

TORRENT ENERGY CORP
Form 10KSB
June 30, 2005
UNITED STATES

SECURITIES AND EXCHANGE COMMISSION

Washington, D.C. 20549

FORM 10-KSB

(Mark One)

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

For the fiscal year ended March 31, 2005

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

For the transition period from [] to []

Commission file number 000-19949

Torrent Energy Corporation

(Name of small business issuer in its charter)

Colorado

(State or other jurisdiction of incorporation or organization)

84-1153522

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

600 666 Burrard Street,

Vancouver, British Columbia, Canada

(Address of principal executive offices)

Issuer's telephone number **604.639.3118**

V6C 2X8

(Zip Code)

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

Title of each class

Nil

Name of each exchange on which registered

Nil

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

Shares of Common Stock, \$0.001 par value

(Title of class)

Check whether the issuer (1) 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

Check if there is no disclosure of delinquent filers in response to Item 405 of Regulation S-B is not contained in this form, and no disclosure will be contained, to the best of registrant's knowledge, in definitive proxy or information statements incorporated by reference in Part III of this Form 10-KSB or any amendment to this Form 10-KSB.

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State issuer's revenues for its most recent fiscal year. \$ Nil

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

21,203,293 shares of common stock at \$2.52 (1) per share = \$53,432,298

(1) Closing price on June 20, 2005.

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

23,098,293 shares of common stock issued and outstanding as of June 20, 2005

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

PART I

Item 1. Description of Business.

This annual report contains forward-looking statements as that term is defined in the Private Securities Litigation Reform Act of 1995. These statements relate to future events or our future financial performance. In some cases, you can identify forward-looking statements by terminology such as *may*, *will*, *should*, *expects*, *plans*, *anticipates*, *believes*, *estimates*, *predicts*, *potential* or *continue* or the terms or other comparable terminology. These statements are only predictions and involve known and unknown risks, uncertainties and other factors, including the risks in the section entitled *Risk Factors*, that may cause our 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 financial statements are stated in United States dollars and are prepared in accordance with United States Generally Accepted Accounting Principles.

In this annual report, unless otherwise specified, all dollar amounts are expressed in United States dollars. All references to *CDN\$* refer to Canadian dollars.

As used in this annual report, the terms *we*, *us* and *our* mean Torrent Energy Corporation, formerly Scarab Systems, Inc., unless otherwise indicated.

Corporate History

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

On January 30, 2002, we were given two options in fiscal year 2002 to acquire all the issued and outstanding shares of 485017 B.C. Ltd., a British Columbia company doing business as MarketEdge Direct. These options were given to us as security against a subscription receivable of \$337,500 for 675,000 shares of our common stock from the shareholders of MarketEdge Direct. MarketEdge Direct was in the business of providing a wide range of marketing products and services. Effective August 7, 2002, we exercised both of the options and acquired all the issued and outstanding shares of MarketEdge Direct. Due to disappointing financial results of MarketEdge Direct, on March 28, 2003, we entered into an agreement with the former shareholders of MarketEdge Direct to sell MarketEdge Direct back to them. As a result, all the issued and outstanding shares of MarketEdge Direct that we acquired were sold back to the former MarketEdge Direct shareholders for the return to treasury of 540,000 shares of our common stock.

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

On April 30, 2004, we incorporated an Oregon subsidiary company named Methane Energy Corp. in anticipation of acquiring oil and gas properties in the State of Oregon. On May 11, 2004, Methane Energy entered into a lease purchase and sale agreement with GeoTrends-Hampton International, LLC to purchase GeoTrends-Hampton International's undivided working interest in certain oil and gas leases for the Coos Bay Basin prospect located onshore in the Coos Bay Basin of Oregon. To acquire these oil and gas leases, we paid a total of \$300,000 in cash and will issue 1,800,000 restricted shares of our common stock in three performance-based tranches. The lease purchase and sale agreement closed on June 22, 2004. On closing, we paid \$100,000 in cash and issued 600,000 shares of our common stock. We have since paid the remaining \$200,000 so that the cash consideration is fully paid and have issued an additional 600,000 shares of our common stock pursuant to the second tranche. A third tranche of 600,000 shares of our common stock will be issued if and when certain conditions are fulfilled.

