

Black Raven Energy, Inc.  
Form 10-Q  
August 16, 2010  
Table of Contents

**UNITED STATES  
SECURITIES AND EXCHANGE COMMISSION**

Washington, D.C. 20549

**Form 10-Q**

(Mark One)

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

For the quarterly period ended June 30, 2010

Or

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

For the transition period from        to

Commission file number: 001-32471

**BLACK RAVEN ENERGY, INC.**

Edgar Filing: Black Raven Energy, Inc. - Form 10-Q

(Exact Name of Registrant as Specified in its Charter)

**Nevada**  
(State or Other Jurisdiction  
of Incorporation or Organization)

**1125 Seventeenth Street, Suite 2300**  
**Denver, CO**  
(Address of Principal Executive Offices)

**20-0563497**  
(I.R.S. Employer  
Identification No.)

**80202**  
(Zip Code)

Registrant's Telephone Number, including area code: **(303) 308-1330**

Indicate by check mark whether the registrant: (1) has filed all reports required to be filed by Section 13 or 15(d) of the Securities Exchange Act of 1934 during the preceding 12 months (or for such shorter period that the registrant was required to file such reports), and (2) has been subject to such filing requirements for the past 90 days. Yes  No

Indicate by check mark whether the registrant has submitted electronically and posted on its corporate Web site, if any, every Interactive Data File required to be submitted and posted pursuant to Rule 405 of Regulation S-T (§232.405 of this chapter) during the preceding 12 months (or for such shorter period that the registrant was required to submit and post such files). Yes  No

Indicate by check mark whether the registrant is a large accelerated filer, an accelerated filer, a non-accelerated filer, or a smaller reporting company. See the definitions of large accelerated filer, accelerated filer and smaller reporting company in Rule 12b-2 of the Exchange Act.

Large accelerated filer  Accelerated filer   
Non-accelerated filer  Smaller reporting company   
(Do not check if a smaller reporting company)

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

Indicate by check mark whether the registrant has filed all documents and reports required to be filed by Sections 12, 13 or 15(d) of the Securities Exchange Act of 1934 subsequent to the distribution of securities under a plan confirmed by a court. Yes  No

The number of shares of the registrant's common stock outstanding as of August 10, 2010 was 16,658,109.

Table of Contents

TABLE OF CONTENTS

<u>PART I</u> Financial Information		1
<u>Item 1.</u>	<u>Financial Statements</u>	1
<u>Item 2.</u>	<u>Management's Discussion and Analysis of Financial Condition and Results of Operations</u>	12
<u>Item 4T.</u>	<u>Controls and Procedures</u>	18
<u>PART II</u> Other Information		18
<u>Item 1.</u>	<u>Legal Proceedings</u>	18
<u>Item 1A.</u>	<u>Risk Factors</u>	18
<u>Item 6.</u>	<u>Exhibits</u>	18
	<u>Signatures</u>	19

---

Table of Contents**PART I FINANCIAL INFORMATION****ITEM 1. FINANCIAL STATEMENTS.****Black Raven Energy, Inc. (formerly known as PRB Energy, Inc.)****Condensed Consolidated Balance Sheets****(Unaudited)***(In thousands)*

	June 30, 2010	December 31, 2009
<b>Assets</b>		
Current assets:		
Cash and cash equivalents	\$ 6	\$ 1,064
Accounts receivable, net	41	62
Inventory	62	62
Prepaid expenses	118	108
Total current assets	227	1,296
Oil and gas properties accounted for under the successful efforts method of accounting:		
Proved properties	4,637	4,626
Unproved leaseholds	5,863	5,842
Wells-in-progress	483	483
Total oil and gas properties	10,983	10,951
Less: Accumulated depreciation, depletion and amortization	(1,226)	(1,212)
Net oil and gas properties	9,757	9,739
Gathering and other property and equipment	2,958	2,964
Less: Accumulated depreciation and amortization	(963)	(925)
Net gathering and other property and equipment	1,995	2,039
Other non-current assets:		
Deferred debt issuance costs, net	212	247
Other	101	96
Total other non-current assets	313	343
<b>TOTAL ASSETS</b>	<b>\$ 12,292</b>	<b>\$ 13,417</b>

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

Table of Contents

**Black Raven Energy, Inc. (formerly known as PRB Energy, Inc.)**

**Condensed Consolidated Balance Sheets (Continued)**

**(Unaudited)**

*(In thousands)*

<b>Liabilities and Stockholders Deficit</b>	<b>June 30, 2010</b>	<b>December 31, 2009</b>
Current liabilities:		
Accounts payable	\$ 357	\$ 238
Short-term borrowings from affiliate	150	
Accrued expenses and other current liabilities	424	308
Total current liabilities	931	546
Senior secured debentures, net of discount	18,500	17,828
Asset retirement obligation	230	219
Investment in insolvent subsidiary		1,072
Total liabilities	19,661	19,665
Commitments and Contingencies (Note 8)		
Stockholders deficit		
Common stock, par value \$.001; 150,000,000 authorized; 16,658,109 and 16,660,965 issued and outstanding, respectively	17	17
Additional paid-in-capital	29,561	29,441
Accumulated deficit	(36,947)	(35,706)
Total stockholders deficit	(7,369)	(6,248)
<b>TOTAL LIABILITIES AND STOCKHOLDERS DEFICIT</b>	<b>\$ 12,292</b>	<b>\$ 13,417</b>

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

Table of Contents**Black Raven Energy, Inc. (formerly known as PRB Energy, Inc.)****Condensed Consolidated Statements of Operations****(Unaudited)***(In thousands, except share and per share amounts)*

	Three Months Ended June 30,		Six Months Ended June 30,	
	2010	2009	2010	2009
<b>Revenue:</b>				
Natural gas sales	\$ 88	\$ 94	\$ 230	\$ 232
Total revenue	88	94	230	232
<b>Operating expenses:</b>				
Natural gas production expense	148	146	308	315
Exploration expense	11	2	11	4
Depreciation, depletion, amortization and accretion	33	67	68	143
General and administrative	564	301	1,207	666
Total operating expenses	756	516	1,594	1,128
Operating loss	(668)	(422)	(1,364)	(896)
<b>Other income (expense):</b>				
Interest and other income	2		3	
Loss on disposal of assets		(26)	(6)	(26)
Interest expense	(475)	(472)	(939)	(796)
Total other expense	(473)	(498)	(942)	(822)
Loss before reorganization items and income taxes	(1,141)	(920)	(2,306)	(1,718)
<b>Reorganization items:</b>				
Gain on reorganization			1,069	24,568
Professional fees	(1)	(14)	(4)	(120)
Total reorganization items	(1)	(14)	1,065	24,448
Net income (loss) before income taxes	(1,142)	(934)	(1,241)	22,730
Income tax provision/benefit				
<b>Net income (loss)</b>	\$ (1,142)	\$ (934)	\$ (1,241)	\$ 22,730
<b>Net income (loss) per common share basic and diluted</b>	\$ (0.07)	\$ (0.06)	\$ (0.07)	\$ 1.63
Basic and diluted weighted average shares outstanding	16,658,109	15,118,840	16,658,709	13,913,344

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

Table of Contents**Black Raven Energy, Inc. (formerly known as PRB Energy, Inc.)****Condensed Consolidated Statements of Cash Flows****(Unaudited)***(In thousands)*

