TORRENT ENERGY CORP
Form 10-Q
August 19, 2008

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

FORM 10-Q

(Mark One)

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

For the quarterly period ended June 30, 2008

OR

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

For the transition period from _____________ to _____________

Commission file number 000-19949

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

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

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

503.224.0072
(Issuer's telephone number)

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

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

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

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

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

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

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

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

PART I – FINANCIAL INFORMATION

Item 1. Financial Statements

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

Proceedings Under Chapter 11 of the Bankruptcy Code

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

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

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

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

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

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

Consolidated Balance Sheets
(UNAUDITED)

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

TORRENT ENERGY CORPORATION
(Debtor-In-Possession)
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Consolidated Statements of Operations
(UNAUDITED)

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

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

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

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TORRENT ENERGY CORPORATION
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Consolidated Statements of Cash Flows
(UNAUDITED)

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

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TORRENT ENERGY CORPORATION
(Debtor-In-Possession)
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Consolidated Statements of Cash Flows (continued)
(UNAUDITED)

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

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

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Note 1. Incorporation and Continuance of Operations

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

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

Note 2. Summary of Significant Accounting Policies

a) Principles of Consolidation

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

b) Principles of Accounting

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

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

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

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

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

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

c) Joint Venture Receivables

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

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

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

d) Stock Subject To Mandatory Redemption

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

e) Accounting Estimates

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

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f) Supplies inventory

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

g) Loss Per Share

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

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

h) Asset Retirement Obligations

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

i) Recent Accounting Pronouncements

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

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

NoteChapter 11 Bankruptcy
3.

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

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

Rights Offering

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

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

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

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

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

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

Note 4. Related Party Transactions

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

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

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Note 5. Oil and Gas Properties, Unproven

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

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

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

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

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

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

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

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

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

	Acquisition Costs	Exploration Costs			Development Costs	
		Seismic and land	Drilling and gathering	Geological and geophysical		Total
Coos Bay Basin Property						
Three months Ended June 30, 2008	$ -	$ 41,003	$ 38,688	$ -	$ Nil	$ 79,691
Inception through March 31, 2008	984,000	1,511,902	29,031,799	1,674,738	Nil	33,202,439
Total	$ 984,000	$ 1,552,905	$ 29,070,487	$ 1,674,738	$ Nil	$ 33,282,130
Chehalis Basin Property						
Three months Ended June 30, 2008	$ -	$ 1,110	$ 779	$ -	$ Nil	$ 1,889
Inception through March 31, 2008	-	922,110	744,788	185,991	Nil	1,852,889
Total	$ -	$ 923,220	$ 745,567	$ 185,991	$ Nil	$ 1,854,778
Total Oil and Gas Properties	$ 984,000	$ 2,476,125	$ 29,816,054	$ 1,860,729	$ Nil	$35,136,908

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Note 6. Debtor-in-Possession Credit Agreement and Other Borrowings

In connection with the Chapter 11 Cases, on June 6, 2008, the Company entered into a senior secured super-priority debtor-in-possession credit and guaranty agreement (the "DIP Credit Agreement") with YA Global Investments, L.P. (formerly Cornell Capital Partners, L.P.) ("YA Global" or "Lender"). The DIP Credit Agreement was approved on an interim basis by the Bankruptcy Court the same day. The Bankruptcy Court entered an order approving the DIP Credit Agreement on July 11, 2008. The DIP Credit Agreement provides for a $4.5 million term loan under which Lender may advance funds to us (the "Loan "). The proceeds of the Loan are expected to be used for working capital purposes, including payment of professional services fees, wages, salaries, and other operating expenses, payment of certain subsidiary debt, and other purposes, as approved by Lender. Additionally, the first borrowing under this DIP Credit Agreement that occurred on June 10, 2008 included the repayment of a promissory note issued by the Company to YA Global on May 15, 2008, in the amount of $207,854 plus accrued interest of $1,871. As of June 30, 2008, the Company had borrowed $548,193 under this DIP Credit Agreement.

Advances under the DIP Credit Agreement bear interest at the lower of twelve percent (12%) per annum or the highest rate of interest permissible under law. The Loan will mature on the earliest of (a) the date which is the one year anniversary of the DIP Credit Agreement, (b) the date of termination of the Loan in connection with Lender's rights upon an Event of Default (as defined in the DIP Credit Agreement), (c) the close of business on the first business day after the entry of the final order by the Bankruptcy Court, if the Company has not paid Lender the fees required under the DIP Credit Agreement, (d) the date a plan of reorganization confirmed in the Chapter 11 Cases becomes effective that does not provide for the payment in full of all amounts owed to Lender under the DIP Credit Agreement, (e) the date of the closing of a sale of all or substantially all of our assets pursuant to Section 363 of the Bankruptcy Code, and (f) the effective date of a plan of reorganization or arrangement in the Chapter 11 Cases. If the Loan is repaid prior to the one year anniversary of the date of the DIP Credit Agreement, the Company will be required to pay to Lender a prepayment fee in an amount equal to one percent (1%) of such prepayment.