Pursuant to the lease purchase and sale agreement with Geo-Trends-Hampton International, LLC, we acquired leases of certain properties in the Coos Bay area of Oregon which are prospective for oil and gas exploration. Leases were acquired from the State of Oregon and from property owners, and we have amassed approximately 60,000 acres under lease. We wish to lease additional properties in the Coos Bay area. As a result of change in business, we received shareholder approval on July 13, 2004 to change our name from Scarab System, Inc. to Torrent Energy Corporation.

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

Current Business

We are an exploration stage company engaged in the exploration of coalbed methane in the Coos Bay region of Oregon. Through our wholly-owned subsidiary, Methane Energy Corp., we now hold leases to over 70,000 acres of prospective coalbed methane lands in the Coos Bay region. Methane Energy operates the exploration project in the Coos Bay region.

Coos Bay Basin Exploration Prospect

The Coos Bay Basin is located along the Pacific coast in southwestern Oregon, approximately 200 miles south of the Columbia River and 80 miles north of the California border. The onshore portion of the Coos Bay Basin is elliptical in outline covering over 250 square miles. We estimate that up to 100,000 acres in the Coos Bay Basin are potentially prospective for coalbed methane and conventional natural gas production. The leases we acquired include oil and gas leases, lease option agreements or other exploration commitments covering over 50,000 net mineral acres within the primary Coos Bay Basin exploration prospect area of mutual interest. We are also exploring lease commitments for additional acres and have identified specific leasehold ownership falling within the Coos Bay Basin exploration prospect area, although we currently do not have any contracts to lease additional acreage, nor are we certain we will be able to do so. Access to virtually all areas in Coos County is excellent year-round via logging and fire control roads maintained by the forest service or the timber industry. Likewise, numerous potential drill-site locations are already constructed as timber recovery staging areas and available to be utilized in the initial testing phase of the drilling program. The Coos Bay Basin is basically a structural basin formed by folding and faulting that preserves a portion of coal-bearing sediments that were deposited in this swampy coastal plain. The coal-bearing sandstones and siltstones of the Upper Eocene Coaledo formation are estimated to form a section approximately 6,600 feet thick.

On October 6, 2004, we signed a drilling services agreement with a Utah-based drilling company which has extensive drilling and consulting experience in coalbed methane in order to commence a multi-hole coring program on our leases. The multi-hole coring program commenced in November 2004 and was completed in April 2005. The coring locations were chosen in order to further confirm and delineate the gas content data in the Coos County coalbeds and to assist us in determining the positioning of our potential pilot test well programs.

Natural Gas Market

The port of Coos Bay was one of the largest population centers on the west coast not currently served by natural gas. A project to bring natural gas into the region via pipeline has been approved and funded by the County of Coos. The pipeline has been completed. A local distribution company serving this market has already constructed the mains and many services in this area. Estimates of initial requirements are over 10 million cubic feet of gas per day, approximately 20% of pipeline capacity.

Coos County is also likely to benefit from new industrial development when natural gas becomes 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. However, seasonal or critical gas demand fluctuations could cause prices to exceed that price 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 and southwestern British Columbia west of the Cascade Range. The region containing this series of basins is generally referred to as Puget-Willamette Trough. These basins preserve thick sequences of predominantly non-marine, coal-bearing sedimentary rock sequences that are correlative in age, closely related in genesis, and very similar in most characteristics. In a hydrocarbon exploration sense, some of the most relevant characteristics of individual basins within the Puget-Willamette Trough include:

1. Commercial natural gas production from the Mist Gas Field in northwestern Oregon operated by Northwest Natural Gas;
2. Underground natural gas storage in the Jackson Prairie Gas Storage Field in southwestern Washington operated by Puget Sound Energy, utility and pipeline interests; and
3. Ongoing coalbed methane exploration by major and independent companies in western Washington and British Columbia.

