

TORRENT ENERGY CORP
Form SB-2
March 30, 2005

UNITED STATES

SECURITIES AND EXCHANGE COMMISSION

Washington, D.C. 20549

FORM SB-2

REGISTRATION STATEMENT UNDER THE SECURITIES ACT OF 1933
(Amendment No. __)

TORRENT ENERGY CORPORATION
(Name of small business issuer in its charter)

Colorado
State or jurisdiction of
incorporation or organization

1311
(Primary Standard Industrial
Classification Code Number)

84-0503749
(I.R.S. Employer
Identification No.)

600-666 Burrard Street
Vancouver, British Columbia, Canada V6C 2X8
604.639.3118
(Address and telephone number of principal executive offices)

600-666 Burrard Street
Vancouver, British Columbia, Canada V6C 2X8
604.639.3118
(Address of principal place of business or intended principal place of business)

Mark Gustafson, President
Torrent Energy Corporation
600-666 Burrard Street
Vancouver, British Columbia, Canada V6C 2X8
604.639.3118
(Name, address and telephone number of agent for service)

Copy of communications to:

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Approximate date of proposed sale to the public: As soon as practicable after the registration statement becomes effective.

If this Form is filed to register additional securities for an offering pursuant to Rule 462(b) under the Securities Act, please check the following box and list the Securities Act registration statement number of the earlier effective registration statement for the same offering. []

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If this Form is a post-effective amendment filed pursuant to Rule 462(c) under the Securities Act, check the following box and list the Securities Act registration statement number of the earlier effective registration statement for the same offering. []

If this Form is a post-effective amendment filed pursuant to Rule 462(d) under the Securities Act, check the following box and list the Securities Act registration statement number of the earlier effective registration statement for the same offering. []

If delivery of the prospectus is expected to be made pursuant to Rule 434, check the following box. []

CALCULATION OF REGISTRATION FEE

Title of each class of securities to be registered	Dollar amount to be registered (1)	Proposed maximum offering price per share(2)	Proposed maximum aggregate offering price	Amount of registration fee
Common stock, \$0.001 par value	2,500,000	\$1.03	\$2,575,000	\$303.08
Total	2,500,000		\$2,575,000	\$303.08

(1) An indeterminate number of additional shares of common stock shall be issuable pursuant to Rule 416 to prevent dilution resulting from stock splits, stock dividends or similar transactions and in such an event the number of shares registered shall automatically be increased to cover the additional shares in accordance with Rule 416 under the Securities Act.

(2) Estimated solely for purposes of calculating the registration fee in accordance with Rule 457(c) and Rule 457(g) under the Securities Act of 1933, using the average of the high and low price as reported on the Over-The-Counter Bulletin Board on March 22, 2005, which was \$1.03 per share.

THE REGISTRANT HEREBY AMENDS THIS REGISTRATION STATEMENT ON SUCH DATE OR DATES AS MAY BE NECESSARY TO DELAY ITS EFFECTIVE DATE UNTIL THE REGISTRANT SHALL FILE A FURTHER AMENDMENT WHICH SPECIFICALLY STATES THAT THIS REGISTRATION STATEMENT SHALL THEREAFTER BECOME EFFECTIVE IN ACCORDANCE WITH SECTION 8(A) OF THE SECURITIES ACT OF 1933 OR UNTIL THE REGISTRATION STATEMENT SHALL BECOME EFFECTIVE ON SUCH DATE AS THE SECURITIES AND EXCHANGE COMMISSION, ACTING PURSUANT TO SAID SECTION 8(A), MAY DETERMINE.

PROSPECTUS

Subject to completion
_____, 2005

TORRENT ENERGY CORPORATION

2,500,000 Shares of Common Stock of Torrent Energy Corporation

This prospectus relates to the resale by the selling stockholders of up to 2,500,000 shares of common stock of Torrent Energy Corporation, a Colorado Corporation, which may be resold by selling security holders named in this prospectus. The shares were acquired by the selling shareholders directly from us in private offerings that were exempt from registration under the U.S. securities laws. We have been advised by the selling security holders that they may offer to sell all or a portion of their shares of common stock being offered in this prospectus from time to time. The selling stockholders may sell common stock from time to time in the principal market on which the stock is traded at the prevailing market price or in negotiated transactions. The selling stockholders may be deemed underwriters of the shares of common stock which they are offering. We will not receive any proceeds from the resale of shares of common stock by the selling security holders. However, we have received proceeds from the sale of shares of common stock that are presently outstanding. We will pay the expenses of registering these shares.

