POWDER RIVER BASIN GAS CORP
Form 10QSB
August 15, 2005

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

FORM 10-QSB

(Mark One)

[X] QUARTERLY REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934 FOR THE QUARTERLY PERIOD ENDED JUNE 30, 2005.

OR

[ ] TRANSITION REPORT UNDER SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934 FOR THE TRANSITION FROM _______ TO ________.

COMMISSION FILE NUMBER 000-31945

POWDER RIVER BASIN GAS CORP.
(Exact name of registrant as specified in its charter)

COLORADO	84-1521645
(State or other jurisdiction of incorporation or organization)	(I.R.S. Employer Identification No.)

104, 3208 8TH Ave NE
Calgary, AB T2A 7V8
(Address of principal executive offices)

Issuer's telephone number: (403) 263-5010

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 [X] No [ ]

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

At June 30, 2005, there were outstanding 106,050,961 shares of the Registrant's Common Stock, $.001 par value.

Transitional Small Business Disclosure Format: Yes [X] No [ ]

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PART I

FINANCIAL INFORMATION

Item 1.

FINANCIAL STATEMENTS

(UNAUDITED)

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POWDER RIVER BASIN GAS CORP
Consolidated Balance Sheets

ASSETS

	June 30, 2005 (Unaudited)	December 31, 2004

CURRENT ASSETS		
Cash	$ 245,130	$ 168,539
Accounts receivable	2,086,373	1,081,719
Total Current Assets	2,331,503	1,250,258
PROPERTY AND EQUIPMENT (Net)	30,933	12,896
OIL AND GAS PROPERTIES USING FULL COST ACCOUNTING		
Properties not subject to amortization	2,499,044	1,669,114
Properties being amortized	1,063,674	1,063,674
Accumulated amortization	(8,830)	(5,630)
Net Oil and Gas Properties	3,553,888	2,727,158
OTHER ASSETS		
Deposits and other assets	349,589	15,500
Total Other Assets	349,589	15,500
TOTAL ASSETS	$ 6,265,913	$ 4,005,812

LIABILITIES AND STOCKHOLDERS' EQUITY

CURRENT LIABILITIES		
Accounts payable	$ 78,471	$ 23,094
Accrued expenses	8,490	-
Income taxes payable	530,400	-
Note payable, related party	60,250	137,226
Notes payable	866,700	354,700
Total Current Liabilities	1,544,311	515,020
Total Liabilities	1,544,311	515,020
STOCKHOLDERS' EQUITY		
Common stock, 200,000,000 shares authorized of $0.001 par value, 106,050,961 and 104,050,961 shares issued and outstanding, respectively	106,050	104,050
Capital in excess of par value	6,405,129	6,115,479
Other comprehensive income	2,705	2,705
Accumulated deficit	(1,792,282)	(2,731,442)
Total Stockholders' Equity	4,721,602	3,490,792
TOTAL LIABILITIES AND STOCKHOLDERS' EQUITY	$ 6,265,913	$ 4,005,812

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

POWDER RIVER BASIN GAS CORP
Consolidated Statements of Operations
(Unaudited)

	For the Three Months Ended June 30,		For the Six Months Ended June 30,	
	2005	2004	2005	2004

REVENUE				
Oil and gas sales	312,239	49,766	388,460	88,829
Property and working interest sales	-	-	1,875,000	-
Total Revenue	312,239	49,766	2,263,460	88,829
EXPENSES				
Depreciation, depletion and amortization	2,802	(11,157)	5,202	6,993
General and administrative	254,750	16,732	486,150	33,534
Value of warrants granted for marketing and legal costs	-	-	91,650	-
Lease operating costs	57,766	10,933	112,225	17,153
Total Expenses	315,318	16,508	695,227	57,680
NET OPERATING INCOME (LOSS)	(3,079)	33,258	1,568,233	31,149
OTHER INCOME (EXPENSE)				
Litigation settlement (Note 5)	-	-	(90,000)	-
Gain on sale of assets	2,841	-	2,841	-
Interest expense	(2,208)	(12,000)	(11,514)	(24,810)
Total Other Income (Expense)	633	(12,000)	(98,673)	(24,810)
NET INCOME (LOSS) BEFORE INCOME TAXES	(2,446)	21,258	1,469,560	6,339
INCOME TAXES	-	-	(530,400)	-
NET INCOME (LOSS)	$ (2,446)	$ 21,258	$ 939,160	$ 6,339
BASIC INCOME (LOSS) PER COMMON SHARE	$ (0.00)	$ 0.00	$ 0.01	$ 0.00
WEIGHTED AVERAGE NUMBER OF COMMON SHARES OUTSTANDING	106,050,961	86,108,261	105,233,281	86,968,475