Upon the occurrence of an Event of Default, all amounts owing under the DIP Credit Agreement will bear interest at the rate of the lower of seventeen percent (17%) or the maximum rate permitted by law per annum, and Lender may declare all outstanding obligations immediately due and payable. Lender has a right of first refusal to provide exit financing to the Company.

Note 7. Liabilities Subject to Compromise

As a result of the Company’s filings of the Chapter 11 Cases, the payment of certain prepetition indebtedness is subject to compromise or other treatment under the Plan of Reorganization and requires approval by the Court. Generally, any actions to enforce payment or settlement are stayed. Listed below are the liabilities subject to compromise as of June 30, 2008.

	June 30, 2008	March 31, 2008

Accounts payable	$ 913,586	$ -
Accounts payable – related parties	111,816	-
Series E convertible preferred stock subject to mandatory redemption	20,950,000	-
Preferred stock dividends payable	1,858,839	-
Notes payable	12,500	-
Notes payable – related parties	100,318	-
Total	$ 23,947,059	$ -

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The Company's liabilities subject to compromise are unsecured pre-petition obligations that may be settled for less than the carrying amount, depending on the approved Plan of Reorganization upon the resolution of the Chapter 11 Cases. The Company is continuing its efforts to complete its Plan of Reorganization, at which time it will propose a settlement of all of its pre-petition liabilities, including the liabilities subject to compromise. The Plan of Reorganization is subject to approval by the Bankruptcy Court. See Note 3 for further discussion.

Note 8. Series E Convertible Preferred Stock

On June 28, 2006, the Company closed a private placement agreement with YA Global 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. 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 Statement") 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 our compliance with a revision of SEC guidelines related to the form of our registration. On November 9, 2007, this Registration Statement became ineffective since the Company did not file a post effective amendment as the information contained therein did not include the latest available certified financial statements as of a date not more than 16 months old. 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 had mandatory redemption requirements equal to the pro rata amortization of the remaining outstanding Series E Stock over the period that ended August 1, 2008. On February 12, 2008, YA Global delivered to the Company a Notice of Default under the Series E Stock agreement, alleging that one or more defaults occurred under the Investment Agreement and related transaction documents, including: (i) the

Company's failure to make mandatory redemption payments on each of November 1, 2007, December 1, 2007, January 1, 2008 and February 1, 2008; (ii) the Company's and its subsidiaries' inability to pay their debts generally as they become due; and (iii) the Company's failure to maintain the effectiveness of the registration statement filed pursuant to the Investor Registration Rights Agreement to which the Company and YA Global are parties.

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

Notes to Consolidated Financial Statements
June 30, 2008 and 2007
(UNAUDITED)

Based on the alleged defaults, and pursuant to the terms of the Investment Agreement and related transaction documents, YA Global demanded that the Company redeem all of YA Global's shares of Series E Convertible Preferred Stock for the full liquidation amount, plus accumulated and unpaid dividends thereon. From November 1, 2007 through June 2, 2008, the date at which the Company filed Chapter 11, the Company was in negotiations with YA Global to amend the terms of the Series E Stock.

At June 30, 2008, as a result of the event of default that occurred on February 12, 2008 as noted above, the Company has classified all of the Series E outstanding balance and unpaid dividends as a liability subject to compromise. For the three months ended June 30, 2008, all dividends accrued prior to filing for Bankruptcy have been classified as interest expense totaling $175,062 (2007: Nil).

As part of the Company's Chapter 11 Cases, the Company has filed a Joint Plan of Reorganization that if approved would allow for the exchange of the Series E preferred stock and accrued dividends to senior secured convertible debt of the reorganized company.

Note 9. Contingencies

On February 15, 2008, the Company entered into an engagement letter (the "Engagement Letter") with Gordian Group, LLC ("Gordian"), pursuant to which Gordian was hired to act as the Company's exclusive investment banker in providing financial advisory services and presenting and evaluating potential financial transactions for the Company. As compensation for the services provided by Gordian under the Engagement Letter, the Company agreed to, upon the completion of any financial transaction, pay to Gordian specified fees. In addition to the transaction fee to be paid upon the completion of a financial transaction, if any, the Company agreed to issue 1,250,000 shares of common stock of the Company to Gordian, subject to certain conditions.

