

TORRENT ENERGY CORP
Form 10QSB
August 04, 2004

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

FORM 10-QSB

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

For the quarterly Period ended June 30, 2004

OR

TRANSITION REPORT UNDER SECTION 13 OR 15(d) OF THE EXCHANGE ACT
For the transition Period from _____ to _____

Commission file number 000-19949

TORRENT ENERGY CORPORATION

(Exact name of small business issuer as specified in its charter)

Colorado

84-1153522

(State or other jurisdiction of
incorporation or organization)

(IRS Employer Identification No.)

528-666 Burrard Street, Vancouver, British Columbia V6C 2X8

(Address of principal executive offices)

(604) 639-3178

(Issuer's telephone number)

Scarab Systems, Inc.

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

Check whether the registrant filed all documents and reports required to be filed by Section 12, 13 or 15(d) of the Exchange Act after the distribution of securities under a plan confirmed by a court. Yes No

As of July 19, 2004, 15,656,249 shares of Common Stock of the Issuer were outstanding.

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

Part I -- Financial Information

Item 1. Financial Statements

The consolidated financial statements included herein have been prepared by Torrent Energy Corporation (the "Company") without audit, pursuant to the rules and regulations of the Securities and Exchange Commission ("SEC"). Certain information and footnote disclosures normally included in financial statements prepared in accordance with generally accepted accounting principles have been omitted pursuant to such SEC rules and regulations. In the opinion of the Company the accompanying statements contain all adjustments necessary to present fairly the financial position of the Company as of June 30, 2004, and its results of operations for the three month periods ended June 30, 2004 and 2003 and its cash flows for the three month periods ended June 30, 2004 and 2003. The results for these interim periods are not necessarily indicative of the results for the entire year. The accompanying financial statements should be read in conjunction with the financial statements and the notes thereto filed as a part of the Company's annual report on Form 10-KSB.

Note: EXCEPT WHERE AND AS OTHERWISE STATED TO THE CONTRARY IN THIS QUARTERLY REPORT, ALL SHARE, PRICES PER SHARE AND EXERCISE PRICES HAVE BEEN ADJUSTED TO GIVE RETROACTIVE EFFECT TO THE CHANGE IN THE PRICE PER SHARE OF THE COMMON STOCK RESULTING FROM THE ONE-FOR-TEN SHARE CONSOLIDATION OF THE COMMON STOCK THAT TOOK EFFECT ON JANUARY 20, 2004.

TORRENT
ENERGY
CORPORATION

(formerly
Scarab
Systems,
Inc.)
(An
exploration
stage
enterprise)

Consolidated
Balance
Sheets
**(Unaudited
and
Prepared
by
Management)**

June 30,
2004

March 31,
2004

(Unaudited)

ASSETS

Current

Cash and cash equivalents

Accounts receivable (Note 8)

Total current assets

Oil and gas properties,
unproven (Note 5)

Total assets

LIABILITIES

Current

Accounts payable and accrued liabilities

Total current liabilities

STOCKHOLDERS' EQUITY (DEFICIT)

Share capital

Authorized:

100,000,000 common shares with a par value of \$0.001 per share

Issued and outstanding: 15,056,249 Common shares

(March 31, 2004 - 12,173,319)

Additional paid in capital

Share subscriptions received

Deficit accumulated during the exploration stage

Total stockholders' equity (deficit)

Total liabilities and equity

The accompanying notes are an integral part of these consolidated financial

-4-

TORRENT
ENERGY
CORPORATION

(formerly
Scarab
Systems,
Inc.)