Previous Coalbed Methane Exploration Wells in Coos Bay Region

The following sections contain data and information obtained from two coalbed methane exploration wells drilled in late 1993 in the Coos Bay region. These data and information are historical and isolated facts obtained from these two exploration wells and are not indicative of such things as mineral resources and reserves, the amount and nature of any coalbed methane resource; plans for exploration and development; prices for mineral or coalbed methane products, timing and amount of future production; operating and other costs, business strategies and plans of management, and prospective development and acquisitions. Variation of coalbed methane content and the degree of gas saturation often varies across a coalbed methane prospect. The Coos Bay Basin exploration prospect carries risks commensurate with an exploration play and could require several years to reach commercial production, if the amount and nature of the coalbed methane resources warrant such production. The success of the Coos Bay Basin exploration prospect is subject to risks, uncertainties and other factors. Refer to Item 1 Description of Business - Risk Factors of this annual report.

Coal Geology & Characteristics

Coalbeds in the Coos Bay Basin are contained in two major groups: the upper member of the Coaledo formation where six important coal zones are spread over intervals of 600 to 1,000 feet. The Beaver Hill coalbed is typical in the series and is 6 to 8 feet thick; and at least seven important coal zones are included in the lower member of the Coaledo formation. In October of 1993, two coalbed methane exploration wells were drilled in the Coos Bay Basin: CCF 7-1 well and WNS MT 32-1 well. The CCF 7-1 well penetrated nine major coal zones totaling approximately 76 net feet of coal. The WNS MT 32-1 well penetrated six major coal zones with a total thickness of 46 net feet of coal.

Indications of Permeability

Several positive indications of permeability were observed during the drilling phase of the CCF 7-1 well. Drilled partially with air and completed using cavitation techniques, several flow tests were conducted and yielded estimated flow rates of 200 to 225 thousand cubic feet per day of natural gas from intervals dominated by coal seams.

Initial Production Testing Results

A short period of production testing was conducted on both wells following completion. Traditional pump jack and plunger pump configurations were set up on both wells. Both wells produced gas and water throughout the testing with gas rates estimated to be 25 to 100 thousand cubic feet per day, which is similar to other initial tests in coalbed methane production areas elsewhere in the United States.

Testing of the CCF 7-1 well was confined to several coal zones in the cased portion of the well several hundred feet above the targeted coal zones. As a result of an unstable downhole environment created by cavitation operations, plugging of the production liner, and loss of a drilling assembly in the targeted interval, the greater portion of the targeted section was not tested.

Water Disposal

Water produced from drilling and testing operations was of suitable quality for surface discharge and was applied to forest lands.

Data Resources

The Coos Bay Basin has been the subject of geologic mapping and studies for many years. Historically, the coal from the Coos Bay basin was mined and shipped to San Francisco in the late 1800s and early 1900s. Since then several companies such as Sumitomo, Shell and American Coal Company have done feasibility studies on the Coos Bay basin, however there are no active coal mines in the area. There has also been approximately 20 exploratory oil and/or gas wells done in the Coos Bay basin over the years from 1929 to 1993. Most of the information from these wells and feasibility studies is available to the public.

We have licensed proprietary seismic information, created in the late 1970s and early 1980s. We have reprocessed this seismic data in order to assist in our exploratory drilling plans.

Specific and detailed information and reports regarding the drilling, completion, stimulation, testing, and subsequent analysis of the data generated by the initial coalbed methane exploration operations have also been acquired by us under the lease purchase and sale agreement with Geo-Trends-Hampton International, LLC.