	<b>Six Months Ended June 30,</b>	
	<b>2010</b>	<b>2009</b>
<b>Cash flows from operating activities</b>		
Net income (loss)	\$ (1,241)	\$ 22,730
Adjustments to reconcile net income (loss) to net cash used in operating activities:		
Depreciation, depletion, amortization and accretion	68	143
Amortization of debt issuance costs	35	
Amortization of discount on debentures	672	533
Share-based compensation expense	120	
Gain on reorganization	(1,069)	(24,568)
Loss on sale of assets and other	6	26
Changes in assets and liabilities:		
Accounts receivable	21	51
Inventory		(19)
Prepaid expenses	(10)	251
Other non-current assets	(5)	3
Accounts payable	110	(596)
Accrued expenses and other current liabilities	117	(24)
Net cash used in operating activities	(1,176)	(1,470)
<b>Cash flows from investing activities</b>		
Capital expenditures	(32)	(260)
Proceeds from sale of assets		1
Net cash used in investing activities	(32)	(259)
<b>Cash flows from financing activities</b>		
Proceeds from loans	150	1,950
Repayment of loans		(590)
Net cash provided by financing activities	150	1,360
Net decrease in cash	(1,058)	(369)
Cash beginning of year	1,064	472
<b>Cash and cash equivalents end of year</b>	<b>\$ 6</b>	<b>\$ 103</b>
<b>Supplemental disclosure of cash flow activity</b>		
Cash paid for interest	\$ 117	\$ 75
<b>Supplemental schedule for non-cash activity</b>		
Accrued capital expenditures	6	67

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

Table of Contents

**BLACK RAVEN ENERGY, INC. (formerly known as PRB ENERGY, INC.)**

**Notes to Condensed Consolidated Financial Statements**

**June 30, 2010**

**(Unaudited)**

**Note 1 Description of Business, Basis of Presentation and Summary of Significant Accounting Policies**

*Description of Business*

Black Raven Energy, Inc. ( Black Raven, the Company, us, our or we ), formerly known as PRB Energy, Inc. ( PRB Energy ), operates as an independent energy company engaged in the acquisition, exploitation, development and production of natural gas and oil in the Rocky Mountain Region of the United States.

On March 5, 2008, PRB Energy and its subsidiaries filed voluntary petitions for relief for each business entity (the Chapter 11 Bankruptcy ) under Chapter 11 of the United States Bankruptcy Code (the Bankruptcy Code ) in the United States Bankruptcy Court for the District of Colorado (the Bankruptcy Court ). PRB Energy continued to operate its business as a debtor-in-possession under the jurisdiction of the Bankruptcy Court and in accordance with the applicable provisions of the Bankruptcy Code.

On January 16, 2009, the Bankruptcy Court entered an order confirming PRB Energy's and PRB Oil and Gas, Inc.'s ( PRB Oil ), a wholly-owned subsidiary of PRB Energy, Modified Second Amended Joint Plan of Reorganization (the Plan ). The effective date of the Plan was deemed to be February 2, 2009 (the Effective Date ). Pursuant to the Plan, all 8,721,994 shares of PRB Energy's common stock were cancelled and PRB Energy changed its corporate name to Black Raven Energy, Inc. The Plan provided that we continue as a public company following our emergence from bankruptcy and for the issuance of new common stock of Black Raven to certain claimants, with such new common stock to be traded on the OTC Bulletin Board or a nationally recognized securities exchange, subject to compliance with applicable regulations. After the effective date, PRB Oil was merged into the Company.

We deconsolidated PRB Gathering, Inc. ( PRB Gathering ), a wholly-owned subsidiary of PRB Energy, during the fourth quarter of 2008. Effective November 1, 2008, control of the Recluse Gathering System was turned over to a receiver appointed by the State Court of Wyoming. The Company's investment/obligation with regard to the PRB Gathering business is reflected as an Investment in Insolvent Subsidiary in the accompanying balance sheet as of December 31, 2009. PRB Gathering emerged from Chapter 11 Bankruptcy on February 17, 2010 and a gain on reorganization was recognized for the amount of the Company's obligation for PRB Gathering.

The accompanying financial statements have been prepared assuming the Company will continue as a going concern. As shown in the accompanying financial statements, the Company continues to experience net losses from its operations, reporting a net loss before reorganization items of approximately \$2.3 million for the six months ended June 30, 2010. Cash and cash equivalents on hand and internally generated cash flows will not be sufficient to execute the Company's business plan. Future bank financings, asset sales, or other equity or debt



## Edgar Filing: Black Raven Energy, Inc. - Form 10-Q

financings will be required to fund the Company's debt service, working capital requirements, planned drilling, potential acquisitions and other capital expenditures. These conditions raise substantial doubt about the Company's ability to continue as a going concern.

The Company is currently exploring opportunities to raise capital, including a private placement of its common stock. There can be no assurances that the Company will be able to secure this additional financing and, accordingly, the Company's liquidity and ability to execute its business plan and to timely pay its obligations when due could be adversely affected. If we fail to secure equity financing for future developments in a private placement of our common stock, we will pursue other financing options through debt arrangements, joint venture partners, farm-out agreements or the sale of assets.

### *Farmout Agreement*

On July 23, 2010, the Company entered into a Farmout Agreement (the "Farmout Agreement") with Atlas Resources, LLC, a wholly-owned subsidiary of Atlas Energy, Inc. ("Atlas"), relating to natural gas drilling within an area of mutual interest in Phillips and Sedgwick counties, Colorado and Perkins, Chase and Dundy counties, Nebraska (the "AMI").

Under the terms of the Farmout Agreement, Atlas has agreed to drill six initial wells identified in the Farmout Agreement (the "Initial Wells") and to complete certain initial projects, including 3D seismic shoots, upgrade of sales meter equipment, and the change-out of compressors and upgrade of a dehydrator at a Company facility. The Company assigned to Atlas all of its rights, title and interests in the defined areas around the planned wellbores (the "Drilling Units") for the Initial Wells.

Table of Contents

The Farmout Agreement also provides for Atlas, at its discretion, to drill additional wells in the AMI in accordance with work plans approved by Atlas under the Farmout Agreement (each a Work Plan ). The initial Work Plan approved by Atlas covering the period from July 23, 2010 to April 30, 2011 provides for Atlas, at its discretion, to drill 60 additional wells. For each six month period after April 30, 2011, Atlas must submit a proposal to the Company setting forth the numbers of wells that it proposes to drill for such six month period (the Drilling Proposal ) and the Company must provide a Work Plan to be approved by Atlas outlining the development plan for the wells set forth in the Drilling Proposal. In the event that Atlas determines not to drill at least 60 wells in the course of any six month period, the Company shall have the right, during such six month period, to drill for its own account that number of wells equal to the difference between 60 wells and the number of wells agreed to be drilled by Atlas. Upon payment of a well-site fee and delivery of an executed authorization for expenditure (AFE) for such well by Atlas, the Company will assign all of its right, title and interest in the Drilling Units established for such well.

The Farmout Agreement also provides for certain rights of the Company and Atlas with respect to the drilling of deep wells and for the payment of drilling and future 3D seismic costs.

In consideration for the agreements made under the Farmout Agreement, Atlas paid the Company \$1,000,000 upon execution of the Farmout Agreement. In addition, Atlas agreed to pay the Company a \$60,000 well-site fee for each well drilled by Atlas in the AMI, including the Initial Wells. The Company will also receive an undivided six percent of eight eighths (6% of 8/8ths) overriding royalty interest on all of the oil and gas produced and sold that is attributable to the Drilling Units assigned to Atlas under the Farmout Agreement, subject to certain deductions.