(An
exploration
stage
enterprise)

Consolidated
Statements
of
Stockholders'
Equity
(Deficit)

(Unaudited
and
Prepared
by
Management)

Common stock

Amount

Balance

, March 31, 2003

Stocks issued for services
rendered and recorded in fiscal year 2003

Stocks issued at \$0.40 to \$0.50
per share in fiscal year 2003

Stocks issued for conversion of debt
at \$0.10 per share in February 2004

Stocks issued for cash at \$0.10
per share in February and March 2004

Stocks issued for exercise of stock options

at \$0.10 per share in February and March 2004

Issuance of stock options as compensation

Forgiveness of debt - related party

Net (loss) for the period

Balance,

March 31, 2004

Stocks issued for exercise of stock options
at \$0.10 per share in May and June 2004

Stocks and warrants issued under a private placement at \$0.35 per share in May 2004 (Note 7)

Stocks issued for investor relations services
at \$0.54 per share in June 2004

Stocks issued for acquisition of oil and gas properties at \$0.38 per share in June 2004

Proceeds of 100,000 share subscriptions at \$0.40 per share in June 2004

Issuance of stock options as compensation

Net (loss) for the period

Balance,

June 30, 2004 (Unaudited)

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

TORRENT
ENERGY
CORPORATION

(formerly Scarab
Systems, Inc.)
(An exploration
stage enterprise)

Consolidated
Statements of
Operations

(Unaudited and
Prepared by
Management)

General and administrative expenses

Consulting

Insurance

Interest expense on long term debt

Investor relations

Legal and accounting

Office and Miscellaneous

Professional fees

Rent

Shareholder relations

Stock based compensation

Telephone

Travel

Operating (loss)

Other income (expense)

Gain on settlement of debt

Write-off of goodwill

Loss from continued operations

Net income from discontinued operations

Net loss for the period

Net (loss) for the period - basic and diluted

Weighted average number of

common shares outstanding

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

-6-

TORRENT
ENERGY
CORPORATION

(formerly
Scarab
Systems,
Inc.)

(An
exploration
stage
enterprise)

Consolidated
Statements
of Cash
Flows

(Unaudited
and
Prepared
by
Management)

Cash flows used in operating activities

Net (loss) for the period

Adjustment to reconcile net loss to

net cash used in operating activities:

- amortization

- stock based compensation

- foreign exchange

- write-off of goodwill

- debt forgiven

- net income from the discontinued operations

- shares allotted for service rendered

Changes in non-cash working capital items:

- accounts receivable

- accounts payable and accrued liabilities

Net cash used in operating activities

Net cash used in operating activities

Cash flows used in investing activities

Oil and gas properties

Loan to Healthnet

Net cash used in operating activities

Acquisition of fixed assets

Net cash used in investing activities

Net cash used in investing activities

Cash flows provided by financing activities

Proceeds from issuance of common stock

Proceeds from share subscriptions

Net cash used in investing activities

Proceeds from promissory notes

Net cash provided by financing activities

Increase (decrease) in cash and cash equivalents

Cash and cash equivalents,

beginning of period

Net cash provided by financing activities

Cash and cash equivalents

, end of period

Supplemental cash flow information:

Interest expenses paid

Common stock issued for oil and gas property

Common stock issued for investor relations

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

(Unaudited and Prepared by Management)

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 System, 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 that was 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 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 ended March 31, 2003.

On January 30, 2002, the Company was 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 ("MED"), as security against a subscription receivable of \$337,500 for 675,000 shares from the shareholders of MED. MED was in the business of providing a wide range of marketing products and services. Effective August 7, 2002, the Company exercised both of the options and acquired all the issued and outstanding shares of MED. Due to disappointing financial results of MED, on March 28, 2003, the Company entered into an agreement with the former shareholders of MED to sell MED back to them. As a result, all the issued and outstanding shares of MED that the Company acquired were sold back to the former MED shareholders for the return to treasury of 540,000 of its common shares.

On March 28, 2003, the Company acquired all the issued and outstanding shares of Catalyst Technologies, Inc., a British Columbia corporation ("Catalyst"). Catalyst is a Vancouver based, web design and Internet application developer. Catalyst specializes 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 the fiscal year 2003 and the Company abandoned Catalyst during the fiscal year ended March 31, 2004 due to a lack of working capital and disappointing financial results.

On April 30, 2004, Torrent incorporated an Oregon subsidiary company named Methane Energy Corp. ("Methane") in anticipation of acquiring oil and gas properties in the State of Oregon.