Our common stock is registered under Section 12(g) of the Securities Exchange Act of 1934 and is listed on the Over-The-Counter Bulletin Board under the symbol TREN . The last reported sales price per share of our common stock as reported by the Over-The-Counter Bulletin Board on March 22, 2005, was \$1.00.

Our business is subject to many risks and an investment in our common stock will also involve a high degree of risk. You should invest in our common stock only if you can afford to lose your entire investment. You should carefully consider the various risk factors described beginning on page 6 before investing in our common stock.

Neither the Securities and Exchange Commission nor any state securities commission has approved or disapproved of these securities or determined if this Prospectus is truthful or complete. Any representation to the contrary is a criminal offense.

The information in this Prospectus is not complete and may be changed. This Prospectus is included in the Registration Statement that was filed by Torrent Energy Corporation with the Securities and Exchange Commission. The selling stockholders may not sell these securities until the registration statement becomes effective. This Prospectus is not an offer to sell these securities and is not soliciting an offer to buy these securities in any state where the sale is not permitted.

Please read this prospectus carefully. You should rely only on the information contained in this prospectus. We have not authorized anyone to provide you with different information.

The date of this prospectus is _____, 2005.

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The following table of contents has been designed to help you find important information contained in this prospectus. We encourage you to read the entire prospectus.

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PROSPECTUS SUMMARY

The following summary highlights selected information contained in this prospectus. This summary does not contain all the information you should consider before investing in the securities. Before making an investment decision, you should read the entire prospectus carefully, including the risk factors section, the financial statements and the secured convertible notes to the financial statements.

OUR 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 hold leases to approximately 60,000 acres of prospective coalbed methane lands in the Coos Bay region. Methane Energy operates the exploration project in the Coos Bay region. We changed our name from Scarab Systems, Inc. to Torrent Energy on July 13, 2004 to reflect the change in our business operations towards coalbed methane exploration. The change in our business operations occurred as a result of our entering into a Lease Purchase and Sale Agreement, through Methane Energy, on April 30, 2004. We were previously a web design and internet application developer.

For the nine months ended December 31, 2004, we generated no revenue and a net loss of \$2,171,340. In addition, for the year ended March 31, 2004, we generated no revenue and a net loss of \$374,606. As a result of recurring losses from operations and working capital deficiency, our auditors, in their report dated April 7, 2004, have expressed substantial doubt about our ability to continue as going concern.

Our principal offices are located at 600-666 Burrard Street, Vancouver, British Columbia V6C 2X8, Canada, and our telephone number is (604) 639-3118. We are a Colorado corporation.

THE OFFERING

Common stock offered by selling stockholder.....	Up to 2,500,000 shares
Common stock to be outstanding after offering.....	Up to 20,984,966
Use of Proceeds.....	We will not receive any proceeds from the sale of the common stock.
Over-The-Counter Bulletin Board Symbol.....	TREN

The above information regarding common stock to be outstanding after the offering is based on 20,984,966 shares of common stock outstanding as of March 22, 2005 and assumes the subsequent conversion of our issued Series B Convertible Preferred Stock and the exercise of our issued warrants and options.

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To obtain funding for our ongoing operations, we entered into two Securities Purchase Agreements with two accredited investors on February 11, 2005 for the sale of an aggregate of 2,500,000 shares of our common stock for an aggregate of \$2,500,000. On February 15, 2005 the investors provided us with an aggregate of \$2,500,000, pursuant to the terms of each Securities Purchase Agreement. This prospectus relates to the resale of this common stock.

See the Description of Securities sections for a complete description of the common stock.

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RISK FACTORS

This investment has a high degree of risk. Before you invest you should carefully consider the risks and uncertainties described below and the other information in this prospectus. If any of the following risks actually occur, our business, operating results and financial condition could be harmed and the value of our stock could go down. This means you could lose all or a part of your investment.