As a result of its decision to file the Chapter 11 Cases the Company exercised its right to terminate the Engagement Letter between the Company and Gordian on May 30, 2008. In the Company's bankruptcy schedules, as amended, Gordian has been listed as an unsecured creditor with a disputed, contingent unliquidated claim. On August 11, 2008, Gordian filed a proof of claim with the US Bankruptcy Court in the amount of $1,357,000. As of June 30, 2008, no transaction fee has been paid and no common shares of the Company have been issued to Gordian. As of August 14th, the Company cannot reasonably estimate the fee, if any, that may be payable to Gordian under this Engagement Letter. No amount has been accrued for this contingency as of June 30, 2008 (2007: Nil).

Note 10. Subsequent Events

In August 2008, the Company retained Baker Energy Services of Sheridan, Wyoming, to provide field management services with respect to a well work-over and fracture stimulation program scheduled for up to five wells located in the Company's Westport area in Coos Bay, Oregon. The proposed fracture stimulation program is expected to commence in mid-August 2008 and will include injection of proppant sand and a variety of stimulation fluids to test and determine the most effective fracture stimulation technique for use in subsequent wells. Following the stimulation program, the five wells will be placed on a testing program to first recover the injected stimulation fluids then

commence a two month period of reservoir production analysis. As of August 14, 2008, $1,640,000 has been advanced to Baker Energy Services for the fracture stimulation program.

ItemManagement's Discussion and Analysis of Financial Condition and Results of Operations
2.

FORWARD LOOKING STATEMENTS

This quarterly 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" in Part II- Item 1A of this quarterly report, 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 consolidated financial statements are stated in United States dollars and are prepared in accordance with United States generally accepted accounting principles. The following discussion should be read in conjunction with our consolidated financial statements and the related notes that appear elsewhere in this quarterly report. As used in this quarterly 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.

Proceedings Under Chapter 11 of the Bankruptcy Code

The following discussion provides general background information regarding our bankruptcy cases and is not intended to be an exhaustive description. Access to documents filed with the U.S. Bankruptcy Court and other general information about the U.S. bankruptcy cases is available at www.orb.uscourts.gov. The content of the foregoing website is not a part of this report.

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

In connection with the Chapter 11 Cases, on June 6, 2008, we entered into a senior secured super-priority debtor-in-possession credit and guaranty agreement (the "DIP Credit Agreement") among the Company and its subsidiaries, as Guarantors, and YA Global Investments, L.P., as lender (" YA Global "). On June 16, 2008, we filed with the Bankruptcy Court our Joint Plan of Reorganization for Reorganizing the Debtors and a Disclosure Statement Regarding Joint Plan of Reorganization for Reorganizing the Debtors (the"Plan"). The Bankruptcy Court entered an order approving the DIP Credit Agreement on July 11, 2008. In addition to the DIP Credit Agreement, the Plan also includes a rights offering, under which current shareholders of the Company will have the opportunity to purchase additional new equity of the Company (the "Rights Offering"), subject to Bankruptcy Court approval and other conditions.

We are operating our businesses as debtors-in-possession pursuant to the Bankruptcy Code and are currently seeking the requisite acceptance of the Plan by creditors, equity holders and third parties and confirmation of the plan by the Bankruptcy Court, all in accordance with the applicable provisions of the Bankruptcy Code. We have the right to amend or modify the Plan in accordance with section 1127 of the Bankruptcy Code, both prior to and after the Effective Date.

As a result of the filing, our creditors were automatically stayed from taking certain enforcement actions under their respective agreements with us unless the stay is lifted by the Bankruptcy Court. In addition, the Debtors have entered into the DIP Credit Agreement, which is more fully described below.

During the Chapter 11 process, we may, with the Bankruptcy Court's approval, sell assets and settle liabilities, including for amounts other than those reflected in our financial statements. We are in the process of reviewing the Debtors' executory contracts and unexpired leases to determine which, if any, we will reject as permitted by the Bankruptcy Code. We cannot presently estimate the ultimate liability that may result from rejecting contracts or leases or from the filing of claims for any rejected contracts or leases, and no provisions have yet been made for these items. The administrative and reorganization expenses resulting from the Chapter 11 process will unfavorably affect our results of operations. Future results of operations may also be affected by other factors related to the Chapter 11 process.

Company Overview

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. 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. After two unsuccessful business acquisition transactions involving MarketEdge Direct and Catalyst Technologies, Inc., we incorporated an Oregon subsidiary company named Methane Energy Corp. on April 30, 2004 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 reflect the change in our business focus, we obtained shareholder approval on July 13, 2004 to change our name from Scarab System, Inc. to Torrent Energy Corporation.

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 76,000 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 Oregon / 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 are 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 by 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 during the years 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 sub bituminous to high-volatile bituminous, with a heating value of 8,300 to 14,000 British Thermal Units per pound ("BTU/LB."), 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 four of the wells completed.