The Coalbed Methane Industry

During the past two decades, coalbed methane has emerged as a viable source of natural gas compared to the late 1980s when there was no significant production outside of the still dominant San Juan Basin in northwestern New Mexico, and the Black Warrior Basin in Alabama and Mississippi. As noted in United States Geological Survey Fact Sheet FS-123-00 of October 2000, coalbed methane production accounted for 7% of United States natural gas production or approximately 3.6 billion cubic feet of gas per day or an annual 1.35 trillion cubic feet of gas from over 14,000 producing wells. However, none of this production of natural gas occurs in the state of Oregon and the closest source of natural gas production to the Coos Bay region is in Wyoming.

We believe the success of coalbed methane developments has been largely the result of improved drilling and completion techniques, better hydraulic fracture designs and significant cost reductions as a result of highly dependable gas content and coalbed methane reservoir performance analysis. Also aiding this sector's growth is the apparent shortage of quality domestic conventional exploration and development projects. In comparison, according to United States Geological Survey Fact Sheet FS-123-00 of October 2000, total unconventional coalbed methane

resource across America's 25 basins in the lower United States is estimated to be roughly 700 trillion cubic feet of which 14% or 100 trillion cubic feet is considered technically recoverable with existing technology. Technically recoverable gas volumes do not necessarily qualify as proved reserves and we do not have any proved coalbed methane reserves at this time. We also believe that a major reason for propelling the coalbed methane production growth is its relatively low finding and development costs. Coalbed methane fields are often found where deeper conventional oil and gas reservoirs have already been developed, therefore, considerable exploration-cost-reducing geologic information is often readily available. This available geological information combined with comparatively shallow locations of coalbed methane reservoirs reduces finding and developing costs.

Coalbed Methane

Natural gas normally consists of 80% or more methane with the balance comprising such hydrocarbons as butane, ethane and propane. In some cases it may contain minute quantities of highly poisonous hydrogen sulfide, referred to as sour gas. Coalbed methane is, generally, a sweet gas consisting of 95% methane and thus is normally of pipeline quality. Coalbed methane is considered an unconventional natural gas resource because it does not rely on conventional trapping mechanisms, such as a fault or anticline, or stratigraphic traps. Instead coalbed methane is absorbed or attached to the molecular structure of the coals which is an efficient storage mechanism as coalbed methane coals can contain as much as seven times the amount of gas typically stored in a conventional natural gas reservoir such as sandstone or shale. The absorbed coalbed methane is kept in place as a result of a pressure equilibrium often from the presence of water. Thus the production of coalbed methane in many cases requires the dewatering of the coals to be exploited. This process usually requires the drilling of adjacent wells and takes 6 to 36 months to complete. Coalbed methane production typically has a low rate of production decline and an economic life typically from 10 to 20 years.

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

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

Competition

The three largest coalbed methane producers in the lower 48 states of the United States are BP Amoco, Burlington Resources and Phillips Petroleum, all producing most of their production from the now-in-decline San Juan basin. Even though it ranks fourth in terms of natural gas production, a leading coalbed methane participant in terms of growth and technology is Devon Energy. Devon Energy is aggressively expanding coalbed methane production in the Powder River Basin located in Wyoming and Montana and Raton Basin located in Colorado and has coalbed methane production in the San Juan Basin located in New Mexico and Wind River Basin located in Wyoming. Devon is also developing the coalbed methane potential of southeastern Kansas where it has amassed over 400,000 acres. Its project is centered in Cherokee Basin, that is the southern end of the coalbed methane fairway.

Other companies are also active in the coalbed methane fairway, including Anadarko Petroleum Corporation, JM Huber Corporation, Evergreen Resources, Inc. and Whiting Petroleum. In addition, there are dozens of smaller public and private companies engaging in exploratory drilling and testing for coalbed methane.

Government Regulation

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

Research and Development

Our business plan is focused on a strategy for maximizing the long-term exploration and development of our drilling and exploration in the Coos Bay, Oregon region. To date, execution of our business plan has largely focused on acquiring prospective Coalbed Methane leases from which we intend to establish a going forward exploration and development plan.