The term of the Farmout Agreement is ten years, subject to earlier termination pursuant to the terms set forth therein.

***Basis of Presentation***

The accompanying unaudited interim Condensed Consolidated Financial Statements have been prepared pursuant to the rules and regulations of the Securities and Exchange Commission ( SEC ) and generally accepted accounting principles in the United States ( GAAP ). In the opinion of management, the Condensed Consolidated Financial Statements include the adjustments necessary for a fair statement of the information required to be set forth therein. Certain information and note disclosures normally included in financial statements prepared in accordance with GAAP have been condensed or omitted from these statements pursuant to such rules and regulations and, accordingly, these financial statements should be read in conjunction with our audited Consolidated Financial Statements for the year ended December 31, 2009, included in our Annual Report on Form 10-K for the year ended December 31, 2009. The results for interim periods are not necessarily indicative of the results for the entire year.

For the period from March 5, 2008 through the Effective Date, we conducted our business in the ordinary course as debtors-in-possession under the protection of the Bankruptcy Court. We emerged from Chapter 11 Bankruptcy on February 2, 2009. Our Condensed Consolidated Financial Statements have been prepared in accordance with Financial Accounting Standards Board ( FASB ) Accounting Standards Codification ( ASC ) Topic 852, Reorganizations ( ASC Topic 852 ), which requires that financial statements, for periods subsequent to our Chapter 11 Bankruptcy filings, distinguish transactions and events that are directly associated with the reorganization from the ongoing operations of the business. Accordingly, certain income, expenses, realized gains and losses and provisions for losses that were realized or incurred in our Chapter 11 Bankruptcy cases are recorded in reorganization items on our Condensed Consolidated Statements of Operations. We determined that we did not meet the requirements to adopt fresh start accounting on the Effective Date of our emergence from Chapter 11 Bankruptcy because the reorganization value of our assets exceeded the total of post-petition liabilities and allowed claims. See Note 3 for further discussion of the Plan and the applicability of fresh start accounting.

*Summary of Significant Accounting Policies*

Use of Estimates - The preparation of financial statements in accordance with GAAP requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities, disclosures of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. Some specific examples of such estimates include the allowance for accounts receivable, accrued expenses, accrued revenue, asset retirement obligations, determining the remaining economic lives and carrying values of property and equipment and the estimates of gas reserves that affect the depletion calculations and impairments for gas properties and other long-lived assets. In addition, we use assumptions

Table of Contents

to estimate the fair value of share-based compensation. We believe our estimates and assumptions are reasonable; however, actual results may differ from our estimates.

Cash and cash equivalents - We consider all highly liquid instruments purchased with an original maturity of three months or less to be cash equivalents. We continually monitor our positions with, and the credit quality of, the financial institutions with which we invest.

Income Taxes - We recognize deferred tax liabilities and assets based on the differences between the tax basis of assets and liabilities and their reported amounts in the consolidated financial statements that will result in taxable or deductible amounts in future years. In evaluating the ability to realize net deferred tax assets, we will take into account a number of factors, primarily relating to our ability to generate taxable income. We have recognized, before the valuation allowance, a net deferred tax asset attributable to the net operating losses as of June 30, 2010 and December 31, 2009. FASB ASC Topic 740, Income Taxes (ASC Topic 740), requires that a valuation allowance be recorded against deferred tax assets unless it is more likely than not that the deferred tax asset will be utilized. As a result of this analysis, we have recorded a full valuation allowance against the Company's net deferred tax asset.

The Company has adopted the uncertainty provisions of ASC Topic 740, which requires the Company to recognize the impact of a tax position in its financial statements only if the technical merits of that position indicate that the position is more likely than not of being sustained upon audit. We recognize potential accrued interest and penalties, if any, related to unrecognized tax benefits in income tax expense, which is consistent with the recognition of these items in prior reporting periods. Due to the significant net operating losses, no interest and penalties were accrued.

Revenue Recognition - Revenues are recognized when production is sold to a purchaser at a fixed or determinable price, when delivery has occurred and title has transferred, and if the collectability of the revenue is probable. We derive revenue from the sale of produced natural gas. We report revenue at the gross amount received before taking into account production taxes and transportation costs, which are reported as separate expenses. Revenue is recorded in the month our production is delivered to the purchaser, but payment is generally received between 30 and 90 days after the date of production. Revenues from the production of gas properties in which we have an interest with other producers are recognized on the basis of our net working interest. At the end of each month, we calculate a revenue accrual based on the estimates of production delivered to or transported for the purchaser.

Property and Equipment - Gas Gathering and Other - Gathering assets, including compressor sites and pipelines, are recorded at cost and depreciated using the straight line method over 10 years. Other property and equipment, such as office furniture, computer and related software and equipment, automobiles and leasehold improvements are recorded at cost. Depreciation is calculated using the straight-line method over the estimated useful lives of the assets or underlying leases, in respect to leasehold improvements, ranging from three to ten years.

Oil and Gas Producing Properties - We have elected to follow the successful efforts method of accounting for our oil and gas properties. Under this method of accounting, all property acquisition costs and costs of exploratory and development wells are capitalized when incurred, pending determination of whether the well has found proved reserves. If an exploratory well does not find proved reserves, the costs of drilling the unsuccessful exploratory well are charged to expense. Exploratory dry hole costs are included in cash flows from investing activities as part of capital expenditures in the consolidated statements of cash flows. The cost of development wells, whether productive or not, is capitalized.

## Edgar Filing: Black Raven Energy, Inc. - Form 10-Q

Other exploration costs, including certain geological and geophysical expenses and delay rentals for oil and gas leases, are charged to expense as incurred. The sale of a partial interest in a proved property is accounted for as a cost recovery and no gain or loss is recognized as long as this treatment does not significantly affect the unit-of-production amortization rate. A gain or loss is recognized for all other sales of proved properties and is classified in other operating revenues. Maintenance and repairs are charged to expense, and renewals and betterments are capitalized to the appropriate property and equipment accounts.

Depreciation, depletion and amortization ( DD&A ) of capitalized costs of proved oil and gas properties is determined on a field-by-field basis using the units-of-production method based upon proved reserves. The computation of DD&A takes into consideration restoration, dismantlement and abandonment costs and the anticipated proceeds from equipment salvage.

Impairment of Long-Lived Assets - In accordance with FASB ASC Topic 360, Property, Plant and Equipment ( ASC Topic 360 ), we group assets at the field level and periodically review the carrying value of our property and equipment to test whenever current events or circumstances indicate that such carrying value may not be recoverable. If the tests indicate that the carrying value of the asset is greater than the estimated future undiscounted cash flows to be generated by such asset, an impairment adjustment will be recognized. Such adjustment consists of the amount by which the carrying value of such asset

## Edgar Filing: Black Raven Energy, Inc. - Form 10-Q

### Table of Contents

exceeds its fair value. We generally measure fair value by considering sale prices for similar assets or by discounting estimated future cash flows from such asset using an appropriate discount rate. Considerable management judgment is necessary to estimate the fair value of assets, and accordingly, actual results could vary significantly from such estimates.

**Discount of Debt** - On February 2, 2009, we issued an Amended and Restated Senior Secured Debenture payable to West Coast Opportunity Fund, LLC ( WCOF ) in the amount of \$18,450,000 (the Amended Debenture ). We recorded a \$1.4 million discount on the Amended Debenture in first quarter of 2009. The discount on the Amended Debenture was amortized using the retrospective interest method, and is fully amortized at June 30, 2010. The discount is included in the balance of the Amended Debenture at December 31, 2009.