In August 2008, the Company retained Baker Energy Services of Sheridan, Wyoming, to provide field management services with respect to a well work-over and fracture stimulation program scheduled for up to five wells located in the Company's Westport area in Coos Bay, Oregon. The proposed fracture stimulation program is expected to commence in mid-August 2008 and will include injection of proppant sand and a variety of stimulation fluids to test and determine the most effective fracture stimulation technique for use in subsequent wells. Following the stimulation program, the five wells will be placed on a testing program to first recover the injected stimulation fluids then commence a two month period of reservoir production analysis. As of August 14, 2008, $1,640,000 has been advanced to Baker Energy Services for the fracture stimulation program.

Fracture stimulation is a common operation performed on both conventional and unconventional gas reservoirs including coal bed methane projects. To date, none of the Company's wells have been treated with a fracture stimulation utilizing a proppant. The purpose of the fracture stimulation program is to increase permeability within the reservoir and enhance well productivity. A successful fracture stimulation program is key to confirming the "proof of concept" of the Company's coal bed methane project in Coos Bay, Oregon.

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 current local Coos County market requirements are less than 1 million cubic feet of gas per day initially, which represents less than 1% 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 sub bituminous and lignite coal fields of southwestern Washington. Sub bituminous 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 sub bituminous 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 sub bituminous 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 from the states of 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 some areas, 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.

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Our subsidiary, Cascadia Energy Corp., currently controls, through lease options and oil and gas leases, approximately 76,000 acres in the Chehalis Basin. 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 have been 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 a stratigraphic/information hole exploration project. One well and two surface holes were drilled before financial constraints caused suspension of operation activities.

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

Subject to available funding, the Company plans to continue exploration work in 2009 after the Coos Bay Westport project area work has been evaluated.

Natural Gas Market

Our Chehalis Basin project area is located within 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 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.

PLAN OF OPERATIONS AND CASH REQUIREMENTS

The continuation of our business is dependent on obtaining successfully completing our Plan of Reorganization, positive results from exploratory activities, and achieving a profitable level of business. The Company’s future exploration activities will require the significant capital expenditures, which funding must be raised from outside sources. There can be no assurance that financing will be available in amounts or on terms acceptable to us, if at all. The inability to obtain additional capital will restrict our ability to grow and inhibit our ability to continue to conduct business operations. If the Company is unable to complete the Plan of Reorganization, or obtain additional financing

in the future, we will likely be required to further curtail our exploration plans and possibly cease our operations. Any additional equity financing may result in substantial dilution to our then existing shareholders.

Land Acquisition and Exploration Activities

We currently lease approximately 107,000 acres in the Coos Bay Basin of Oregon and 76,000 acres in the Chehalis Basin of Washington.

In August 2008, the Company retained Baker Energy Services of Sheridan, Wyoming, to provide field management services with respect to a well work-over and fracture stimulation program scheduled for up to five wells located in the Company's Westport area in Coos Bay, Oregon. The proposed fracture stimulation program is expected to commence in mid-August 2008 and will include injection of proppant sand and a variety of stimulation fluids to test and determine the most effective fracture stimulation technique for use in subsequent wells. Following the stimulation program, the five wells will be placed on a testing program to first recover the injected stimulation fluids then commence a two month period of reservoir production analysis. As of August 14, 2008, $1,640,000 has been advanced to Baker Energy Services for the fracture stimulation program.

The Company plans to continue exploration work in 2009 after the Coos Bay Westport project area work has been evaluated.

LIQUIDITY AND CAPITAL RESOURCES

Over the past year we have been searching for new sources of capital, which is necessary to fund a fracing program and other pre-production operations. We were unable to conclude a new long-term financing agreement and on June 2, 2008, we commenced the Chapter 11 Cases.

In connection with the Chapter 11 Cases, on June 6, 2008, the Company entered into a senior secured super-priority debtor-in-possession credit and guaranty agreement (the "DIP Credit Agreement") with YA Global. The DIP Credit Agreement was approved on an interim basis by the Bankruptcy Court the same day. The Bankruptcy Court entered an order approving the DIP Credit Agreement on July 11, 2008. The DIP Credit Agreement provides for a $4.5 million term loan under which Lender may advance funds to us (the "Loan "). The proceeds of the Loan are expected to be used for working capital purposes, including payment of professional services fees, wages, salaries, and other operating expenses, payment of certain subsidiary debt, and other purposes, as approved by Lender. Additionally, the first borrowing under this DIP Credit Agreement that occurred on June 10, 2008 included the repayment of a promissory note issued by the Company to YA Global on May 15, 2008, in the amount of $207,854 plus accrued interest of $1,871.