Employees

As at June 20, 2005, we had one non-union, full time employee, who is an executive. We consider our relations with our employee to be good.

RISK FACTORS

Much of the information included in this annual report includes or is based upon estimates, projections or other forward-looking statements . Such forward-looking statements include any projections or estimates made by us and our management in connection with our business operations. These include (i) the potential prospective for coalbed methane and conventional natural gas production of up to 100,000 acres in the Coos Bay Basin, (ii) the potential pipeline capacity of 10 million cubic feet of gas per day in the port of Coos Bay area, and (iii) greater market for natural gas in Coos County. While these forward-looking statements, and any assumptions upon which they are based, are made in good faith and reflect our current judgment regarding the direction of our business, actual results will almost always vary, sometimes materially, from any estimates, predictions, projections, assumptions, or other future performance suggested herein. We undertake no obligation to update forward-looking statements to reflect events or circumstances occurring after the date of such statements.

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

Risks Relating to Our Business:

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

We incurred net losses of \$2,418,625 for the fiscal year ended March 31, 2005 and \$374,606 for the fiscal year ended March 31, 2004. We cannot assure you that we can achieve or sustain profitability on a quarterly or annual basis in the future. Our operations are subject to the risks and competition inherent in the establishment of a

business enterprise. There can be no assurance that future operations will be profitable. We may not achieve our business objectives and the failure to achieve such goals would have an adverse impact on us.

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

We will require additional funds to sustain and expand our oil and gas exploration activities. We anticipate that we will require up to approximately \$15,000,000 to fund our continued operations for the fiscal year ending March 31, 2006. Additional capital will be required to effectively support the operations and to otherwise implement our overall 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 may reduce 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 involve substantial dilution to our then existing shareholders.

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

In their report dated June 3, 2005, our independent auditors stated that our financial statements for the fiscal year ended March 31, 2005 were prepared assuming that we would continue as a going concern. Our ability to continue as a going concern is an issue raised as a result of recurring losses from operations and working capital deficiency. We continue to experience net operating losses. Our ability to continue as a going concern is subject to our ability to obtain necessary funding from outside sources, including obtaining additional funding from the sale of our securities. Our continued net operating losses increases the difficulty in meeting such goals and there can be no assurances that such methods will prove successful.

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 no history of revenues from operations and have no significant tangible assets. We have yet to generate positive earnings and there can be no assurance that we will ever operate profitably. Our company has a limited operating history in the business of oil and gas exploration and must be considered in the development stage. Our success is significantly dependent on a successful acquisition, drilling, completion and production program. 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 development stage and potential investors should be aware of the difficulties normally encountered by enterprises in the development stage. If our business plan is not successful, and we are not able to operate profitably, investors may lose some or all of their investment in our company.

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

Our success depends to a significant extent upon the continued service of Mr. Mark Gustafson, our president, chief executive officer, acting chief financial officer and a director. Loss of the services of Mr. Gustafson 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. Gustafson. In addition, in order to successfully implement and manage our business plan, we will be dependent upon, among other things, successfully recruiting qualified managerial and field personnel having experience in the oil and gas exploration business. Competition for qualified individuals is intense. There can be no assurance that we will be able to find, attract and retain existing employees or that we will be able to find, attract and retain qualified personnel on acceptable terms.

As our properties are in the exploration and development stage, there can be no assurance that we will establish commercial 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 and development stage only and are without proven reserves of oil and gas. We may not establish commercial discoveries on any of our properties.

We are unsure about the likelihood that we will discover and establish a profitable coalbed methane gas production in the Coos Bay region.

Currently, there is no commercial production of coal in the state of Oregon. Additionally, there are no coal reserves attributed to the state of Oregon. Coalbed methane gas only accounts for a small percentage of all natural gas production in the United States, and the closest coalbed methane production to the Coos Bay Region 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 Region or be able to establish a well that will produce a profitable amount of coalbed methane gas.