**Net Loss Per Share** - We account for earnings (loss) per share ( EPS ) in accordance with FASB ASC Topic 260, Earnings per Share ( ASC Topic 260 ). Under ASC Topic 260, basic EPS is computed by dividing the net loss applicable to common stockholders by the weighted average common shares outstanding without including any potentially dilutive securities. Potentially dilutive securities for the diluted earnings per share calculation consist of outstanding warrants and in-the-money outstanding stock options to purchase our common stock for the period ended June 30, 2010. Potentially dilutive securities for the diluted earnings per share calculation consist of outstanding warrants and in-the-money outstanding stock options to purchase our common stock. Diluted EPS is computed by dividing the net loss applicable to common stockholders for the period by the weighted average common shares outstanding plus, when their effect is dilutive, common stock equivalents. For the periods ended June 30, 2010 and 2009, there were no potentially dilutive securities outstanding whose effect would be dilutive to our earnings per share calculation.

Potentially dilutive securities, which have been excluded from the determination of diluted earnings per share because their effect would be anti-dilutive, are as follows:

	For the three months ended		For the six months ended	
	June 30,		June 30,	
	2010	2009	2010	2009
Warrants	1,494,298	1,494,298	1,494,298	1,494,298
Options	1,432,500		1,432,500	
Total potentially dilutive shares excluded	2,926,798	1,494,298	2,926,798	1,494,298

Subsequent to June 30, 2010, we did not issue any dilutive securities which would have increased the number of potentially dilutive shares.

**Comprehensive Income (Loss)** - We account for comprehensive income (loss) in accordance with FASB ASC Topic 220, Comprehensive Income ( ASC Topic 220 ), which established standards for the reporting and presentation of comprehensive income (loss) in our consolidated financial statements. For the six months ended June 30, 2010 and 2009, comprehensive loss is equal to net loss as reported in our consolidated statement of operations.

**Off-Balance Sheet Arrangements** We have not participated in transactions that generate relationships with unconsolidated entities or financial partnerships, such as entities often referred to as structured finance or special purpose entities ( SPEs ), or SPEs which would have been established for the purpose of facilitating off-balance sheet arrangements or other contractually narrow or limited purposes. As of June 30, 2010, the Company is not involved in any off-balance sheet arrangements.

## Edgar Filing: Black Raven Energy, Inc. - Form 10-Q

**Fair Value of Financial Instruments** - Our financial instruments, including cash and cash equivalents, accounts receivable, accounts payable and secured debentures, are carried at cost. At June 30, 2010, the fair value of the cash and cash equivalents, accounts receivable, and accounts payable approximates carrying value due to the short term nature of these instruments. The fair value of our debentures at June 30, 2010 is approximately \$16.6 million, based on a discounted cash flow model using expected future cash flows.

**Concentrations of Credit Risk** - Revenues from customers which represented 10% or more of our gas sales for the three and six months ended June 30, 2010 and 2009, respectively, were as follows:

Customer	Three Months Ended June 30,		Six Months Ended June 30,	
	2010	2009	2010	2009
	(% of total revenue)		(% of total revenue)	
A Exploration and Production	69%	71%	67%	71%
B Exploration and Production	31%	29%	33%	29%

Table of Contents

Industry Segment and Geographic Information - In January 2009, the Company began operating in one industry segment, which is the exploration, development and production of natural gas and crude oil, and all of the Company's operations are conducted in the continental United States. Consequently, the Company currently reports as a single industry segment.

**Note 2 Recent Accounting Pronouncements**

In January 2010, the FASB issued ASC Update 2010-06, Fair Value Measurements and Disclosures-Improving Disclosures about Fair Value Measurements (ASC Update 2010-06), that requires additional disclosures about the different classes of assets and liabilities measured at fair value, the valuation techniques and inputs used, the fair value measurements of the activity in Level 3 on a gross basis and the transfers between Levels 1 and 2. This new authoritative guidance was effective for interim and annual reporting periods beginning after December 15, 2009, except for the disclosures regarding gross activity in the Level 3 rollforward, which will be effective for the Company as of January 1, 2011. The adoption of ASC Update 2010-06 did not have a material impact on the Company's consolidated financial statements.

The Company adopted FASB ASC Update 2010-09, Subsequent Events-Amendments to Certain Recognition and Disclosure Requirements, which removes the requirement for SEC filers to disclose the date through which an entity has evaluated subsequent events. However, the date-disclosure exemption does not relieve management of an SEC filer from its responsibility to evaluate subsequent events through the date on which financial statements are issued. This authoritative guidance was effective upon issuance on February 24, 2010. The adoption of this pronouncement did not have a material impact on the Company's consolidated financial statements.

**Note 3 Emergence from Chapter 11 Bankruptcy**

On January 16, 2009, the Bankruptcy Court entered an order confirming the Plan, with an effective date of February 2, 2009. Pursuant to the Plan, all 8,721,994 outstanding shares of PRB Energy's common stock were cancelled and PRB Energy changed its corporate name to Black Raven Energy, Inc. The Plan provided that we continue as a public company following our emergence from bankruptcy and for the issuance of new common stock of Black Raven to certain claimants.

Pursuant to the terms of the Plan, the Company issued 1,419,339 shares of common stock, along with one warrant for each share at an exercise price of \$2.50 per share, on a pro-rata basis to the holders of our previously outstanding convertible notes. The Company issued an additional 74,959 shares of common stock, along with one warrant for each share at an exercise price of \$2.50 per share, on a pro-rata basis to the other claimants related to accounts payable, accrued expenses and other current liabilities. The Company also issued 13.5 million shares of common stock to WCOF, the principal pre-petition secured creditor.

After the effective date of the Plan, PRB Oil was merged into the Company. We deconsolidated PRB Gathering during the fourth quarter of 2008. Effective November 1, 2008, control of the Recluse Gathering System was turned over to a receiver appointed by the State Court of Wyoming. PRB Gathering emerged from Chapter 11 Bankruptcy on February 17, 2010.

**Note 4 Asset Retirement Obligations**



The Company recognizes an estimated liability for future costs associated with the abandonment of its oil and gas properties. A liability for the fair value of an asset retirement obligation and corresponding increase to the carrying value of the related long-lived asset are recorded at the time a well is completed or acquired. The increase in carrying value is included in proved oil and gas properties in the accompanying consolidated balance sheets. The Company depletes the amount added to proved oil and gas property costs and recognizes expense in connection with the accretion of the discounted liability over the remaining estimated economic lives of the respective oil and gas properties. Cash paid to settle asset retirement obligations is included in the operating section of the Company's accompanying consolidated statements of cash flows.

The Company's estimated asset retirement obligation liability is based on historical experience in abandoning wells, estimated economic lives, estimates as to the cost to abandon the wells in the future, and federal and state regulatory requirements. The liability is discounted using the credit-adjusted risk-free rate estimated at the time the liability is incurred or revised. The credit-adjusted risk-free rate used to discount the Company's abandonment liabilities is ten percent. Revisions to

Table of Contents

the liability could occur due to changes in estimated abandonment costs or well economic lives, or if federal or state regulators enact new requirements regarding the abandonment of wells.