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

POWDER RIVER BASIN GAS CORP
Consolidated Statements of Cash Flows
(Unaudited)

	For the Six Months Ended June 30, 2005	2004

CASH FLOWS FROM OPERATING ACTIVITIES:		
Net income	$ 939,160	$ 6,339
Adjustments to reconcile net income to net cash provided by (used in) operating activities:		
Depreciation, depletion and amortization	5,202	6,993
Gain on sale of assets	(2,841)	-
Additional expense for granting of warrants	91,650	-
Changes in operating assets and liabilities:		
Increase in accounts receivable	(1,004,654)	(49,766)
Increase in deposits and other assets	(309,089)	(12,100)
Increase in taxes payable	530,400	-
Increase in accounts payable and accrued expenses	63,867	18,343
Net Cash Provided by (Used in) Operating Activities	313,695	(30,191)
CASH FLOWS FROM INVESTING ACTIVITIES:		
Expenditures for oil and gas property development	(289,930)	(80,672)
Expenditures for property and equipment	(17,198)	-
Proceeds from sale of interest in leases	200,000	-
Net Cash Used in Investing Activities	(107,128)	(80,672)
CASH FLOWS FROM FINANCING ACTIVITIES:		
Proceeds from notes payable and long-term liabilities	90,000	140,000
Payments on notes payable and long-term liabilities	(219,976)	-
Proceeds from issuance of common stock	-	-
Net Cash Provided by (Used in) Financing Activities	(129,976)	140,000
NET INCREASE IN CASH	76,591	29,137
CASH AND CASH EQUIVALENTS AT BEGINNING OF PERIOD	168,539	-
CASH AND CASH EQUIVALENTS AT END OF PERIOD	$ 245,130	$ 29,137

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

POWDER RIVER BASIN GAS CORP
Consolidated Statements of Cash Flows (Continued)
(Unaudited)

	For the Six Months Ended June 30,	
	2005	2004
SUPPLEMENTAL CASH FLOW INFORMATION		
CASH PAID FOR:		
Interest	$ 5,252	$ -
Income taxes	$ -	$ -
NON-CASH FINANCING ACTIVITIES		
Common stock issued for acquired oil and		

gas properties	$ 200,000	$ -
Oil and gas properties acquired through the issuance of debt	$ 565,000	$ -
Common stock issued for retirement of payables	$ -	$ 130,000

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

POWDER RIVER BASIN GAS CORP.
Notes to the Consolidated Financial Statements
June 30, 2005 and December 31, 2004

NOTE 1 -BASIS OF PRESENTATION

The financial information included herein is unaudited and has been prepared consistent with generally accepted accounting principles for interim financial information and with the instructions to Form 10-QSB and Item 310(b) of Regulation S-B. Accordingly, these financial statements do not include all information and footnotes required by generally accepted accounting principles for complete financial statements. These statements should be read in conjunction with the audited financial statements and notes thereto included in the Company's annual report on Form 10-KSB for the year ended December 31, 2004. In the opinion of management, these financial statements contain all adjustments (consisting solely of normal recurring adjustments) which are, in the opinion of management, necessary for a fair statement of results for the interim period presented.

The results of operations for the six months ended June 30, 2005 are not necessarily indicative of the results to be expected for the full year.

NOTE 2 -DILUTED INCOME (LOSS) PER SHARE

Following is a reconciliation of the diluted income (loss) per share for the three months and six months ended June 30, 2005 and 2004:

	For the Three Months Ended June 30, 2005	For the Three Months Ended June 30, 2004
Net income (loss) available to common shareholders	$ (2,446)	$ 21,258
Weighted average shares	106,050,961	86,108,261
Effect of dilutive securities	-	-
	106,050,961	86,108,261
Basic income (loss) per share (based on weighted average shares)	$ (0.00)	$ 0.00

Weighted average shares issuable upon the exercise of stock warrants (4,100,000 warrants) were not included in the foregoing calculation for the three months ended June 30, 2005 because they are antidilutive.