On May 11, 2004, Methane 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 for the Coos Bay Basin prospect located onshore in the Coos Bay Basin of Oregon. To acquire these oil

and gas leases, the Company paid a total of \$300,000 in cash and will issue 1,800,000 restricted common shares in three performance based tranches. The agreement closed on June 22, 2004. On closing, the Company paid \$100,000 of the cash and 600,000 of the common shares. The Company has since paid the remaining \$200,000 so that the cash consideration is fully paid.

Pursuant to the GHI Agreement, the Company acquired leases of certain properties in the Coos Bay area of Oregon which are prospective for oil and gas exploration. Leases were acquired from the State of Oregon and

-8-

TORRENT ENERGY CORPORATION

(formerly Scarab Systems, Inc.)
(An exploration stage enterprise)

Notes to Consolidated Financial Statements

(Unaudited and Prepared by Management)

from property owners, and the Company has amassed approximately 60,000 acres under lease. The Company is pursuing the leasing of additional properties in the Coos Bay area.

The consolidated financial statements presented are those of Torrent and its wholly-owned subsidiary Methane. Collectively, they are referred to herein as the "Company".

2. Significant Accounting Policies

Basis of Presentation

The accompanying consolidated financial statements of the Company are unaudited and include, in the opinion of management, all normal recurring adjustments necessary to present fairly the consolidated balance sheet as of June 30, 2004, and the related statements of operations and cash flows for the periods presented. Certain information and footnote disclosures normally included in financial statements prepared in accordance with accounting principles generally accepted in the United States have been condensed or omitted. These consolidated financials statements should be read in conjunction with the Company's audited financial statements and the related notes thereto included in the Company's Form 10-KSB filed with the Securities and Exchange Commission.

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, capitalized interest costs relating to unproved properties, geological expenditures, tangible and intangible development costs including direct internal costs are capitalized to the full cost pool. As of June 30, 2004, 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

Supplemental cash flow information:

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 are determined uneconomical the amount of such properties are added to the capitalized cost to be amortized. As of June 30, 2004, all of the Company's oil and gas properties were unproved and were excluded from amortization. At June 30, 2004, none of the Company's unproved oil and gas properties were considered impaired.

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 a ten percent discount rate, of the future net revenues from proved reserves, based on current economic and operating conditions and estimated value of proven properties. No impairment existed as of June 30, 2004.

Sales of proved and unproved properties are accounted for as adjustments of capitalized costs with no gain or loss recognized, unless such adjustments would significantly alter the relationship between capitalized costs and proved reserves of oil and gas, in which case the gain or loss is recognized in the statement of operations.

-9-

TORRENT ENERGY CORPORATION

(formerly Scarab Systems, Inc.)
(An exploration stage enterprise)

Notes to Consolidated Financial Statements

(Unaudited and Prepared by Management)

Stock Based Compensation

The Company has adopted the disclosure-only provisions of SFAS No. 123, "Accounting for Stock-based Compensation", as amended by SFAS No. 148 "Accounting for Stock-based Compensation - Transition and Disclosure - An amendment of SFAS No. 123". SFAS No. 123 encourages, but does not require, companies to adopt a fair value based method for determining expense related to stock-based compensation. The Company accounts for stock-based compensation issued to employees and directors using the intrinsic value method as prescribed under Accounting Principles Board Opinion No. 25, "Accounting for Stock Issued to Employees" and related interpretations.

The Company initiated a 2004 Non-Qualified Stock Option Plan. Since inception of the plan, the Company has granted 1,600,000 stock options to non-employees.

Recent Accounting Pronouncements

A reporting issue has arisen regarding the application of certain provisions of SFAS No. 141 and SFAS No. 142 to companies in the extractive industries, including oil and gas companies. The issue is whether SFAS No. 142 requires registrants to classify the costs of oil and gas rights held under lease or other contractual arrangement associated with extracting oil and gas as intangible assets in the balance sheet, apart from other capitalized oil and gas property costs, and provide specific footnote disclosures. Historically, the Company has included the costs of such oil and gas rights associated with extracting oil and gas as a component of oil and gas properties. If it is ultimately determined that

Supplemental cash flow information:

SFAS No. 142 requires oil and gas companies to classify costs of oil and gas rights held under lease or other contractual arrangement associated with extracting oil and gas as a separate intangible assets line item on the balance sheet, the Company would be required to reclassify approximately \$455,154 at June 30, 2004 and \$nil at March 31, 2004 out of oil and gas properties and into a separate intangible assets line item. The Company's cash flows and results of operations would not be affected since such intangible assets would continue to be depleted and assessed for impairment in accordance with full-cost accounting rules.