A reconciliation of the Company's asset retirement obligations is as follows:

	2010	Six Months Ended June 30, (in thousands)	2009
Asset retirement obligations, beginning of period	\$	219	\$ 345
Sale of assets			
Accretion expense		11	12
Revision to estimated cash flows			
Asset retirement obligations, end of period	\$	230	\$ 357

**Note 5 Borrowings**

As of June 30, 2010 and December 31, 2009, our borrowings consisted of the following:

	June 30, 2010	December 31, 2009
	(in thousands)	
Amended senior secured debentures	\$ 18,500	\$ 18,500
Less discount		(672)
Total borrowings, net of discount	18,500	17,828
Less current portion		
Total borrowings, net of discount and current portion	\$ 18,500	\$ 17,828

***Amended and Restated Senior Secured Debentures***

On February 2, 2009, in connection with the consummation of the Plan, we, along with our subsidiary PRB Oil, entered into a Modification Agreement with WCOF. Under the Modification Agreement, we issued the Amended Debenture, payable to WCOF in the amount of \$18.45 million. The Amended Debenture superseded and amended the senior secured debentures issued by PRB Oil to WCOF and DKR Soundshore Oasis Holding Fund Ltd. on December 28, 2006. Under the terms of the Amended Debenture, \$3.75 million of the outstanding principle balance and unpaid accrued interest were initially due on December 31, 2009, with the remainder of the outstanding balance and unpaid accrued interest due on December 31, 2010. The Amended Debenture accrued interest at 10% per annum payable quarterly.

On April 13, 2009, Black Raven, WCOF and the Official Committee of Unsecured Creditors Appointed by the Bankruptcy Court entered into an Agreement Regarding New Equity Raise Under the Modified Second Amended Joint Plan of Reorganization (the "New Equity Agreement"). The New Equity Agreement modified the obligations of the parties under the Plan and released WCOF from its obligation to raise or guarantee \$7.5

## Edgar Filing: Black Raven Energy, Inc. - Form 10-Q

million of additional funding for us. The New Equity Agreement required WCOF to purchase 166,667 shares of the New Common Stock from us for \$3.00 per share within 10 business days of the New Equity Agreement and an additional \$3 million of New Common Stock, preferred stock or convertible debt securities from time to time prior to September 10, 2010, at a purchase price of \$2.00 per share. The New Equity Agreement also modified the interest rate under the Amended Debenture and extended the maturity date of the Amended Debenture to December 31, 2011.

On November 9, 2009, the Amended Debenture was amended to \$18.5 million in lieu of paying \$50,000 in interest to WCOF.

Table of Contents

On January 10, 2010, WCOF agreed to extend the due date for all principal payments in connection with the Amended Debenture to June 30, 2013 subject to the Company raising \$25 million in new equity by February 10, 2010. As the Company did not raise the required capital, the due date for all principal payments remains December 31, 2011.

On July 23, 2010, the Company and WCOF entered into the Third Amendment to the Amended Debenture. Pursuant to the terms of the Third Amendment, the Amended Debenture was amended as follows: (i) all current unpaid and accrued interest will be added to the outstanding principal balance of the Amended Debenture, (ii) for the period from July 1, 2010 through December 31, 2011, the Company will not be required to make any payments of accrued interest on the Amended Debenture and such accrued interest will be added to the outstanding principal balance, and (iii) no event of default shall occur on the Amended Debenture until written notice of default is given to the Company by WCOF and such default shall have continued for a period of 30 days after written notice is delivered to the Company.

As the stated rate at which the Company currently pays interest is not a prevailing rate at which the Company could obtain third party financing, the Company has calculated and recorded its obligation under the Amended Debenture at a discount in the accompanying balance sheet. Due to the variable nature of the interest to be paid under the Amended Debenture, the Company uses the retrospective method to amortize its discount and impute interest on the Amended Debenture. For the three months and six months ended June 30, 2010, the Company has recorded \$340,000 and \$672,000 of interest expense, respectively, related primarily to the amortization of the discount on its Amended Debenture. The interest expense for the three and six months ended June 30, 2009 was \$145,841 and \$238,434, respectively.

***Short-Term Borrowings from Affiliate***

The Company received a cash advance from WCOF on May 27, 2010 in the amount of \$150,000. An additional cash advance of \$100,000 was made from WCOF on July 2, 2010. Both advances, plus accrued interest at 10% per annum from the date of each advance, are due within thirty days of the Company's receipt of the cash payment for the Well-Site Fees (as defined in the Farmout Agreement) related to the first sixty wells drilled under the Farmout Agreement.

***PRB Funding Prepetition Loan***

Immediately prior to the filing of the Chapter 11 petitions, the Company borrowed \$300,000 from PRB Funding, LLC ( PRB Funding ) due on February 28, 2009. PRB Funding was formed by three members of our Board of Directors. The PRB Funding Loan was secured by substantially all of the assets of PRB Energy and was repaid in 2009.

***Post-Petition Debtor-in-Possession Financing***

In April 2008, the Company obtained court approval of post-petition Debtor-in-Possession Financing ( DIP Loan ) from PRB Funding in the amount of \$275,000. The PRB Funding DIP Loan accrued interest at 13% per annum, with all unpaid principal and accrued interest due upon the earlier of March 1, 2009 or the confirmation of the Plan.

In May 2008, the Company obtained court approval of a \$336,000 post-petition DIP Loan from PRB Acquisition, an entity that was affiliated with Republic Financial. The PRB Acquisition DIP Loan accrued interest at 18% per annum, with all unpaid principal and accrued interest due upon the earliest of September 30, 2008, an event of default, or the confirmation of a plan of reorganization. Both DIP Loans were repaid in 2009.

**Note 6 Income Taxes**

Income tax expense during interim periods is based on applying an estimated annual effective income tax rate to year-to-date income, plus any significant, unusual or infrequently occurring items which are recorded in the interim period. The computation of the annual estimated effective tax rate at each interim period requires certain estimates and significant judgment including, but not limited to, the expected operating income or loss for the year, projections of the proportion of income earned and taxed in various jurisdictions, permanent and temporary timing differences, and the likelihood of recovering deferred tax assets generated in the current and prior years. The accounting estimates used to compute the provision for income taxes may change as new events occur, more experience is acquired, additional information is obtained or as the tax environment changes.

The provision for income taxes for the six months ended June 30, 2010 and 2009 differs from the amount that would be provided by applying the statutory U.S. federal income tax rate of 35% to pre-tax income because of state income taxes and the Company's valuation allowance. The Company's effective tax rate for the three months ended June 30, 2010 and 2009, before

Table of Contents

valuation allowance, was 37.96% and 36.06%, respectively. The Company's effective tax rate for the six months ended June 30, 2010 and 2009, before the valuation allowance, was 37.97 % and 36.06%, respectively.

In assessing the need for a valuation allowance on the Company's deferred tax assets, all available evidence, both negative and positive, was considered in determining whether it is more likely than not that some portion or all of the deferred tax assets will be realized. Based on this assessment, the Company has recorded a full valuation allowance against its net deferred tax asset as of June 30, 2010. The Company's evaluation of the amount of the deferred tax asset considered more likely than not to be realizable will likely change in future periods as estimates of future income change due to changes in expected future oil and gas prices and other factors, and these changes could be material.

The Company accounts for its uncertain tax positions in accordance with the provisions of the ACS Topic 740. During the six months ended June 30, 2010, there was no change to the Company's liability for uncertain tax positions.

**Note 7 Equity Compensation Plan**

On June 3, 2009, the Board adopted the Black Raven Energy, Inc. Equity Compensation Plan (the Equity Compensation Plan) under which we may grant nonqualified stock options, stock appreciation rights, stock awards or other equity-based awards to certain of our employees, consultants, advisors and non-employee directors. The Board initially reserved 3,791,666 shares of common stock for issuance under the Equity Compensation Plan.