POWDER RIVER BASIN GAS CORP.
Notes to the Consolidated Financial Statements
June 30, 2005 and December 31, 2004

NOTE 2 - DILUTED INCOME (LOSS) PER SHARE

	For the Six Months Ended June 30, 2005	For the Six Months Ended June 30, 2004
Net income available to common shareholders	$ 939,160	$ 6,339
Weighted average shares	105,233,281	86,968,475
Effect of dilutive securities	3,416,665	-
	108,649,946	86,968,475
Diluted income (loss) per share (based on weighted average shares)	$ 0.01	$ 0.00

The diluted income per share for the six months ended June 30, 2005 includes common stock equivalents, consisting of 4,100,000 warrants, which were granted on January 31, 2005.

NOTE 3 - OIL AND GAS PROPERTIES

The full cost method is used in accounting for oil and gas properties. Accordingly, all costs associated with acquisition, exploration, and development of oil and gas reserves, including directly related overhead costs, are capitalized. In addition, depreciation on property and equipment used in oil and gas exploration and interest costs incurred with respect to financing oil and gas acquisition, exploration and development activities are capitalized in accordance with full cost accounting. Capitalized interest for the six months ended June 30, 2005 and 2004 was $0. All capitalized costs of proved oil and gas properties subject to amortization are being amortized on the unit-of-production method using estimates of proved reserves. Investments in unproved properties and major development projects not subject to amortization are not amortized until proved reserves associated with the projects can be determined or until impairment occurs. If the results of an assessment indicate that the properties are impaired, the amount of the impairment is added to the capitalized costs to be amortized. As of June 30, 2005 and December 31, 2004, proved oil and gas reserves had been identified on certain of the Company's oil and gas properties. During the six months ended June 30, 2005 and 2004, the Company recorded depletion of $3,200 and $6,993 on its producing properties. All other wells are incomplete as of June 30, 2005 and December 31, 2004.

POWDER RIVER BASIN GAS CORP.
Notes to the Consolidated Financial Statements
June 30, 2005 and December 31, 2004

NOTE 4 - SIGNIFICANT TRANSACTIONS

During the six months ended June 30, 2005, the Company purchased a 75% working interest in a producing property for a total of $800,000. For the purchase price of $800,000, the Company paid $30,000 in cash, signed a promissory note for $570,000 payable by December 31, 2005 bearing no interest, and issued a total of 2,000,000 shares of common stock valued at $0.10 per share (or $200,000). The shares issued were valued at the market price of the common stock on the date that the agreement was entered into.

On March 1, 2005, the Company sold 25% of the acquired working interest in the producing property as described above, to an unrelated party for a total of $2,500,000, less a commission of $425,000, resulting in a gain on the sale of $1,875,000.

Also during the six months ended June 30, 2005, the Company granted a total of 4,100,000 warrants to purchase common stock as follows:

Warrants	Exercise Price	Dates of Expiration

1,000,000	$	0.12	January 31, 2006
1,000,000	$	0.18	January 31, 2007
1,000,000	$	0.16	January 31, 2006
1,000,000	$	0.24	January 31, 2007
100,000	$	0.16	March 31, 2006

The Company estimates the fair value of each stock award at the grant date by using the Black-Scholes option pricing model pursuant to FASB Statement 123, "Accounting for Stock-Based Compensation". Under the provisions of SFAS 123, additional expense of $91,650 was recorded for the six months ended June 30, 2005 under the Black-Scholes option pricing model for these warrants, which was calculated based upon the following assumptions:

Risk free interest rate	2.89% - 3.25%
Expected life	1 to 2 years
Expected volatility	89.19%
Dividend yield	0.00%

NOTE 5 -LITIGATION SETTLEMENT

During the six months ended June 30, 2005, the Company entered into a settlement agreement in connection with a lawsuit against the Company's predecessor company for alleged services rendered, totaling $90,000. Terms of the settlement include payment of $5,000 per month, non-interest bearing, until paid.

ITEM 2

Management's Discussion and Analysis of Financial Condition and Results of Operations

Cautionary Statement Regarding Forward-looking Statements

This report may contain "forward-looking" statements. Examples of forward-looking statements include, but are not limited to: (a) projections of revenues, capital expenditures, growth, prospects, dividends, capital structure and other financial matters; (b) statements of plans and objectives of our management or Board of Directors; (c) statements of our future economic performance; (d) statements of assumptions underlying other statements and statements about us and our business relating to the future; and (e) any statements using the words "anticipate," "expect," "may," "project," "intend" or similar expressions.

Plan of Operation

The Company is an oil and gas exploration company that is engaged in the evaluation and development of coalbed methane (CBM) reserves as well as shallow oil reserves within the Powder River Basin in the State of Wyoming.