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

We have not yet made a discovery of coalbed methane gas or drilled a gas well to capture any gas. Even if we are able to, 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.

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

The oil and gas industry is intensely competitive. We compete with numerous individuals and companies, including many major oil and gas companies which have substantially greater technical, financial and operational resources and staffs. Accordingly, there is a high degree of competition for desirable oil and gas leases, suitable properties for drilling operations and 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 acquisition of additional acreage of lease in the Coos Bay basin. This acreage may not become available or if it is available for leasing, that we may not be successful in acquiring the leases.

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

The marketability of natural resources which 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 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 regulation which 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 which 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 received. Environmental standards imposed by federal, provincial, 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 us. Additionally, we may be subject to liability for pollution or other environmental damages. To date, we have not been required to spend any material amount on compliance with environmental regulations. However, we may be required to do so in the future and this may affect our ability to expand or maintain our operations.

Exploration and production activities are subject to certain environmental regulations which may prevent or delay the commencement or continuation of our operations.

In general, our 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 which 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 it cannot adequately insure or which it may elect not to insure. Incurring any such liability may have a material adverse effect on our financial position and operations.

Risks Relating to Our Shares of Common Stock:

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

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

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

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

that a broker or dealer approve a person's account for transactions in penny stocks; and

the broker or dealer receive from the investor a written agreement to the transaction, setting forth the identity and quantity of the penny stock to be purchased.

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

obtain financial information and investment experience objectives of the person; and

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

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

sets forth the basis on which the broker or dealer made the suitability determination; and

that the broker or dealer received a signed, written agreement from the investor prior to the transaction.

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

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

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

In addition to the penny stock rules described above, the National Association of Securities Dealers Inc. has adopted rules that require that in recommending an investment to a customer, a broker-dealer must have reasonable grounds for believing that the investment is suitable for that customer. Prior to recommending speculative low

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

Item 2. Description of Property.

Our principal office is located at 600-666 Burrard Street, Vancouver, British Columbia, Canada, V6C 2X8. Mark Gustafson, our president, chief executive officer, acting chief financial officer and a director, provides the office space to us free of charge. The office space consists of a single office of approximately 225 square feet. In addition, our subsidiary leases an office at 271 North Baxter, Coquille, Oregon, 97423. The lease runs from July 1, 2004 through June 30, 2005 with monthly renewals thereafter at a cost of \$700 per month. The Oregon office is approximately 4,000 square feet, and consists of three offices, a conference room and storage space.

We believe that our current office space and facilities are sufficient to meet our present needs and do not anticipate any difficulty securing alternative or additional space, as needed, on terms acceptable to us.

Through our subsidiary, Methane Energy Corp., we have leased approximately 60,000 acres of undeveloped acreage in the Coos Bay Region as of March 31, 2005. Fourteen thousand acres are leased from Menasha Development Corporation, 29,000 acres from Coos County, 11,000 acres from the State of Oregon, and approximately 6,000 acres from various individual landowners. The total annual lease payments are approximately \$73,000 per year related to the 60,000 acres. These leases typically have a five-year lease term with an option for an additional five years. In addition, we have granted the lease holders royalties, typically averaging 12.5% on gross sales resulting from the leases.

We have recently completed drilling five core holes in order to assess gas content levels in the Coos Bay Basin as well as determining drilling locations for a pilot well program expected to commence in August or September 2005. Test results help our management determine exploration and development plans in the area. We contract for drilling rigs and related services from outside sources. Our coal samples are analysed by independent testing labs, then interpreted by analysts such as Sproule Associates Inc. for resource assessment.

Item 3. Legal Proceedings.

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

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

None.

PART II

Item 5. Market for Common Equity and Related Stockholder Matters.

