate fees billed for assurance and related services by Ernst & Young LLP relating to the performance of the audit of our consolidated financial statements which are not reported under the caption "Audit Fees" above, were nil.

Tax Fees

For the fiscal year ended March 31, 2007, the aggregate fees billed by Peterson Sullivan PLLC for other non-audit professional services, other than those services listed above, were \$5,010.

For the fiscal year ended March 31, 2007, the aggregate fees billed by Ernst & Young LLP for other non-audit professional services, other than those services listed above, were nil.

This category includes the fees for professional services rendered for tax compliance, tax advice and tax planning.

We do not use Peterson Sullivan PLLC for financial information system design and implementation. These services, which include designing or implementing a system that aggregates source data underlying the consolidated financial statements or generates information that is significant to our consolidated financial statements, are provided internally or by other service providers. We do not engage Peterson Sullivan PLLC to provide compliance outsourcing services.

Effective May 6, 2003, the Securities and Exchange Commission adopted rules that require that before Peterson Sullivan PLLC is engaged by us to render any auditing or permitted non-audit related service, the engagement be:

- approved by our audit committee (which currently consists of our entire board of directors); or
- entered into pursuant to pre-approval policies and procedures established by the audit committee, provided the policies and procedures are detailed as to the particular service, the audit committee is informed of each service, and such policies and procedures do not include delegation of the audit committee's responsibilities to management.

The audit committee requires advance approval of all audit engagements, audit-related activities, tax services, and any other services performed by the independent auditor. Unless the specific service has been previously pre-approved with respect to that year, the audit committee must approve the permitted service before the independent auditor is engaged to perform it. The audit committee has delegated to the chair of the audit committee authority to approve permitted services provided that the chair reports any decisions to the committee at its next scheduled meeting.

The audit committee has considered the nature and amount of fees to be billed by Peterson Sullivan PLLC and believes that the provision of services for activities unrelated to the audit is compatible with maintaining Peterson Sullivan PLLC's independence.

PART IV

ITEM 15. EXHIBITS AND FINANCIAL STATEMENT SCHEDULES

Exhibit Number and Exhibit Title

(3) Articles of Incorporation and Bylaws

- 3.1 Restated Articles of Incorporation (incorporated by reference from our Annual Report on Form 10-KSB/A filed on February 11, 2004).
- 3.2 Articles of Amendment to the Restated Articles of Incorporation, changing the name to Torrent Energy Corporation (incorporated by reference from our Registration Statement on Form SB-2 filed on March 30, 2005).
- 3.3 Articles of Amendment to the Restated Articles of Incorporation, creating Series B convertible preferred stock (incorporated by reference from our Current Report on Form 8-K filed on September 1, 2004).
- 3.4 Bylaws of our Company (incorporated by reference from our Annual Report on Form 10-KSB/A filed on February 11, 2004).
- 3.5 Articles of Amendment dated July 13, 2005 creating Series C convertible preferred stock (incorporated by reference from our Current Report on Form 8-K filed on July 20, 2005).
- 3.6 Articles of Amendment dated June 16, 2006 creating Series D convertible preferred stock (incorporated by reference from our Current Report on Form 8-K filed on June 30, 2006).
- 3.7 Articles of Amendment dated June 28, 2006 creating Series E convertible preferred stock (incorporated by reference from our Current Report on Form 8-K filed on June 30, 2006).

(4) Instruments Defining the Rights of Security Holders, including Indentures

- 4.1 Scarab Systems, Inc. 2004 Non-Qualified Stock Option Plan (incorporated by reference from our Registration Statement on Form S-8 filed on February 19, 2004).
- 4.2 Amended 2005 Equity Incentive Plan, effective March 17, 2005 (incorporated by reference from our Registration Statement on Form S-8 filed on August 31, 2005).

4.3 Form of Stock Option Agreement for Amended 2005 Equity Incentive Plan (incorporated by reference from our Registration Statement on Form S-8 filed on August 31, 2005).

(10) Material Contracts

10.1 Lease Purchase and Sale Agreement between our Company, Methane Energy Corp. and Geo-Trends-Hampton International, LLC dated May 11, 2004 (incorporated by reference from our Current Report on Form 8-K filed on May 20, 2004).

10.2 Amending Agreement to Lease Purchase and Sale Agreement dated May 19, 2004 (incorporated by reference from our Current Report on Form 8-K filed on June 23, 2004).

10.3 Second Amending Agreement to Lease Purchase and Sale Agreement dated June 11, 2004 (incorporated by reference from our Current Report on Form 8-K filed on June 23, 2004).

10.4 Investment Rights Agreement dated August 27, 2004 between our Company and Cornell Capital Partners, L.P. (incorporated by reference from our Current Report on Form 8-K filed on September 1, 2004).

10.5 Registration Rights Agreement dated August 27, 2004 between our Company and Cornell Capital Partners, L.P. (incorporated by reference from our Current Report on Form 8-K filed on September 1, 2004).

10.6 Consulting Agreement dated January 1, 2005 between our Company and MGG Consulting (incorporated by reference from our Registration Statement on Form SB-2 filed on March 30, 2005).

10.7 Securities Purchase Agreement dated February 11, 2005 between our Company and Placer Creek Investors (Bermuda) L.P. (incorporated by reference from our Registration Statement on Form SB-2 filed on March 30, 2005).

10.8 Securities Purchase Agreement dated February 11, 2005 between our Company and Placer Creek Partners, L.P. (incorporated by reference from our Registration Statement on Form SB-2 filed on March 30, 2005).