The Company's focus has been in obtaining leasehold interests in acreage within the Powder River Basin, currently a most prolific coalbed methane gas exploration play in the domestic United States. Its attributes include low cost, shallow depth drilling and completion; a proven play with major operators and an existing and expanding infrastructure; greater and longer production yields when comparing cost/benefit analyses to other basins and, a very low exploration risk.

As of December 31, 2004, the Company owns a total of 11,878 acres in thirteen different leases within Converse, Crook, Johnson, and Sheridan counties. The Company has a 100 percent working interest in most of their leases to date. The Company's leases are adjacent to larger CBM developers and operators such as Western Gas Resources, Williams Companies, Phillips Petroleum, J.M. Huber and others. This close proximity to other operators allows the Company to benefit from the established infrastructure of gathering systems, pipelines, electricity sources, roads, etc.

As of June 30, 2005, the Company has drilled and completed two CBM wells in their Zullig Lease, located just west of Clearmont, Wyoming in Sheridan County. The company expects to produce 300 Mcf per day from these wells, which will extend yields and maintain production consistency. In addition, the Company drilled eleven other wells on the lease to a minimal depth of ten percent of their total depth in order to meet certain state requirements in reducing the well spacing from eighty acres to forty acres.

The Company has also completed a purchase of 960 acres in Arcadia Parish, Louisiana.

During 2004, the Company also purchased a 25% working interest in a 9 well re-work program in Oklahoma. Five wells have been re-worked and were put in production during 2004 with the remaining four to be completed in 2005.

The Company also purchased a 22 well re-work program in Louisiana in November of 2004 and well re-work was started immediately with all wells to be in production in 2005.

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During the six months ended June 30, 2005, the Company purchased a 75% working interest in a producing property, and then subsequently sold 25% of this acquired working interest to an unrelated party.

The Company's business strategy for the next twelve months includes focused acquisitions and drilling operations which may be curtailed, delayed or cancelled as a result of a variety of factors, including unexpected drilling conditions, pressure or irregularities in formations, equipment failures or accidents, weather conditions and shortages or delays in equipment delivery. The Company has drilled two gas wells that will produce commercially viable gas resources once the appropriate infrastructure (i.e., pipeline) is in place. The Company also plans to continue to increase production on its Louisiana and Oklahoma projects.

Results of Operations

Three Months and Six Months Ended June 30, 2005 compared with 2004

Revenues: During the three months ended June 30, 2005, the Company reported an increase in oil and gas sales compared to the three months ended June 30, 2004 of approximately $262,000 or 527%. During the six months ended June 30, 2005, the Company reported an increase in oil and gas sales compared to the six months ended June 30, 2004 of approximately

$300,000 or 337%. The Company also reported revenues related to property and working interest sales of $1,875,000 during the six months ended June 30, 2005. The Company expects to continue to sell property and working interests in its properties in the future as the properties are developed and additional properties are acquired. The Company is currently working to raise development capital to increase production and anticipates it will be successful in raising the funds necessary to complete work in progress.

Expenses: During the three months and six months ended June 30, 2005, the Company reported a substantial increase in expenses of approximately $299,000 and $637,000, respectively, compared to the three months and six months ended June 30, 2004, primarily due to the increased production and lease operating costs, additional travel, and administrative expenses. The Company also reported an expense of $91,650 for the six months ended June 30, 2005 as a result of certain common stock warrants granted during the period for marketing and legal services rendered.

Liquidity and Capital Resources

On June 30, 2005, the Company had $1,544,311 in current liabilities, which includes notes payable due within the next twelve months of $926,950, and taxes payable totaling $530,400. The current accounts payable include payments to auditors, accounting and legal as well as start up costs. The accrued expenses include accumulated interest on the outstanding notes owed by the Company.

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The growth of the Company's business will require substantial capital on a continuing basis, and there is no assurance that any such required additional capital will be available on satisfactory terms and conditions, if at all. The Company may pursue, from time to time, opportunities to acquire oil and natural gas properties and businesses that may utilize the capital currently expected to be available for its present operations. The amount and timing of the Company's future capital requirements, if any, may depend upon a number of factors, including drilling, transportation, and equipment costs, marketing expenses, staffing levels, competitive conditions, and purchases or dispositions of assets, many of which are not in the Company's control. In addition, the Company's pursuit of additional capital could result in the incurrence of additional debt or potentially dilutive issuances of equity securities.