Advances under the DIP Credit Agreement bear interest at the lower of twelve percent (12%) per annum or the highest rate of interest permissible under law. The Loan will mature on the earliest of (a) the date which is the one year anniversary of the DIP Credit Agreement, (b) the date of termination of the Loan in connection with Lender's rights upon an Event of Default (as defined in the DIP Credit Agreement), (c) the close of business on the first business day after the entry of the final order by the Bankruptcy Court, if the Company has not paid Lender the fees required under the DIP Credit Agreement, (d) the date a plan of reorganization confirmed in the Chapter 11 Cases becomes effective that does not provide for the payment in full of all amounts owed to Lender under the DIP Credit Agreement, (e) the date of the closing of a sale of all or substantially all of our assets pursuant to Section 363 of the Bankruptcy Code, and (f) the effective date of a plan of reorganization or arrangement in the Chapter 11 Cases. If the Loan is repaid prior to the one year anniversary of the date of the DIP Credit Agreement, the Company will be required to pay to Lender a prepayment fee in an amount equal to one percent (1%) of such prepayment.

Upon the occurrence of an Event of Default, all amounts owing under the DIP Credit Agreement will bear interest at the rate of the lower of seventeen percent (17%) or the maximum rate permitted by law per annum, and Lender may declare all outstanding obligations immediately due and payable. Lender has a right of first refusal to provide exit financing to the Company. At June 30, 2008, we had borrowed $548,193 under this DIP Credit Agreement and as of August 14, 2008, we had borrowed a total of $2,460,685 under the DIP Credit Agreement.

If we are unable to complete the Plan of Reorganization, we will likely be required to cease our operations and liquidate our assets. Even if we are successful in completing our Plan of Reorganization our future exploration activities will require the significant capital expenditures, which funding must be raised from outside sources. There can be no assurance that financing will be available in amounts or on terms acceptable to us, if at all. The inability to obtain additional capital will restrict our ability to grow and inhibit our ability to continue to conduct business operations. Any additional equity financing may result in substantial dilution to our then existing shareholders.

Our cash on hand was $55,455 as of June 30, 2008, compared to $120,388 at March 31, 2008. At June 30, 2008, we had liabilities subject to compromise of $23,947,059 including $22,808,839 of outstanding Series E Stock and related accrued dividends. We had a working capital deficit of $634,061 exclusive of the liabilities subject to compromise, as compared to a working capital deficit of $2,939,936 at March 31, 2008. Continuation of our current operations is contingent upon completing the Plan of Reorganization and obtaining additional funding. During the three months ended June 30, 2008, we expended cash of $95,041 on our Coos Bay and Chehalis Basin projects compared to $2,519,452 during the three months ended June 30, 2007.

Series E Convertible Preferred Stock

On June 28, 2006, the Company closed a private placement agreement with YA Global under which it sold 25,000 shares of its Series E Stock at $1,000 per share. 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. 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 Statement”) 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 our compliance with a revision of SEC guidelines related to the form of our registration. On November 9, 2007, this Registration Statement became ineffective since the Company did not file a post effective amendment as the information contained therein did not include the latest available certified financial statements as of a date not more than 16 months old. 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 had mandatory redemption requirement equal to the pro rata amortization of the remaining outstanding Series E Stock over the period that ended August 1, 2008. On February 12, 2008, YA Global delivered to the Company a Notice of Default under the Series E Stock agreement, alleging that one or more defaults occurred under the Investment Agreement and related transaction documents, including: (i) the Company's failure to make mandatory redemption payments on each of November 1, 2007, December 1, 2007, January 1, 2008 and February 1, 2008; (ii) the Company's and its subsidiaries' inability to pay their debts generally as they become due; and (iii) the Company's failure to maintain the effectiveness of the registration statement filed pursuant to the Investor Registration Rights Agreement to which the Company and YA Global are parties.

Based on the alleged defaults, and pursuant to the terms of the Investment Agreement and related transaction documents, YA Global demanded that the Company redeem all of YA Global's shares of Series E Convertible Preferred Stock for the full liquidation amount, plus accumulated and unpaid dividends thereon. From November 1, 2007 through June 2, 2008, the date at which the Company filed Chapter 11, the Company was in negotiations with YA Global to amend the terms of the Series E Stock. At June 30, 2008, as a result of the event of default that occurred on February 12, 2008 as noted above, the Company has classified all of the Series E outstanding balance and unpaid dividends as a liability subject to compromise. For the three months ended June 30, 2008, all dividends accrued prior to filing for Bankruptcy have been classified as interest expense totaling $175,062 (2008: Nil; 2007: Nil).

As part of the Company’s Chapter 11 Cases, the Company has filed a Joint Plan of Reorganization that if approved would allow for the exchange of the Series E preferred stock and accrued dividends to senior secured convertible debt of the reorganized company.

Our Chapter 11 Cases filing, 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 for us to obtain financing through the issuance of equity or debt securities. Even if we are able to raise the required funds, 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 approval of our Plan of Reorganization is not achieved and if financing is not available or is not available on acceptable terms, we will most likely be required to cease 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 three months ended June 30, 2008 and 2007. During the three-months ended June 30, 2008 and 2007, we 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.