3. Going Concern

These financial statements have been prepared in conformity with generally accepted accounting principles in the United States of America 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 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 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.

-10-

TORRENT ENERGY CORPORATION

(formerly Scarab Systems, Inc.)
(An exploration stage enterprise)

Notes to Consolidated Financial Statements

Supplemental cash flow information:

(Unaudited and Prepared by Management)

4. Related Party Transactions

During the three month period ended June 30, 2004, the Company paid or accrued no consulting fees to the directors and senior officers of the Company, as compared to \$19,327 during the three months ended June 30, 2003. At June 30, 2004 and March 31, 2004, there were no amounts in accounts payable and accrued liabilities that are owing to related parties.

5. Oil and Gas Properties, Unproven

The total costs incurred and excluded from amortization are summarized as follows:

At June 30, 2004, 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.

6. Stock Options

As at June 30, 2004, the Company had 100,000 stock options outstanding under the 2004 Non-Qualified Stock Option Plan (the "Plan") with a weighted average exercise price of \$0.10. The weighted average remaining contractual life of the options outstanding is 1.63 years. There are 200,000 stocks options still eligible to be granted under the Plan.

7. Warrants

In connection with the sale of common stock during the three months ended June 30, 2004, the Company issued warrants to purchase 1,442,930 shares of common stock at \$0.50 per share exercisable until May 19, 2006. Using the Black-Scholes valuation model, the fair value of these warrants was estimated at \$221,373 and has been included in additional paid in capital.

-11-

TORRENT ENERGY CORPORATION

(formerly Scarab Systems, Inc.)
(An exploration stage enterprise)

Notes to Consolidated Financial Statements

(Unaudited and Prepared by Management)

8. Accounts Receivable

During June 2004, the Company issued 210,000 common shares of its capital pursuant to the exercise of 210,000 stock options for gross proceeds of \$21,000. The Company deposited the proceeds from the exercise shortly after the quarter end date and, as a result, had a receivable outstanding of \$21,000 as at June 30, 2004.

9. Subsequent Events

Subsequent to the three months ended June 30, 2004, the Company made the final cash payment to GHI of \$200,000.

Subsequent to the three months ended June 30, 2004, the Company completed the sale of 500,000 units at \$0.40 per unit for gross proceeds of \$200,000. Each unit is comprised of one share and one non-transferable share purchase warrant. Each warrant entitles the holder to purchase an additional share in the capital of the Company at a price of \$0.55 per common share for a period of two years from the date of closing.

Subsequent to the three months ended June 30, 2004, the Company received the payment of \$21,000 relating to the accounts receivable existing at the quarter end date.

Subsequent to the three months ended June 30, 2004, the Company issued 100,000 common shares for gross proceeds of \$10,000 pursuant to the exercise of stock options.

Subsequent to the three months ended June 30, 2004, the Company leased an additional 10,400 acres within the Coos Bay Basin in Oregon. With this additional acreage the total land position held by Methane now exceeds 60,000 acres.

-12-

Item 2. Management's Discussion and Analysis or Plan of Operations

FORWARD LOOKING STATEMENTS

The information in this discussion contains forward-looking statements within the meaning of Section 27A of the Securities Act of 1933, as amended, and Section 21E of the Securities Exchange Act of 1934, as amended. These forward-looking statements involve risks and uncertainties, including statements regarding the Company's capital needs, business strategy and expectations. Any statements contained herein that are not statements of historical facts may be deemed to be forward-looking statements. In some cases, you can identify forward-looking statements by terminology such as "may", "will", "should", "expect", "plan", "intend", "anticipate", "believe", "estimate", "predict", "potential" or "continue", the negative of such terms or other comparable terminology. Actual events or results may differ materially. In evaluating these statements, you should consider various risk factors in other reports the Company files with the SEC, including the Company's Form 8-K dated June 22, 2004 and the Company's Annual Report on Form 10-KSB for the year ended March 31, 2004. These factors may cause the Company's actual results to differ materially from any forward-looking statement. The Company disclaims any obligation to publicly update these statements, or disclose any difference between its actual results and those reflected in these statements. The information constitutes forward-looking statements within the meaning of the Private Securities Litigation Reform Act of 1995.