10.9 Securities Purchase Agreement dated July 11, 2005 between our Company and Placer Creek Partners, L.P. (incorporated by reference from our Current Report on Form 8-K filed on July 20, 2005).

10.10 Securities Purchase Agreement dated July 11, 2005 between our Company and Placer Creek Investors (Bermuda) L.P. (incorporated by reference from our Current Report on Form 8-K filed on July 20, 2005).

10.11 Securities Purchase Agreement dated July 11, 2005 between our Company and SDS Capital Group SPC, Ltd. (incorporated by reference from our Current Report on Form 8-K filed on July 20, 2005).

- 10.12 Investment Agreement dated July 12, 2005 between our Company and Cornell Capital Partners, L.P. (incorporated by reference from our Current Report on Form 8-K filed on July 20, 2005).
- 10.13 Investor Registration Rights Agreement dated July 12, 2005 between our Company and Cornell Capital Partners, L.P. (incorporated by reference from our Current Report on Form 8-K filed on July 20, 2005).
- 10.14 Lease Option Agreement dated August 9, 2005 between Torrent's wholly-owned subsidiary, Cascadia Energy Corp. and Weyerhaeuser Company (incorporated by reference from our Current Report on Form 8-K filed on August 18, 2005).
- 10.15 Joint Venture Agreement dated August 12, 2005 between Torrent's wholly-owned subsidiary, Cascadia Energy Corp. and St. Helens Energy, LLC (incorporated by reference from our Current Report on Form 8-K filed on August 18, 2005).
- 10.16 Option to Acquire Oil & Gas Lease with Pope Resources LP dated May 9, 2006 (incorporated by reference from our Current Report on Form 8-K filed on May 19, 2006).
- 10.17 Investment Agreement dated June 28, 2006 between our Company and Cornell Capital Partners, L.P. (incorporated by reference from our Current Report on Form 8-K filed on June 30, 2006).
- 10.18 Registration Rights Agreement dated June 28, 2006 between our Company and Cornell Capital Partners, L.P. (incorporated by reference from our Current Report on Form 8-K filed on June 30, 2006).
- (11) Statements regarding computation of per share earnings (See Note 2 to the consolidated financial statements included in Item 8).**
- (14) Code of Ethics**
- 14.1 Code of Business Conduct and Ethics (incorporated by reference from our Annual Report on Form 10-KSB filed on June 30, 2005).
- (16) Letter on change in certifying accountant**
- 16.1 Letter from Moore Stephens Ellis Foster Ltd. dated August 25, 2005 regarding change in independent accountant (incorporated by reference from our Current Report on Form 8-K/A filed on September 13, 2005).
- 16.2 Letters from Ernst & Young LLP dated March 30, 2006 and April 26, 2006 regarding change in independent accountant (incorporated by reference from our Current Reports on Forms 8-K/A filed on April 7, 2006 and April 27, 2006).
- (21) Subsidiaries**
- Methane Energy Corp., an Oregon company

Cascadia Energy Corp., a Washington company

(23) Consent of Experts and Counsel

23.1 Consent of Peterson Sullivan PLLC to incorporation by reference of audit report to the registration statement on Form S-8 filed on August 31, 2005 (filed herewith).

(24) Power of Attorney

24.1 Power of Attorney (included on signature page).

(31) Section 302 Certifications

31.1 Section 302 Certification (filed herewith).

31.2 Section 302 Certification (filed herewith).

(32) Section 906 Certifications

32.1 Section 906 Certification (filed herewith).

32.2 Section 906 Certification (filed herewith).

SIGNATURES

Pursuant to the requirements of Section 13 or 15(d) of the Securities Exchange Act of 1934, the registrant has duly caused this report to be signed on its behalf by the undersigned, thereunto duly authorized.

TORRENT ENERGY CORPORATION

By: */s/ John D. Carlson*

John D. Carlson

President, Chief Executive Officer and Director

(Principal Executive Officer)

By: */s/ Michael D. Fowler*

Michael D. Fowler

Chief Financial Officer, Treasurer and Secretary

(Principal Financial Officer and Principal Accounting Officer)

Date: July 12, 2007

POWER OF ATTORNEY

KNOW ALL PERSONS BY THESE PRESENTS, that each person whose signature appears below constitutes and appoints John Carlson as his true and lawful attorney-in-fact and agent, with full power of substitution and re-substitution, for him and in his name, place and stead, in any and all capacities, to sign any and all amendments (including post-effective amendments) to this annual report, and to file the same, with all exhibits thereto, and other documents in connection therewith, with the Securities and Exchange Commission, granting unto said attorney-in-fact and agent, full power and authority to do and perform each and every act and thing requisite and necessary to be done in connection therewith, as fully to all intents and purposes as he might or could do in person, hereby ratifying and confirming all that said attorney-in-fact and agent or any of them, or of their substitute or substitutes, may lawfully do or cause to be done by virtue hereof.

Pursuant to the requirements of the Securities Exchange Act of 1934, this report has been signed below by the following persons on behalf of the registrant and in the capacities and on the dates indicated.

<u>Signature</u>	<u>Title</u>	<u>Date</u>
<i>/s/ John D. Carlson</i> John D. Carlson	President, Chief Executive Officer and Director	July 12, 2007
<i>/s/ George L. Hampton III</i> George L. Hampton III	Director	July 12, 2007
<i>/s/ Curtis Hartzler</i> Curtis Hartzler	Director	July 12, 2007
<i>/s/ William A. Lansing</i> William A. Lansing	Chairman and Director	July 12, 2007
<i>/s/ Michael Raleigh</i> Michael Raleigh	Director	July 12, 2007