For the Three Months Ended June 30, 2008 Compared to the Three Months Ended June 30, 2007

In general, operating expenses for the three month period ended June 30, 2008 have been reduced to minimal levels to conserve the Company’s working capital requirements while it sought to secure sufficient external funding necessary to fund the two projects. The most significant areas that reflect reduced spending as compared with a quarter one year ago are employee expense, stock compensation expense, consulting and director's fees, investor relations and travel expenses. Other less significant operating expense variances during the current three-month period compared with the prior year quarter included accounting and legal fees, and office and miscellaneous costs.

Total operating expenses declined $838,024 for the three months ended June 30, 2008 when compared to same period one year earlier. The largest change occurred in employee expense which declined $261,271 reflecting a significant cutback in staff personnel. Only clerical personnel have received salary increases since their corresponding hire dates.

Stock-based compensation expenses of $22,440 during the three months ended June 30, 2008 decreased by $217,157 from the same quarter a year ago of $239,597. This decrease resulted from a decrease in the fair value per option and the elimination of stock option grants in the current period, both due largely to our financial position.

The expense for consulting and directors' fees decreased by $117,851 from $145,675 for the three months ended June 30, 2007 to $27,824 for the three months ended June 30, 2008 primarily due to a reduction in the functions performed by the consultants, as these functions were either assumed by the increased full-time employees or were eliminated altogether. In addition, we paid no directors fees for the current period as three of the outside directors resigned from service prior to fiscal year end 2008, and the fourth resigned during the current period.

Investor relations expense declined by $90,409 due to a significant curtailment in investor outreach activity.

Travel costs for the three months ended June 30, 2008 were $4,618 as compared with $76,806 for the same period a year ago. The reduction in travel costs totaling $72,188 related to our holding additional office space at the sites, necessitating less travel and to our reduced activities in performing investor outreach.

Office and miscellaneous expenses for the three months ended June 30, 2008 were $5,271 as compared with $34,148 for the same period a year ago due primarily to the Company reducing staff personnel and curtailing all non-essential activities. Legal and accounting expense declined by $21,720 with reduced financing activity occurring during the most recent quarter.

Our interest income decreased from $58,682 for the three months ended June 30, 2007 to $359 for the three months ended June 30, 2008. The decrease in interest revenue of $58,323 was due to our draw-down of excess cash holdings to fund operations and project expenditures for the two sites.

For the three months ended June 30, 2007, we recorded a non-recurring loss on conversion of Series E Preferred Stock of $2,609,029, reflecting the difference between the $0.50 per common share conversion price and the market price of the common shares on the Series E Stock conversion dates. There was not a similar conversion for the current quarter.

Our interest expense increased from $28,466 for the three months ended June 30, 2007 to $181,798 for the three months ended June 30, 2008. The increase in interest expense of $153,332 was due primarily to the reclassification of dividend interest accrued related to our Series E Preferred Stock, which was reclassified from an equity instrument to a financial liability in accordance with Statement of Financial Accounting Standard No. 150, "Accounting for Certain Instruments with Characteristics of Both Liabilities and Equity."

We incurred $563,696 in reorganization costs for the three months ended June 30, 2008, associated with our Chapter 11 Bankruptcy cases, which were filed during the current period. These costs were primarily legal and other professional fees, both on our behalf and for the behalf of our Debtor-in-Possession lender. No reorganization costs were incurred for the three months ended June 30, 2007.

For the three months ended June 30, 2007, we recorded $272,596 of dividend expense related to our Series E Stock, while no dividend expense was recorded in the current period due to the reclassification discussed above.

Net Loss for the Period. We recorded a net loss applicable to common stockholders of $1,076,706 for the three months ended June 30, 2008, compared with a net loss of $4,006,551 for the three months ended June 30, 2007.

Item 3. Quantitative and Qualitative Disclosures About Market Risk

Interest Rate and Credit Rating Risk

As of June 30, 2008, we had $55,455 in cash, cash equivalents and short term investments, of which $2,912 was held in our operating accounts and $52,543 was invested in time deposits with 30-day maturities. Based on sensitivity

analyses performed on the financial instruments held as of June 30, 2008, 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 June 30, 2008, 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 June 30, 2008, 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.

ItemControls and Procedures
4.

As required under the Securities Exchange Act of 1934, as of the end of the period covered by this quarterly report, being June 30, 2008, 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.

PART II – OTHER INFORMATION

Item 1. Legal Proceedings.

On June 2, 2008, the Company and its subsidiaries Methane Energy Corp. and Cascadia Energy Corp. commenced the Chapter 11 Cases by filing a voluntary petition for reorganization under the Bankruptcy Code with the United States Bankruptcy Court for the District of Oregon. We are currently operating our businesses as debtors-in-possession pursuant to the Bankruptcy Code. As a result of the Chapter 11 Cases, pre-petition obligations, including obligations under debt instruments, generally may not be enforced against us, and any actions to collect pre-petition indebtedness are automatically stayed, unless the stay is lifted by the Bankruptcy Court.