Overview

Torrent Energy Corporation is engaged in the acquisition, exploration and if and when warranted, development of natural gas and coalbed methane properties in the United States. Our current focus is on the development of the Coos Bay Basin project in Oregon.

We have been in the exploration or development stage since our inception. We have had no significant operating revenue to date, have accumulated losses of \$1,558,636 and will require additional working capital to sustain our minimal operations and carry out our exploration objectives. These circumstances raise substantial doubt as to our ability to continue as a going concern.

We are currently reviewing various financing alternatives, including the possibility of an additional private equity offering. There can be no assurance, however, that such financings will be available to us or, if it is, that it will be available on terms acceptable to us. 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 facilities and no employees.

Current Business

On May 11, 2004, we entered into a Lease Purchase and Sale Agreement (the "Agreement") with GeoTrends-Hampton International LLC ("GHI") to purchase certain oil and gas leases for the Coos Bay Basin exploration prospect located onshore in the Coos Bay Basin of Oregon, through our subsidiary, Methane Energy Corp. ("Methane"). GHI is a Washington limited liability company that owned the rights to a coalbed methane gas exploration prospect in the Coos Bay Basin of Oregon, including technical information on this prospect, fee leases, State leases, lease options and agreements controlling oil and gas rights covering approximately 50,000 acres.

Pursuant to the Agreement, we, through Methane, have acquired all of GHI's petroleum and natural gas rights in and to a number of oil and gas leases (the "Leases") for the Coos Bay Basin exploration prospect. As consideration for the rights in and to the Leases, we paid to GHI an aggregate of \$300,000 in cash and will issue 1,800,000 shares of our common stock in the following installments:

First common share installment: On the closing of the Agreement, we issued to GHI 450,000 and to Thomas Deacon 150,000 of our common shares.

Second common share installment: Upon Methane and/or our agents or contractors spudding of the initial well of exploration or core test program within, on or under the lands as permitted by the Leases, we will issue to GHI an additional 450,000 and to Thomas Deacon 150,000 of our common shares. However, if such drilling is not commenced by December 31, 2004, then the parties will have no further rights or obligations under the Agreement;

Third common share installment: Upon Methane and/or our agents or contractors spudding of the initial well of the state approved development drilling program within, on or under the lands as permitted by the Leases, we will issue to GHI the final 450,000 and to Thomas Deacon 150,000 of our common shares. However, if such drilling is not commenced by June 30, 2006, then the parties will have no further rights or obligations under the Agreement.

Thomas Deacon is an operator who worked with GHI in assembling the leases purchased by Methane.

GHI delivered to us an assignment of 100% of the petroleum and natural gas rights it controlled subject only to royalty and overriding royalty interests of record on the closing date. GHI reserved to itself an undivided 4% of 8/8ths overriding royalty interest in the lands covered by the Leases, and all production therefrom. This reservation of overriding royalty interest will also apply to any oil and gas leases acquired within an area of mutual interest of both GHI and us and will be free and clear of any cost and expense of the development, operation and marketing of production from the Leases, except for taxes applicable.

On July 1, 2004, we leased an additional 10,400 acres within the Coos Bay Basin in Oregon. With this additional acreage the total land position held by us now exceeds 60,000 acres.

Coalbed Methane Overview

Coalbed methane is the natural gas that lies trapped in coal seams at shallow depths. It is different from other resources because it is both generated and stored within the actual coalbeds themselves. It is also an attractive resource because it occurs within coal, which is the most abundant fuel in the United States. Coal acts like a sponge, storing up to six times the amount of natural gas found in conventional reservoirs.