On July 1, 2009, the Company issued 1,060,000 stock options to employees of the Company under the Equity Compensation Plan. The options have an exercise price of \$2.00 per share for a total fair value of \$1.1 million and vest ratably over three years. The Company issued the same employees an additional 172,500 stock options on September 16, 2009, which vested immediately. The options have an exercise price of \$2.00 per share, and a total fair value of \$178,000. On December 8, 2009, the Company issued 100,000 options to two directors. The options have an exercise price of \$2.00 per share, and a total fair value of \$64,000.

On February 7, 2010, the Company issued 100,000 options to an officer of the Company. The options have an exercise price of \$2.00 per share, a total fair value of \$59,000 and vest over three years. The Company recorded equity compensation expense for the three and six months ended June 30, 2010 totaling \$65,000 and \$120,000, respectively, related to vesting of the 2009 and 2010 grants.

**Note 8 Commitments and Contingencies**

*Commitments*

## Edgar Filing: Black Raven Energy, Inc. - Form 10-Q

In the normal course of business operations, the Company has entered into operating leases for office space, office equipment and vehicles. Rental payments under these operating leases for the three months ended June 30, 2010 and 2009 totaled \$34,000 and \$19,000, respectively. Rental payments for the six months ended June 30, 2010 and 2009 totaled \$51,000 and \$58,000, respectively.

### **ITEM 2. MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS.**

#### **Forward-Looking Statements**

All statements, other than statements of historical facts, included in this Quarterly Report that address activities, events, or developments with respect to our financial condition, results of operations, or economic performance that we expect, believe, or anticipate will or may occur in the future, or that address plans and objectives of management for future operations, are forward-looking statements. The words anticipate, assume, believe, budget, estimate, expect, forecast, intend, plan, project, will, and similar expressions are intended to identify forward-looking statements.

Table of Contents

Our forward-looking statements are based on assumptions and analyses made by us in light of our experience and our perception of historical trends, current conditions, expected future developments, and other factors that we believe are appropriate under the circumstances. These statements are subject to a number of known and unknown risks and uncertainties which may cause our actual results and performance to be materially different from any future results or performance expressed or implied by the forward-looking statements. These risks are described in the Risk Factors section of our Annual Report on Form 10-K for the year ended December 31, 2009.

**General Overview and Significant Transactions**

The Company, formerly known as PRB Energy, Inc. ( PRB Energy ), currently operates as an independent energy company engaged in the acquisition, exploitation, development and production of natural gas and oil in the Rocky Mountain Region of the United States. On February 2, 2009, in connection with our emergence from bankruptcy, PRB Energy changed its corporate name to Black Raven Energy, Inc.

The accompanying condensed consolidated financial statements have been prepared assuming the Company will continue as a going concern. As shown in the accompanying financial statements, the Company continues to experience net losses from its operations, reporting a net loss before reorganization items of approximately \$2.3 million for the six months ended June 30, 2010. Cash and cash equivalents on hand and internally generated cash flows will not be sufficient to execute the Company's business plan. Future bank financings, asset sales, or other equity or debt financings will be required to fund the Company's debt service, working capital requirements, planned drilling, potential acquisitions and other capital expenditures. These conditions raise substantial doubt about the Company's ability to continue as a going concern.

The Company is currently exploring opportunities to raise capital. There can be no assurances that the Company will be able to secure this additional financing and, accordingly, the Company's liquidity and ability to execute its business plan and to timely pay its obligations when due could be adversely affected. If the Company fails to secure equity financing for future developments in a private placement of our common stock, it intends to pursue other financing options through debt arrangements, joint venture partners, farm-out agreements or the sale of assets.

On July 23, 2010, the Company entered into a Farmout Agreement (the Farmout Agreement ) with Atlas Resources, LLC, a wholly-owned subsidiary of Atlas Energy, Inc. ( Atlas ), relating to natural gas drilling within an area of mutual interest in Phillips and Sedgwick counties, Colorado and Perkins, Chase and Dundy counties, Nebraska (the AMI ).

Under the terms of the Farmout Agreement, Atlas has agreed to drill six initial wells identified in the Farmout Agreement (the Initial Wells ) and to complete certain initial projects, including 3D seismic shoots, upgrade of sales meter equipment, and the change-out of compressors and upgrade of a dehydrator at a Company facility. The Company assigned to Atlas all of its rights, title and interests in the defined areas around the planned wellbores (the Drilling Units ) for the Initial Wells.

The Farmout Agreement also provides for Atlas, at its discretion, to drill additional wells in the AMI in accordance with work plans approved by Atlas under the Farmout Agreement (each a Work Plan ). The initial Work Plan approved by Atlas covering the period from July 23, 2010 to April 30, 2011 provides for Atlas, at its discretion, to drill 60 additional wells. For each six month period after April 30, 2011, Atlas must submit a proposal to the Company setting forth the numbers of wells that it proposes to drill for such six month period (the Drilling Proposal ) and the Company must provide a Work Plan to be approved by Atlas outlining the development plan for the wells set forth in the Drilling Proposal. In the event that Atlas determines not to drill at least 60 wells in the course of any six month period, the Company shall have the right,



## Edgar Filing: Black Raven Energy, Inc. - Form 10-Q

during such six month period, to drill for its own account that number of wells equal to the difference between 60 wells and the number of wells agreed to be drilled by Atlas. Upon payment of a well-site fee and delivery of an executed authorization for expenditure (AFE) for such well by Atlas, the Company will assign all of its right, title and interest in the Drilling Units established for such well.

The Farmout Agreement also provides for certain rights of the Company and Atlas with respect to the drilling of deep wells and for the payment of drilling and future 3D seismic costs.

In consideration for the agreements made under the Farmout Agreement, Atlas paid the Company \$1,000,000 upon execution of the Farmout Agreement. In addition, Atlas agreed to pay the Company a \$60,000 well-site fee for each well drilled by Atlas in the AMI, including the Initial Wells. The Company will also receive an undivided six percent of eight eighths (6% of 8/8ths) overriding royalty interest on all of the oil and gas produced and sold that is attributable to the Drilling Units assigned to Atlas under the Farmout Agreement, subject to certain deductions.

The term of the Farmout Agreement is ten years, subject to earlier termination pursuant to the terms set forth therein.

Table of Contents***Emergence from Bankruptcy***

On March 5, 2008, PRB Energy and its subsidiaries filed voluntary petitions for relief for each business entity (the Chapter 11 Bankruptcy) under Chapter 11 of the United States Bankruptcy Code (the Bankruptcy Code) in the United States Bankruptcy Court for the District of Colorado (the Bankruptcy Court). PRB Energy continued to operate its business as a debtor-in-possession under the jurisdiction of the Bankruptcy Court and in accordance with the applicable provisions of the Bankruptcy Code.

On January 16, 2009, the Bankruptcy Court entered an order confirming the Plan, with an effective date of February 2, 2009. Pursuant to the Plan, all 8,721,994 outstanding shares of PRB Energy's common stock were cancelled and PRB Energy changed its corporate name to Black Raven Energy, Inc. The Plan provided that we continue as a public company following our emergence from bankruptcy and for the issuance of new common stock of Black Raven to certain claimants, with such New Common Stock to be traded on the OTC Bulletin Board or a nationally recognized securities exchange, subject to compliance with applicable regulations.