Item 1A. Risk Factors.

Much of the information included in this quarterly 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 quarterly 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:

We face significant challenges in connection with our bankruptcy reorganization.

On June 2, 2008, the Company and its subsidiaries filed voluntary petitions for reorganization under Chapter 11 of the U.S. Bankruptcy Code. We are currently operating our businesses as debtors-in-possession pursuant to the Bankruptcy Code.

On June 16, 2008, we filed the Plan with the Bankruptcy Court, which will consider whether to confirm the Plan. The Plan may not receive the requisite acceptance by creditors, equity holders and other parties in interest, and the Bankruptcy Court may not confirm the Plan. Moreover, even if the Plan receives the requisite acceptance by creditors, equity holders and parties in interest and is approved by the Bankruptcy Court, the Plan may not be viable.

In addition, due to the nature of the reorganization process, creditors and other parties in interest may take actions that may have the effect of preventing or unduly delaying confirmation of the Plan. Accordingly, we provide no assurance as to whether or when the Plan may be confirmed in the Chapter 11 process.

We face uncertainty regarding the adequacy of our capital resources and have limited access to additional financing.

We are currently operating under a $4.5 million debtors-in-possession financing facility. The DIP Credit Agreement contains certain highly restrictive covenants which require us, among other things, to maintain our corporate existence, make certain payments, perform our obligations under existing agreements, purchase insurance and provide financial records, and which limit or prohibit our ability to incur indebtedness, make prepayments on or purchase indebtedness in whole or in part, pay dividends, make investments, lease properties, create liens, consolidate or merge with another entity or allow one of our subsidiaries to do so, sell assets, and acquire facilities or other businesses.

We do not assure you that we will be able to consistently comply with these and other restrictive covenants in our DIP Credit Agreement. Furthermore, any advances under the DIP Credit Agreement are at the discretion of the DIP lender, and we have no control over its decision to provide any additional financing.

In addition to the cash requirements necessary to fund ongoing operations, we anticipate that we will incur significant professional fees and other restructuring costs in connection with the Chapter 11 process and the restructuring of our business operations. We do not assure you that the amounts of cash available from our DIP Credit Agreement will be sufficient to fund operations until the Plan receives the requisite acceptance by creditors, equity holders and parties in interest and is confirmed by the Bankruptcy Court. If available borrowings under the DIP Credit Agreement are not sufficient to meet our cash requirements, we may be required to seek additional financing. We can provide no assurance that additional financing would be available or, if available, offered on acceptable terms.

As a result of the Chapter 11 process and the circumstances leading to the Chapter 11 Cases, our access to additional financing is, and for the foreseeable future will likely continue to be, very limited. Our long-term liquidity requirements and the adequacy of our capital resources are difficult to predict at this time, and ultimately cannot be determined until a plan of reorganization has been developed and is confirmed by the Bankruptcy Court in the Chapter 11 process.

We are subject to restrictions on the conduct of our business.

We are operating our businesses as debtors-in-possession pursuant to the Bankruptcy Code. Under applicable bankruptcy law, during the pendency of the Chapter 11 process, we will be required to obtain the approval of the Bankruptcy Court prior to engaging in any transaction outside the ordinary course of business. In connection with any such approval, creditors and parties in interest may raise objections to approval of the action and may appear and be heard at any hearing with respect to the action. Accordingly, although we may sell assets and settle liabilities (including for amounts other than those reflected on our financial statements) with the approval of the Bankruptcy Court, we cannot assure you that the Bankruptcy Court will approve any sales or settlements proposed by us. The Bankruptcy Court also has the authority to oversee and exert control over our ordinary course operations.

In addition, the DIP Credit Agreement imposes on us numerous financial requirements and covenants. Failure to satisfy these requirements and covenants could result in an event of default that could cause, absent the receipt of appropriate waivers, an interruption in cash availability, which could cause an interruption of our normal operations.

As a result of the restrictions described above, our ability to respond to changing business and economic conditions may be significantly restricted and we may be prevented from engaging in transactions that might otherwise be considered beneficial to us.

Our financial statements assume we can continue as a “going concern” but 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.

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In their report dated July 14, 2008, our independent auditors stated that our consolidated financial statements for the fiscal year ended March 31, 2008 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 our Chapter 11 filings, recurring losses from operations and periodic working capital deficiencies. Our ability to continue as a going concern is subject to obtaining approval of our Plan and 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.

In addition, because of the Chapter 11 proceedings and the circumstances leading to the Chapter 11 filings, it is possible that we may not be able to continue as a "going concern." Our continuation as a "going concern" is dependent upon, among other things, confirmation of the Plan, our ability to comply with the terms of the DIP Credit Agreement, our ability to obtain financing upon exit from bankruptcy and our ability to generate sufficient cash from operations to meet our obligations.