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

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

Quarter Ended	High	Low
June 30, 2002 (1)	\$1.70	\$0.60
September 30, 2002	\$0.90	\$0.10
December 31, 2002	\$0.40	\$0.20
March 31, 2003 (2)	\$0.30	\$0.10
June 30, 2003	\$0.20	\$0.10
September 30, 2003	\$0.20	\$0.10
December 31, 2003(3)	\$0.20	\$0.10
March 31, 2004	\$0.51	\$0.05
June 30, 2004	\$1.29	\$0.38
September 30, 2004	\$1.18	\$0.65
December 31, 2004	\$1.37	\$0.72
March 31, 2005	\$1.36	\$0.93

(1) All prices per share before January 20, 2004, take into account the ten for one share consolidation which has the effect of multiplying the pre-consolidated price per share by a factor of ten.

(2) On March 24, 2003, our trading symbol changed from IRVV to SBSY to reflect the change in our corporate name.

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

Holders

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

On June 20, 2005, the shareholders list of our shares of common stock showed 175 registered holders of our shares of common stock and 23,098,293 shares of common stock outstanding. The number of record holders was determined from the records of our transfer agent and does not include beneficial owners of shares of common stock whose shares are held in the names of various security brokers, dealers, and registered clearing agencies.

Dividends

During the fiscal year ended March 31, 2005, we accrued preferred stock dividends of \$72,672. See Note 9 of the financial statements incorporated herein.

Equity Compensation Plan Information

The following table provides a summary of the number of options granted under our compensation plans, as well as options granted outside of our compensation plans, the weighted average exercise price and the number of options remaining available for issuance all as at March 31, 2005.

	Number of securities to be issued upon exercise of outstanding options	Weighted-Average exercise price of outstanding options, warrants and rights	Number of securities remaining available for future issuance under equity compensation plans
Equity compensation plans approved by security holders	N/A	N/A	N/A
Equity compensation plans not approved by security holders(1)	800,000(2)	\$1.08	Nil
Equity compensation plans not approved by security holders(3)	N/A	N/A	2,000,000
Total	800,000	\$1.08	2,000,000
(1)	Refers to our 2004 non-qualified stock option plan. Refer to Item 5 Market for Common Equity and Related Stockholder Matters 2004 Non-Qualified Stock Option Plan of this annual report.		
(2)	Of the 800,000 options, 600,000 were granted outside of the non-qualified stock option plan. Refer to Item 5 Market for Common Equity and Related Stockholder Matters 2004 Non-Qualified Stock Option Plan of this annual report.		
(3)	Refers to our 2005 equity incentive plan. Refer to Item 5 Market for Common Equity and Related Stockholder Matters 2005 Equity Incentive Plan of this annual report.		

2004 Non-Qualified Stock Option Plan

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

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

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

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

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

2005 Equity Incentive Plan

On March 17, 2005, our board of directors adopted the 2005 equity incentive plan for our executives, employees and outside consultants and advisors. Under the equity incentive plan, executives, employees and outside consultants and advisors may receive awards as described in the equity incentive plan. The purpose of the equity incentive plan is to provide long-term performance incentives to those key employees and consultants of our company and our subsidiaries who are largely responsible for the management, growth and protection of the business of our company and our subsidiaries. A maximum of 2,000,000 shares of our common stock are subject to the equity incentive plan. As at March 31, 2005, we had no stock options outstanding under the equity incentive plan. On April 1, 2005, 1,200,000 stock options were granted to directors and officers under the equity incentive plan to purchase 1,200,000 shares of our common stock. On April 15, 2005, 300,000 stock options were granted to an officer of our subsidiary, Methane Energy Corp., under the equity incentive plan to purchase 300,000 shares of our common stock with an exercise price of \$1.25 per share. On June 2, 2005, 200,000 stock options were granted to consultants under the equity incentive plan to purchase 200,000 shares of our common stock with an exercise price of \$2.00 per share. In addition, we granted a consultant the option to purchase 200,000 shares of our common stock at an exercise price of \$0.83 per share pursuant to a consulting agreement for public and investor relations with a third party in which 25% of the options vest immediately and 25% vest every quarter thereafter and either party may terminate the investor relations agreement with thirty days written notice. These options were originally granted outside of the equity incentive plan and subsequently were revised to be included under the equity incentive plan. There are currently 100,000 shares of common stock remaining subject to the equity incentive plan.