Over the past 20 years, coalbed methane production has increased steadily due to its abundance, relatively low cost of drilling at shallow depths, improved technology and the growing demand for natural gas.

The success of recent coalbed methane projects has been largely due to improved drilling and completion techniques, better hydraulic fracture designs and significant cost reductions as a result of highly dependable gas content and reservoir performance analysis. Also spurring the growth of this sector is the growing shortage of quality domestic conventional natural gas projects and production declines from existing conventional reservoirs.

Location of the Coos Bay Basin Exploration Prospect

The Coos Bay Basin is located along the Pacific coast in southwestern 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 covering over 250 square miles.

Based on existing data, it is estimated that up to 100,000 acres in the Coos Bay Basin are potentially prospective for coal bed methane and conventional natural gas production. The Leases acquired by us include oil and gas leases, lease option agreements or other exploration commitments covering over 60,000 net oil and gas acres within the primary

Supplemental cash flow information:

Coos Bay Basin Exploration Prospect area of mutual interest.

-14-

Year-round access is excellent via logging and fire control roads maintained by the United States Forest Service and timber industry. Numerous potential drill site locations have already been constructed as timber recovery staging areas, and are available to be utilized in the initial testing phase of our planned 2004 drill program

The Coos Bay Basin is a structural basin formed by folding and faulting that preserves a portion of coal-bearing sediments deposited on an extensive, middle Eocene-age, swampy coastal plain. The coal-bearing sandstones and siltstones of the Upper Eocene Coaledo formation are estimated to form a section approximately 6,600 feet thick. The Basin has multiple seams of coal, many of which contain coalbed methane.

Natural Gas Market

The Port of Coos Bay and surrounding area is one of the largest population centers on the west coast not currently served by natural gas. A project to bring natural gas into the region via pipeline is currently under construction and nearing completion. The local distribution company serving this market has already constructed mains and many services in the area. It is anticipated that this pipeline will provide a ready market for gas from the Coos Bay Basin project. The pipeline will be connected to the Northwest Pipeline system, allowing access to the potentially lucrative Pacific Northwest markets.

Plan of Operations

Land Acquisition

We currently lease approximately 60,000 acres in the Coos Bay Basin and have identified approximately 30,000 to 40,000 additional acres falling within the Coos Bay Basin Prospect. Our objective is to achieve a land lease position of over 100,000 acres before the end of 2004, although there is no assurance that we can reach that goal.

Exploration of the Coos Bay Project

We are planning an aggressive drilling and exploration program in the Coos Bay Basin. Based on existing raw data, which provides substantial subsurface information, we believe we will begin a core hole drilling program in the late fall of 2004. A total of four to six core holes will be drilled at depths ranging from 1,500 to 3,500 feet. It is expected to take approximately three to four weeks to drill each hole. If commercial gas resource estimates can be verified, production testing will follow with full pilot test well programs in early to mid 2005.

Estimated timeline over the next twelve months

| | |
|----------------|--|
| July 2004 | -Additional acreage acquisition activities commence |
| September 2004 | -Submit drilling permit applications to State of Oregon |
| October 2004 | -Bulk of additional land acquisitions completed within the area of mutual interest |
| November 2004 | -Commences corehole exploratory drilling |
| April 2005 | -Commences pilot well drilling and testing |

The continuation of our business is dependent upon obtaining further financing, a successful program of acquisition, positive results of exploration, and, finally, achieving a profitable level of operations. The issuance of additional equity securities by us could result in a significant dilution in the equity interests of our current stockholders. Obtaining commercial loans, assuming those loans would be available, will increase our liabilities and future cash commitments.

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

-15-

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, or any findings at all.

Results of Operations

The results of operations include the results of Torrent and its wholly owned subsidiary, Methane, for the three months ended June 30, 2004 and Torrent and its wholly owned subsidiary, Catalyst, for the three months ended June 30, 2003. During the three months ended June 30, 2004, Torrent performed all of the administrative operations while the subsidiary, Methane, holds the interests in the leases and operates the Coos Bay project.