Should we fail to be a going concern, then significant adjustments would be necessary in the carrying value of assets and liabilities, the revenues and expenses reported and the balance sheet classifications used.

In addition, the amounts reported in the consolidated financial statements included in this annual report do not reflect adjustments to the carrying value of assets or the amount and classification of liabilities that ultimately may be necessary as the result of our reorganization under Chapter 11. Adjustments necessitated by the Plan could materially change the amounts reported in the consolidated financial statements included in this Annual Report.

Our successful reorganization will depend on our ability to retain key employees and successfully implement new strategies.

Our success depends to a significant extent upon the continued service of Mr. John Carlson, who is our President and Chief Executive officer, and sole 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 the successful implementation of our business plan and our ability to successfully consummate a plan of reorganization will be highly dependent upon our senior management. Our ability to attract, motivate and retain key employees is restricted by provisions of the Bankruptcy Code, which limit or prevent our ability to implement a retention program or take other measures intended to motivate key employees to remain with us during the pendency of the bankruptcy cases. The loss of the services of key personnel could have a material adverse effect upon the implementation of our business plan, including our restructuring program, and on our ability to successfully reorganize and emerge from bankruptcy.

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 $27,208,985 to June 30, 2008 and incurred net losses applicable to common shareholders of $ 1,076,706 for the three months ended June 30, 2008; and $4,006,551 for the three months ended June 30, 2007. We do not 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.

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We will require additional funds to sustain and expand our oil and gas exploration activities. We anticipate that we will require up to approximately $7,000,000 to fund our continued operations for the fiscal year ending March 31, 2009. 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.

We have 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 any 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.

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.

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 are 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 15g-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, among other things:

- 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 and investment 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, prior to any transaction in a penny stock, deliver a written statement prescribed by the Securities and Exchange Commission relating to the penny stock market, which sets forth the basis on which the broker or dealer made the suitability determination and obtain a signed, written agreement from the investor acknowledging receipt of this written statement.

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.

The Financial Industry Regulatory Authority 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 Financial Industry Regulatory Authority 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 financial Industry Regulatory Authority believes that there is a high probability that speculative low priced securities will not be suitable for at least some customers. The Financial Industry Regulatory Authority 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.

ItemUnregistered Sales of Equity Securities and Use of Proceeds.
2.

In the three months ended June 30, 2008, no shares of equity securities of the Company were issued.

ItemDefault upon Senior Securities.
3.

Other than described below, there has not been any material arrearage in the payment of dividends or any other material delinquency not cured within 30 days, with respect to any class of our preferred stock which ranks prior to our common stock:

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On February 12, 2008, YA Global delivered to the Company a Notice of Default under the Series E Stock agreement, alleging that one or more defaults occurred under the Investment Agreement and related transaction documents, including: (i) the Company's failure to make mandatory redemption payments on each of November 1, 2007, December 1, 2007, January 1, 2008 and February 1, 2008; (ii) the Company's and its subsidiaries' inability to pay their debts generally as they become due; and (iii) the Company's failure to maintain the effectiveness of the registration statement filed pursuant to the Investor Registration Rights Agreement to which the Company and YA Global are parties. Based on the alleged defaults, and pursuant to the terms of the Investment Agreement and related transaction documents, YA Global demanded that the Company redeem all of YA Global's shares of Series E Convertible Preferred Stock for the full liquidation amount, plus accumulated and unpaid dividends thereon. From November 1, 2007 through June 2, 2008, the date at which the Company filed Chapter 11, the Company was in negotiations with YA Global to amend the terms of the Series E Stock Agreement.

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

None.

Item 5. Other Information.

None.

Item 6. Exhibits.

The following exhibits, required by Item 601 of Regulation S-K, are being filed as part of this quarterly report, or are incorporated by reference where indicated:

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

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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).
10.19 Engagement Letter with Gordian Group LLC dated February 15, 2008.
10.20 Senior Secured, Super-priority Debtor-In-Possession Credit and Guaranty Agreement, dated as of June 6, 2008 between the Company as borrower, the Subsidiaries as guarantors and YA Global Investments L.P. (incorporated by reference from our Current Report on Form 8-K filed on July 16, 2008.)

(11) Statements regarding computation of per share earnings (See Note 2 to the unaudited consolidated financial statements)

(16) Letter on change in certifying accountant

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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
(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).

*Filed herewith

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

By: /s/ John D. Carlson
John D. Carlson
President, Chief
Executive Officer and
Director
(Principal Executive
Officer)

By: /s/ Peter J. Craven
Peter J. Craven
Chief Financial Officer and
Secretary
(Principal Financial Officer
and Principal Accounting
Officer)

Date: August 19, 2008