Recent Sales of Unregistered Securities

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

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

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

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

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

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

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

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

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

Purchases of Equity Securities by the Issuer and Affiliated Purchasers

We did not purchase any of our shares of common stock or other securities during the fiscal year ended March 31, 2005.

Item 6. Plan of Operation.

You should read the following discussion of our financial condition and results of operations together with our audited consolidated financial statements and the related notes for the years ended March 31, 2005 and 2004 which appear elsewhere in this annual report. The following discussion contains forward-looking statements that reflect our plans, estimates and beliefs. Our actual results could differ materially from those discussed in the forward looking statements. Factors that could cause or contribute to such differences include, but are not limited to, those discussed below and elsewhere in this annual report, particularly in Item 1 Description of Business Risk Factors of this annual report.

Overview

Until June 22, 2004, when we closed on the purchase of certain oil and gas leases in the Coos Bay region, our business was to provide services to the e-commerce industry. Historically, these services have been comprised of marketing, e-commerce development and the sale and distribution of transaction processing and payment services. Since none of these services were sufficient to provide us with a sustainable foundation, we commenced reviewing opportunities in the resource sector in late fiscal 2004. Accordingly, the accumulated losses of \$374,606 to March 31, 2004 reflect our past activities that have been either discontinued or abandoned.

Our restructuring accelerated from January 1, 2004 to March 31, 2004 (final quarter of fiscal 2004) and was finalized from April 1, 2004 to June 30, 2004 (first quarter of fiscal 2005). We decided to investigate and pursue a number of conventional oil and gas opportunities as well as a number of unconventional (coalbed methane) acquisition candidates. Due diligence on a coalbed methane opportunity was completed in April and May of 2004, resulting in the announcement on May 20, 2004 of the purchase of certain Oregon-based oil and gas lease assets from an independent company. Two private placements from April 1, 2004 to June 30, 2004 (first quarter of fiscal 2005) allowed us to complete the lease acquisitions and to commence leasing additional mineral rights under the land surrounding the existing oil and gas leases. We now have a coalbed methane exploration prospect in Oregon to focus on. Additional private placements from July 1, 2004 to September 30, 2004 (second quarter of fiscal 2005) and from January 1, 2005 to March 31, 2005 (fourth quarter of fiscal 2005) allowed us to complete lease acquisitions, core drilling, marketing and public relations, working capital needs and pay legal and professional fees. Additional financings will be required to support further leasing activities and related exploratory drilling programs.

Plan of Operations

Land Acquisition

We currently lease approximately 70,000 acres in the Coos Bay Basin and have identified another 10,000 to 20,000 additional acres falling within the Coos Bay Basin Prospect. Our objective is to achieve a land lease position of approximately 80,000 to 90,000 acres before the end of 2005, although there is no assurance that we can reach that goal.

Exploration of the Coos Bay Project

We are planning an aggressive drilling and exploration program in the Coos Bay Basin. Based on existing raw data, which provides substantial subsurface information, we have completed a core drilling program. A total of five core holes have been drilled at depths ranging from 1,000 to 4,500 feet. Since gas content levels have met management's expectations, we are proceeding with a full pilot test well program in 2005.

Estimated timeline over the next twelve months

August to December 2005

Commence pilot well drilling and testing.

January 2006 to July 2006

Continue pilot well testing (primarily a dewatering phase).

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

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

We will require additional funds to sustain and expand our oil and gas exploration activities. We anticipate that we will require up to approximately \$15,000,000 to fund our continued operations for the fiscal year ending March 31, 2006. Additional capital will be required to effectively support the operations and to otherwise implement our overall business strategy.

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

Exploration and drilling:	\$11,600,000
Leasing:	700,000