After the effective date of the Plan, PRB Oil was merged into the Company. We deconsolidated PRB Gathering during the fourth quarter of 2008. Effective November 1, 2008, control of the Recluse Gathering System was turned over to a receiver appointed by the State Court of Wyoming. PRB Gathering emerged from Chapter 11 Bankruptcy on February 17, 2010.

**Results of Operations****Three Months Ended June 30, 2010 Compared to the Three Months Ended June 30, 2009**

The financial information with respect to the three months ended June 30, 2010 and 2009, respectively, which is discussed below, is unaudited. In the opinion of management, such information contains all adjustments, consisting only of normal recurring accruals, necessary for a fair presentation of the results for such periods. The results of operations for interim periods are not necessarily indicative of the results of operations for the full fiscal year.

	2010	Three Months Ended June 30, (In thousands)	2009	Increase/ Decrease 2010 vs 2009	Percentage Change 2010 vs 2009
<b>Revenue</b>					
Natural gas sales	\$	88	\$	94	\$ (6) -6.4%
<b>Total revenue</b>		88		94	(6) -6.4%
<b>Operating expenses</b>					
Natural gas production expense		148		146	2 1.4%
Exploration expense		11		2	9 450.0%
DD&A		33		67	(34) -50.7%
G&A		564		301	263 87.4%
<b>Total expenses</b>		756		516	240 46.5%
<b>Operating loss</b>		(668)		(422)	(246) -58.3%

Edgar Filing: Black Raven Energy, Inc. - Form 10-Q

Interest and other income (loss)	2		2	100.0%
Interest expense	(475)	(472)	3	0.6%
Reorganization items and other	(1)	(40)	(39)	-97.5%
<b>Net income (loss)</b>	\$ (1,142)	\$ (934)	\$ (280)	30.0%

*Revenues*

Natural gas sales for the second quarter of 2010 decreased \$6,000, or 6.4%, from \$94,000 in the second quarter of 2009 to \$88,000 in the second quarter of 2010 as a result of a decrease in the volume of natural gas sold, partially offset by an increase in

Table of Contents

natural gas prices. Sales volumes decreased in the second quarter of 2010 by 13,269 Mcf, from 37,152 Mcf for the second quarter of 2009 to 23,883 Mcf for the second quarter of 2010, causing a revenue decline of \$34,000 for the second quarter of 2010 compared to the second quarter of 2009. The average sales price during the second quarter of 2010 was \$1.15 per Mcf higher than the average sales price for the second quarter of 2009 (\$3.68 for 2010 compared to \$2.53 for 2009) resulting in a revenue increase of \$28,000.

*Natural Gas Lease Operating Expenses*

Natural gas lease operating expenses in the second quarter of 2010 increased \$2,000, or 1.4%, to \$148,000 from \$146,000 in the second quarter of 2009 as a result of an increase in chemical costs due to a chemical foam being used to assist production.

*Depreciation, Depletion, Amortization and Impairments ( DD&A )*

DD&A expense for the second quarter of 2010 decreased \$34,000, or 50.7%, from \$67,000 in the second quarter of 2009 to \$33,000 in the second quarter of 2010 as a result of the decrease in gas production in 2010.

*General and Administrative Expenses ( G&A )*

G&A expenses for the second quarter of 2010 increased by \$263,000, or 74.6%, to \$564,000 from \$301,000 for the second quarter of 2009. This increase was primarily due to an increase in accounting, auditing and legal fees associated with the Company's efforts to become current with its SEC and tax filing requirements, as well as the Company's efforts to raise capital. In addition, the Company recorded equity compensation expense during the second quarter of 2010 of \$65,000, while there was no equity compensation expense recorded in the second quarter of 2009.

*Interest Expense*

Interest expense for the second quarter of 2010 increased \$3,000, or 0.6%, to \$475,000 from \$472,000 for the second quarter of 2009. This increase is attributable to the increased amortization of the discount on the Amended Debenture for the second quarter of 2010.

**Six Months Ended June 30, 2010 Compared to the Six Months Ended June 30, 2009**

The financial information with respect to the six months ended June 30, 2010 and 2009, respectively, which is discussed below, is unaudited. In the opinion of management, such information contains all adjustments, consisting only of normal recurring accruals, necessary for a fair presentation of the results for such periods. The results of operations for interim periods are not necessarily indicative of the results of operations

for the full fiscal year.

## Edgar Filing: Black Raven Energy, Inc. - Form 10-Q

### Table of Contents

	2010	Six Months Ended June 30, (In thousands)	2009	Increase/ Decrease 2010 vs 2009	Percentage Change 2010 vs 2009
<b>Revenue</b>					
Natural gas sales	\$	230	\$	232	\$ (2) -0.9%
<b>Total revenue</b>		230		232	(2) -0.9%
<b>Operating expenses</b>					
Natural gas production expense		308		315	(7) -2.2%
Exploration expense		11		4	7 175.0%
DD&A		68		143	(75) -52.4%
G&A		1,207		666	541 81.2%
<b>Total expenses</b>		1,594		1,128	466 41.3%
<b>Operating loss</b>		(1,364)		(896)	(468) -52.2%
Interest and other income (loss)		3		3	100.0%
Interest expense		(939)		(796)	143 18.0%
Reorganization items and other		(10)		(146)	(136) -93.2%
Gain on reorganization		1,069		24,568	(23,499) -95.6%
<b>Net income (loss)</b>	\$	(1,241)	\$	22,730	\$ (23,971) -105.5%

### *Revenues*

Natural gas sales for the six months ended June 30, 2010 decreased \$2,000, or 0.9%, in comparison to the six months ended June 30, 2009 as a result of a decrease in the volume of natural gas sold, partially offset by an increase in natural gas prices. The average sales price during the six months ended June 30, 2010 was \$1.46 per Mcf higher than the average sales price for the six months ended June 30, 2009 (\$4.33 for 2010 compared to \$2.87 for 2009) resulting in a revenue increase of \$78,000. Sales volumes decreased during the six months ended June 30, 2010 by 27,807 Mcf, from 81,007 Mcf for the six months ended June 30, 2009 to 53,200 Mcf for the six month ended June 30, 2010, causing a revenue decline of \$80,000 for the six months ended June 30, 2010 compared to the six months ended June 30, 2009.

### *Natural Gas Lease Operating Expenses*

Natural gas lease operating expenses during the six months ended June 30, 2010 decreased \$7,000, or 2.2%, to \$308,000 from \$315,000 for the six months ended June 30, 2009 as a result of the reduced production volumes, as discussed above.

### *Depreciation, Depletion, Amortization and Impairments*

DD&A expense for the six months ended June 30, 2010 decreased \$75,000, or 52.4%, from \$143,000 for the six months ended June 30, 2009 to \$68,000 for the six months ended June 30, 2010 as a result of the decrease in gas production in 2010.

### *General and Administrative Expenses*

G&A expenses for the six months ended June 30, 2010 increased by \$541,000, or 81.2%, to \$1,207,000 from \$666,000 for the six months ended June 30, 2009. This increase was primarily due to an increase in accounting, auditing and legal fees associated with the Company's efforts to become current with its SEC and tax filing requirements, as well as the Company's efforts to raise capital. In addition, the Company recorded equity compensation expense during the six months ended June 30, 2010 of \$120,000, while there was no equity compensation expense recorded during the six months ended June 30, 2009.

***Gain on Reorganization***

The Company's obligation with regard to the PRB Gathering business was reflected as an Investment in Insolvent Subsidiary in the accompanying balance sheet as of December 31, 2009. PRB Gathering emerged from Chapter 11 Bankruptcy on February 17, 2010 and a gain on reorganization of approximately \$1.1 million was recognized.