For the Three Months Ended June 30, 2004 Compared to the Three Months Ended June 30, 2003

Operating Expenses

. Operating expenses rose considerably between the periods due to our increased activity. During the three months ended June 30, 2004, we concluded a financing and closed an agreement to acquire certain oil and gas lease assets for the Coos Bay Basin exploration prospect located onshore in the Coos Bay Basin of Oregon. Operating expenses consisted of consulting fees, investor relation's expenses, accounting and legal fees, stock based compensation and other general corporate expenses.

Operating expenses were \$675,319 for the three months ended June 30, 2004, compared with \$28,590 for the three months ended June 30, 2003. A significant portion of the increase was attributable to the recording of \$375,710 in stock based compensation during the three months ended June 30, 2004, compared with no such expense for the three months ended June 30, 2003. The stock based compensation expense consisted of a charge of \$213,710 relating to the issuance of 540,000 stock options to consultants during the current period and a charge of \$162,000 relating to the issuance of 300,000 shares of our common stock pursuant to an investor relations agreement to provide an investor awareness program for a period of one year.

Consulting fees were \$102,210 for the three months ended June 30, 2004, compared with \$26,473 for the three months ended June 30, 2003. During the current period, we recorded \$80,000 in consulting services for the final restructuring efforts and for purchase investigation services. The balance of the consulting fees of \$22,210 related to technical and administrative consulting services for our Coos Bay project. During the comparative period in 2003, consultants were engaged to sustain our minimum operations. Insurance expenses were \$46,569 for the three months ended June 30, 2004 compared to no such expense for the three months ended June 30, 2003. We were required to have pollution liability coverage in order to secure certain leases. Investor relation's expenses were \$72,168 for the three months ended June 30, 2004 and shareholder relation's expenses were \$37,153 for the three months ended June

30, 2004. Investor relations expenses consisted predominantly of a \$70,000 payment to an investor relations firm for providing a shareholder awareness program for a period of one year. Shareholder relation expenses consisted of costs associated with disseminating press releases and the costs of designing and building of our website, www.torrentenergy.com. This compares with no such investor relations or shareholder relations expenses for the comparative period when we were inactive.

Net Loss for the Period.

We recorded a net loss of \$675,319 for the three months ended June 30, 2004, compared with a net loss of \$28,590 for the three months ended June 30, 2003.

Liquidity and Capital Resources

Our cash on hand was \$88,985 as at June 30, 2004 compared to \$12,621 at March 31, 2004. Our working capital improved to \$57,001 as at June 30, 2004, compared to a working capital deficit of \$15,261 as at March 31, 2004.

Our improved cash position and working capital was achieved through receipt of gross proceeds of \$559,025 from the issuance of common stock and \$40,000 in gross proceeds from a share subscription agreement which closed subsequent to the quarter end. This compares with no such proceeds during the three months ended June 30, 2003 when we were inactive.

-16-

During the three months ended June 30, 2004, we expended cash of \$227,154 on our Coos Bay project. This included \$105,541 in acquisition costs, including the \$100,000 cash payments to GHI, and \$121,613 in lease costs to secure the oil and gas rights. During the comparative period last year, we made no such investments as we were inactive.

We are not required to make any further lease payments pursuant to our oil and gas leases, until after our next year end of March 31, 2005.

We will require additional financing in order to complete our stated plan of operations for the next twelve months. We believe that we will require additional financing to carry out our intended objectives during 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.

READERS SHOULD REFER TO RISK FACTORS SET OUT IN THE 8-K OF THE COMPANY FILED JUNE 22, 2004 TO SEE RISK FACTORS THAT COULD AFFECT AND SUBSTANTIALLY ALTER OUR PLAN OF OPERATION.

Item 3. Controls and Procedures

(a) Evaluation of Disclosure Controls and Procedures.

Our Chief Executive Officer and Chief Financial Officer have, within 90 days of the filing date of this report, evaluated our internal controls and procedures designed to ensure that information required to be disclosed in reports under the Securities Exchange Act of 1934 is recorded, processed, summarized and reported within specified time periods. After such review, the Company's Chief Executive Officer and Chief Financial Officer have concluded that said information was accumulated and communicated to management as appropriate to allow timely decisions

regarding required disclosure.