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 \$374,606 for the year ended March 31, 2004 and \$396,277 for the year ended March 31, 2003. For the nine months ended December 31, 2004, we incurred a net loss of \$2,171,340. 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 \$2,500,000 to fund our continued operations for the fiscal year 2005. 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 marketing and 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 April 7, 2004, our independent auditors stated that our financial statements for the year ended March 31, 2004 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 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 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.

It is unlikely that we will discover and establish a profitable coal bed 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. Coal Bed Methane Gas only accounts for a small percentage of all natural gas production in the United States, and the closest coal bed 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 coal bed methane in the Coos Bay Region or be able to establish a well that will produce a profitable amount of coal bed methane gas.

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 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,

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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 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 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 continuance 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 continuance 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.

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Risks Relating to Our Series B Convertible Preferred Stock:

There are a large number of shares underlying our Series B Convertible Preferred Stock that may be available for future sale and the sale of these shares may depress the market price of our common stock.

As of March 22, 2005, we had 20,984,966 shares of common stock issued and outstanding and 1,700 Series B Convertible Preferred Stock outstanding that may be converted into an estimated 2,014,218 shares of common stock at current market prices. In addition, the number of shares of common stock issuable upon conversion of the outstanding Series B Convertible Preferred Stock may increase if the market price of our stock declines. All of the shares, including all of the shares issuable upon conversion of the Series B Convertible Preferred Stock may be sold without restriction. The sale of these shares may adversely affect the market price of our common stock.

The continuously adjustable conversion price feature of our Series B Convertible Preferred Stock could require us to issue a substantially greater number of shares, which will cause dilution to our existing stockholders.

Our obligation to issue shares upon conversion of our Series B Convertible Preferred Stock is essentially limitless. In addition, the number of shares of common stock issuable upon conversion of our Series B Convertible Preferred Stock will increase if the market price of our stock declines, which will cause dilution to our existing stockholders.

The continuously adjustable conversion price feature of our Series B Convertible Preferred Stock may encourage investors to make short sales in our common stock, which could have a depressive effect on the price of our common stock.

The Series B Convertible Preferred Stock is convertible into shares of our common stock at a 20% discount to the trading price of the common stock prior to the conversion. The significant downward pressure on the price of the common stock as the selling stockholder converts and sells material amounts of common stock could encourage short sales by investors. This could place further downward pressure on the price of the common stock. The selling stockholder could sell common stock into the market in anticipation of covering the short sale by converting their securities, which could cause the further downward pressure on the stock price. In addition, not only the sale of shares issued upon conversion of preferred stock, but also the mere perception that these sales could occur, may adversely affect the market price of the common stock.

The issuance of shares upon conversion of the Series B Convertible Preferred stock may cause immediate and substantial dilution to our existing stockholders.

The issuance of shares upon conversion of the Series B Convertible Preferred Stock may result in substantial dilution to the interests of other stockholders since the selling stockholders may ultimately convert and sell the full amount issuable on conversion. Although the selling stockholders may not convert their Series B Convertible Preferred Stock if such conversion would cause them to own more than 4.99% of our outstanding common stock, this restriction does not prevent the selling stockholders from converting some of their holdings and then converting the rest of their holdings. In this way, the selling stockholders could sell more than this limit while never holding more than this limit. There is

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no upper limit on the number of shares that may be issued which will have the effect of further diluting the proportionate equity interest and voting power of holders of our common stock, including investors in this offering.

In the event that our stock price declines, the shares of common stock allocated for conversion of the Series B Convertible Preferred Stock and registered pursuant to a previous registration statement may not be adequate and we may be required to file a subsequent registration statement covering additional shares. If the shares we have allocated and registered pursuant to the previous registration statement are not adequate and we are required to file an additional registration statement, we may incur substantial costs in connection with such a filing.

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Risks Relating to Our 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 common stock is subject to the penny stock rules of the SEC and the trading market in our securities is limited, which makes transactions in our stock cumbersome and may reduce the value of an investment in our 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 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 common stock and cause a decline in the market value of our 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.

USE OF PROCEEDS

The shares of common stock offered hereby are being registered for the account of the selling stockholder named in this prospectus. As a result, all proceeds from the sales of the common stock will go to the selling stockholder and we will not receive any proceeds from the resale of the common stock by the selling stockholder. We will, however, incur all costs associated with this registration statement and prospectus.