## Edgar Filing: Black Raven Energy, Inc. - Form 10-Q

### Table of Contents

During the six months ended June 30, 2009, the Company recorded a gain on reorganization of approximately \$24.6 million, related to PRB Energy's emergence from bankruptcy effective February 2, 2009.

### *Interest Expense*

Interest expense for the six months ended June 30, 2010 increased \$143,000, or 18%, to \$939,000 from \$796,000 for the six months ended June 30, 2009 compared to the six months ended June 30, 2009. This increase is attributable to the amortization of the discount on the Amended Debenture.

### **Liquidity and Capital Resources**

At June 30, 2010, cash and cash equivalents totaled approximately \$6,000. At June 30, 2010, the Company had a working capital deficit of \$704,000 compared to working capital of \$750,000 at December 31, 2009. The decline is attributable to continued operating losses.

As noted in our risk factors (See Item 1A of our Annual Report on Form 10-K for the year ended December 31, 2009), cash and cash equivalents on hand and internally generated cash flows will require augmentation from future bank financings, asset sales, or other equity or debt financing to fund our debt service, working capital requirements, planned drilling, potential acquisitions and other capital expenditures. The amount and allocation of future capital and exploitation expenditures will depend upon a number of factors including the number and size of acquisitions and drilling opportunities, our cash flows from operating and financing activities and our ability to assimilate acquisitions. Also, the impact of oil and gas market prices on investment opportunities, the availability of capital and borrowing facilities and the success of our exploitation and development activities, particularly in Colorado, could lead to changes in funding requirements for future development. If we fail to secure financing for the future development, we may pursue other financial arrangements through joint venture partners, farm-out agreements or the sale of assets. We intend to seek equity and debt financing in the future. We may not be able to obtain financing on acceptable terms or at all. The maturity date of the Amended Debenture is December 31, 2011, and additional financing will be necessary in order to meet this obligation.

On July 23, 2010, the Company entered the Farmout Agreement with Atlas. In consideration for the agreements made under the Farmout Agreement, Atlas paid the Company \$1.0 million upon execution of the Farmout Agreement. In addition, Atlas agreed to pay the Company a \$60,000 well-site fee for each well drilled by Atlas under the Farmout Agreement. The Company will also receive an undivided six percent of eight eighths (6% of 8/8ths) overriding royalty interest on all of the oil and gas produced and sold that is attributable to the Drilling Units assigned to Atlas under the Farmout Agreement, subject to certain deductions.

### Cash Flow Used in Operating Activities

During the six months ended June 30, 2010, our net loss of \$1.2 million included non-cash DD&A expense of \$68,000, non-cash amortization of our discount on the Amended Debentures of \$672,000 and a non-cash gain on reorganization of approximately \$1.1 million. Cash used in operating activities was \$1.2 million during the six months ended June 30, 2010 compared to \$1.5 million for the same period of 2009.



Cash Flow Used in Investing Activities

Cash used in investing activities was \$32,000 during the six months ended June 30, 2010, representing a \$227,000 decrease compared to cash used in investing activities of \$259,000 for the six months ended June 30, 2009. This decrease was due to the limited available cash, which has delayed drilling operations.

Cash Flow from Financing Activities

Cash of \$150,000 was provided by financing activities during the six months ended June 30, 2010, compared to approximately \$1.4 million for the six months ended June 30, 2009. During the second quarter of 2009, we raised \$2 million from the issuance of additional debentures as required by the Plan. We also repaid approximately \$0.6 million for the PRB Funding DIP Loan and part of the PRB Acquisition DIP Loan during the six months ended June 30, 2009.

Off Balance-Sheet Arrangements

We do not have any off-balance sheet financing arrangements as of June 30, 2010.

Table of Contents

**Critical Accounting Policies and Estimates**

We refer you to the corresponding section in Part II, Item 7 of our Annual Report on Form 10-K for the year ended December 31, 2009 and to the footnote disclosures included in Part I, Item 1 of this Quarterly Report.

**ITEM 4T. CONTROLS AND PROCEDURES.**

We maintain a system of disclosure controls and procedures that is designed to ensure that information required to be disclosed in our SEC reports is recorded, processed, summarized, and reported within the time periods specified in the SEC's rules and forms, and to ensure that such information is accumulated and communicated to our management, including the Chief Executive Officer and the Acting Chief Financial Officer, as appropriate, to allow timely decisions regarding required disclosure.

As of June 30, 2010, we carried out an evaluation, under the supervision and with the participation of our management, including the Chief Executive Officer and the Acting Chief Financial Officer, of the effectiveness of the design and operation of our disclosure controls and procedures. Based upon that evaluation, the Chief Executive Officer and the Acting Chief Financial Officer concluded that our disclosure controls and procedures are effective for the purposes discussed above as of the end of the period covered by this Quarterly Report on Form 10-Q.

There was no change in our internal control over financial reporting that occurred during the quarter ended June 30, 2010 that has materially affected, or is reasonably likely to materially affect, the effectiveness of our internal control over financial reporting.

**PART II - OTHER INFORMATION**

**ITEM 1. LEGAL PROCEEDINGS.**

We are not currently party to any material pending litigation.

**ITEM 1A. RISK FACTORS.**

There have been no material changes to the risk factors contained in our Annual Report on Form 10-K for the year ended December 31, 2009.

**ITEM 6. EXHIBITS.**

<b>Exhibit Number</b>	<b>Description</b>
2.1	Modified Second Amended Joint Plan of Reorganization Filed by PRB Energy, Inc. and PRB Oil & Gas, Inc., dated December 3, 2008 (incorporated herein by reference to Exhibit 99.1 to our Current Report on Form 8-K filed on January 21, 2009)
3.1	Amended and Restated Articles of Incorporation of Black Raven Energy, Inc. (incorporated herein by reference to Exhibit 3.1 to our Current Report on Form 8-K filed on February 6, 2009)
3.2	Amended and Restated Bylaws of Black Raven Energy, Inc. (incorporated herein by reference to Exhibit 3.2 to our Current Report on Form 8-K filed on February 6, 2009)
4.1	Amended and Restated Senior Secured Debenture (incorporated herein by reference to Exhibit 4.1 to our Current Report on Form 8-K filed on February 6, 2009)
31.1	Certification of the Chief Executive Officer pursuant to Rule 13a-14(a) or Rule 15d-14(a) of the Securities Exchange Act of 1934 as adopted pursuant to Section 302 of the Sarbanes-Oxley Act

Table of Contents

- 31.2 Certification of the Acting Chief Financial Officer pursuant to Rule 13a-14(a) or Rule 15d-14(a) of the Securities Exchange Act of 1934 as adopted pursuant to Section 302 of the Sarbanes-Oxley Act.
- 32.1 Certification of the Chief Executive Officer and Acting Chief Financial Officer pursuant to 18 U.S.C. Section 1350 as adopted pursuant to Section 906 of the Sarbanes-Oxley Act.

---

Filed herewith.

**SIGNATURES**

Pursuant to the requirements of the Securities Exchange Act of 1934, the registrant has duly caused this report to be signed on its behalf by the undersigned thereunto duly authorized.

**Black Raven Energy, Inc.**

Date: August 16, 2010

/s/ Thomas E. Riley  
Thomas E. Riley  
*Chief Executive Officer*

Date: August 16, 2010

/s/ Patrick A. Quinn  
Patrick A. Quinn  
*Acting Chief Financial Officer*