

TORRENT ENERGY CORP  
Form 10-Q  
August 19, 2008

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

FORM 10-Q

(Mark One)

☒ 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  
(State or other jurisdiction of incorporation  
or organization)

84-1153522  
(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 ☒ 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  
☒

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

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 ☒

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PART I – FINANCIAL INFORMATION

Item Financial Statements

1.

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](http://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
<b>ASSETS</b>		
<b>Current Assets</b>		
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
<b>Total Current Assets</b>	<b>143,277</b>	<b>278,974</b>
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
<b>Total Assets</b>	<b>\$ 35,348,556</b>	<b>\$ 35,449,747</b>
<b>LIABILITIES AND STOCKHOLDERS' EQUITY</b>		
<b>Current Liabilities</b>		
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
<b>Total Current Liabilities</b>	<b>777,338</b>	<b>23,772,910</b>
<b>Long-term Liabilities</b>		
Asset retirement obligation	77,920	76,332
<b>Liabilities Subject to Compromise (Note 7)</b>	<b>23,947,059</b>	<b>-</b>
<b>Total Liabilities</b>	<b>24,802,317</b>	<b>23,849,242</b>
<b>Commitments and Contingencies (Note 9)</b>	<b>-</b>	<b>-</b>
<b>STOCKHOLDERS' EQUITY</b>		
<b>Share Capital</b>		
Convertible Series E preferred stock, \$0.01 par value, 25,000 shares authorized, 25,000 shares issued and 20,950 outstanding (2007 – 21,650)	-	-

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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)

(formerly Scarab Systems, Inc.)

(An exploration stage enterprise)

Consolidated Statements of Stockholders' Equity (Deficit)

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

(UNAUDITED)

	Common Stock Shares	Stock Amount	Additional paid-in capital	Share subscriptions received/ (receivable)	Deficit accumulated during exploration stage	Total Stockholders' equity (deficit)
Stock issued for cash at \$0.001 per share in October 2001	5,425,000					