MARKET FOR COMMON EQUITY AND RELATED STOCKHOLDER MATTERS

Our common stock is quoted on the OTC Bulletin Board under the symbol TREN . Prior to July 30, 2004, our common stock was quoted under the symbol SBSY. Prior to March 24, 2003, our common stock was quoted under the symbol IRVV.

For the periods indicated, the following table sets forth the high and low bid prices per share of common stock. These prices represent inter-dealer quotations without retail markup, markdown, or commission and may not necessarily represent actual transactions.

	<u>High</u>	<u>Low</u>
2003		
First Quarter(1)	\$1.70	\$0.60
Second Quarter	0.90	0.10
Third Quarter	0.40	0.20
Fourth Quarter	0.30	0.10
2004		
First Quarter(1)	\$0.20	\$0.10
Second Quarter	0.20	0.10
Third Quarter	0.20	0.10
Fourth Quarter	0.51	0.05
2005		
First Quarter	\$1.29	\$0.38
Second Quarter	1.18	0.65
Third Quarter	1.37	0.72
Fourth Quarter(2)	1.36	0.93

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

(2) As of March 21, 2005.

HOLDERS

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As of March 22, 2005, we had approximately 180 holders of our common stock. The number of record holders was determined from the records of our transfer agent and does not include beneficial owners of common stock whose shares are held in the names of various security brokers, dealers, and registered clearing agencies. The transfer agent of our common stock is Computershare Trust Company, Inc., 350 Indiana Street, Suite 800, Golden, CO 80401.

DIVIDENDS

We have never declared or paid any cash dividends on our common stock. We do not anticipate paying any cash dividends to stockholders in the foreseeable future. In addition, any future determination to pay cash dividends will be at the discretion of the Board of Directors and will be dependent upon our financial condition, results of operations, capital requirements, and such other factors as the Board of Directors deem relevant.

2005 Equity Incentive Plan

On March 17, 2005, the Board of Directors authorized the 2005 Equity Incentive Plan (the **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. A maximum of 2,000,000 shares of our common stock are subject to the Equity Incentive Plan. As of March 22, 2005, 1,200,000 stock options have been granted to directors and officers under the Equity Incentive Plan to purchase 1,200,000 shares of our common stock. The purpose of the Equity Incentive Plan is to provide long-term performance incentives to those key employees and consultants of the Company and its Subsidiaries who are largely responsible for the management, growth and protection of the business of the Company and its Subsidiaries. As at March 22, 2005, we had 1,200,000 stock options outstanding under the Equity Incentive Plan with an exercise price of \$1.25. There are currently 800,000 awards remaining under the Plan.

2004 Non-Qualified Stock Option Plan

In February 2004, the Board of Directors authorized the 2004 Non-Qualified Stock Option Plan (the **Plan**) for our executive, employees and outside consultants and advisors. Under the Plan, executives, employees and outside consultants and advisors may receive awards of non-qualified stock options. A maximum of 1,800,000 shares of our common stock are subject to the Plan. As of September 15, 2004, 1,800,000 stock options have been granted to consultants under the Plan to purchase 1,800,000 shares of our common stock. 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. As at December 31, 2004, we had 200,000 stock options outstanding under the Plan with an exercise price of \$0.50. There are no further stocks options eligible to be granted under the Plan.

During the quarter ended December 31, 2004, we granted an additional 600,000 stock options outside of the Plan. This included an option to purchase 200,000 common shares at \$1.00 per share and another 200,000 common shares at \$2.00 per share until November 1, 2005 pursuant to a mail distribution agreement for public and investor relations with a third party. These options have a cashless exercise provision whereby the option or can elect to receive 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. In addition, we granted a consultant the option to purchase 200,000 common shares at \$0.83 per share pursuant to a consulting agreement for public and investor relations with a third party in which 25% of the options to the investor relations consultant vest immediately and 25% vest every quarter thereafter and either party may terminate the investor relations agreement with thirty days written notice.

The following table sets forth certain information concerning the granting of incentive stock options during the last completed fiscal year to each of the named executive officers and the terms of such options.