(b) Changes in Internal Controls.

There were no significant changes in our internal controls or in other factors that could significantly affect these controls subsequent to the evaluation referred to in paragraph (a) above.

-17-

Part II. Other Information

Item 1. Legal Proceedings

The Company is not a party to any material legal proceedings and to its knowledge, no such proceedings are threatened or contemplated.

Item 2. Changes in Securities and Use of Proceeds

In May of 2004, we issued 1,442,930 shares of our common stock pursuant to a private placement in exchange for aggregate cash payments of \$505,025. We issued 300,071 of our common shares to two non-U.S. persons or entities for aggregate payments of \$105,025 in reliance on Regulation S under the Securities Act of 1933. We also issued 1,142,859 of our common shares to two U.S. persons or entities for aggregate cash payments of \$400,000 and in reliance on Regulation D under the Securities Act of 1933. Certain registration rights were granted to investors pursuant to this financing.

In June 2004, we issued 600,000 shares of our common stock pursuant to the Lease Purchase and Sale Agreement. These shares were issued in reliance on Regulation D under 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 were issued in reliance on Regulation S under the Securities Act of 1933.

In May and June of 2004, we issued an aggregate of 540,000 shares of our common stock upon exercise of stock options previously granted under the terms of a stock option plan. The shares had been registered on a Registration Statement on Form S-8.

Item 3. Default upon Senior Notes

Not applicable

Item 4. Submission of Matters to a Vote of Security Holders

A special meeting of our shareholders was held on July 13, 2004 at 10:00 a.m. at Vancouver, British Columbia. The following proposal was adopted by the margins indicated:

To approve an amendment to the Articles of Incorporation to change the name of the Company to "Torrent Energy Corporation"

For 5,236,466

Against -

Supplemental cash flow information:

Abstain -

Broker Non-Votes -

Item 5. Other Information

None.

-18-

Item 6. Exhibits and Reports on Form 8-K

| (a) | Exhibit | Description |
|--------|---------|---|
| 10.1 | | Lease Purchase and Sale Agreement among Scarab Systems, Inc., Methane Energy Corp. and GeoTrends-Hampton International LLC dated on the 11th day of May, 2004. (1) |
| 10.2 | | Lease Purchase and Sale Agreement between Scarab Systems Inc., Methane Energy Corp. and Geotrends Hampton International LLC dated May 11, 2004 (incorporated by reference to our Current Report on Form 8-K filed on May 20, 2004). (2) |
| 10.3 | | Amending Agreement to Lease Purchase and Sale Agreement dated May 19, 2004. (2) |
| 10.4 | | Second Amending Agreement to Lease Purchase and Sale Agreement dated June 11, 2004. (2) |
| 10.5 | | Investor Relations Agreement between Scarab Systems Inc. and Eclips Ventures International dated June 11, 2004. (2) |
| 31.1 * | | Section 302 Certification |
| 32.1 * | | Section 906 Certification |

* Filed herewith

(1) Incorporated by reference to the company's Form 8-K filed with the Securities and Exchange Commission on May 19, 2004.

(2) Incorporated by reference to the company's Form 8-K filed with the Securities and Exchange Commission on June 22, 2004.

| (b) | Date of Current Report | Description |
|-----|------------------------|--|
| | June 30 2004 | Form 8-K reporting appointment and resignation of directors |
| | June 22 2004 | Form 8-K reporting closing of lease purchase and sale agreement, closing of a private placement and signing of an investor relations agreement |
| | May 20, 2004 | Form 8-K reporting closing of a private placement. |
| | May 11, 2004 | Form 8-K reporting signing of lease purchase and sale agreement |

Signatures

In accordance with the requirements of the Exchange Act, the registrant caused this report to be signed on its behalf by the undersigned, thereunto duly authorized.

TORRENT ENERGY CORPORATION

(Registrant)

Date: July 27, 2004

/s/ Thomas E. Mills

Thomas E. Mills, President, Chief Executive Officer and Chief Financial Officer