The Company's ability to meet any future debt service will be dependant upon the Company's future performance, which will be subject to oil and natural gas prices, the Company's level of production, general economic conditions and financial, business and other factors affecting the operations of the Company, many of which are beyond its control. There can be no assurance that the Company's future performance will not be adversely affected by such changes in oil and natural gas prices and / or production nor by such economic conditions and / or financial, business and other factors. In addition, there can be no assurance that the Company's business will generate sufficient cash flow from operations or that future bank credit will be available in an amount to enable the Company to service its indebtedness or make necessary expenditures. In such event, the Company would be required to obtain such financing from the sale of equity securities or other debt financing. There can be no assurance that any such financing will be available on terms acceptable to the Company. Should sufficient capital not be available, the Company may not be able to continue to implement its business strategy.

Impact of Inflation

At this time, we do not anticipate that inflation will have a material impact on our current or future operations.

Critical Accounting Policies and Estimates

Except with regard to the estimated future cash flows of the capitalized oil and gas properties, the Company does not employ any critical accounting policies or estimates that are either selected from among available alternatives or require the exercise of significant management judgment to apply or that if changed are likely to materially affect future periods. Management reviews the carrying value of the capitalized oil and gas properties annually for evidence of impairment and considers, based on its current marketing activities, plans and expectations, and the perceived effects of competitive factors, whether any write-downs should be taken or whether the estimated reserves should be changed.

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Recent Accounting Pronouncements

In December, 2004, the Financial Accounting Standards Board (FASB) issued SFAS No. 123 (Revised 2004), Share-Based Payment (SFAS 123R). SFAS 123R requires that compensation cost related to share-based employee compensation transactions be recognized in the financial statements. Share-based employee compensation transactions within the scope of SFAS 123R include stock options, restricted stock plans, performance-based awards, stock appreciation rights and employee share purchase plans. The provisions of SFAS 123R are effective as of the first interim period that begins after December 15, 2005.

In December 2004, the FASB issued SFAS No. 153, Exchanges of Nonmonetary Assets, an Amendment of APB Opinion No. 29, Accounting for Nonmonetary Transactions. The amendments made by SFAS 153 are based on the principle that exchanges of nonmonetary assets should be measured based on the fair value of the assets exchanged. Further, the amendments eliminate the narrow exception in APB Opinion No. 29 for nonmonetary exchanges of similar productive assets and replace it with a broader exception for exchanges of nonmonetary assets that do not have commercial substance. The Statement is effective for nonmonetary asset exchanges occurring in fiscal periods beginning after June 15, 2005. We do not expect to enter into any transactions that would be affected by adopting SFAS 153.

In May 2005, the FASB issued SFAS No. 154, Accounting Changes and Error Corrections, a Replacement of APB Opinion No. 20 and SFAS No. 3. SFAS No. 154 replaces APB Opinion No. 20, Accounting Changes and SFAS No 3, Reporting Accounting Changes in Interim Financial Statements and changes the requirement for the accounting for and reporting of a change in accounting principles. SFAS No. 154 applies to all voluntary changes in accounting principles. It also applies to changes required by an accounting pronouncement in the unusual instance that the pronouncement does not include specific transition provisions. When a pronouncement includes specific transition provisions, those provisions should be followed. The provisions of SFAS No. 154 will be effective for accounting changes made in fiscal year beginning after December 15, 2005. We do not expect that the adoption of SFAS No. 154 will have a material impact on the Company's financial condition or operations in future years.

ITEM 3.
CONTROLS AND PROCEDURES

Our principal executive and principal financial officer has participated with management in the evaluation of effectiveness of the controls and procedures required by paragraph (b) of Rule 13a-15 or Rule 15d-15 under the Exchange Act as of the end of the period covered by this report. Based on that evaluation, our principal executive and principal financial officer believes that our disclosure controls and procedures (as defined in Rule 13a-15(e) or Rule 15d-15(e) under the Exchange Act) are effective as of the end of the period covered by the report. There have been no changes in our internal controls that have materially affected, or are reasonably likely to materially affect, our internal controls over financial reporting during the period covered by this report.

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PART II
OTHER INFORMATION
ITEM 1 - LEGAL PROCEEDINGS

The Company is not subject to any legal proceedings at June 30, 2005.

ITEM 2 - UNREGISTERED SALES OF EQUITY SECURITIES AND USE OF PROCEEDS

None.

ITEM 3 - DEFAULTS BY THE COMPANY ON ITS SENIOR SECURITIES

None.

ITEM 4 - SUBMISSION OF MATTERS TO A VOTE OF SECURITY HOLDERS

None.

ITEM 5 - OTHER INFORMATION

None.

ITEM 6 - EXHIBITS

Exhibit 31.1 - Certification of principal executive officer and principal financial officer as adopted pursuant to Section 302 of the

Sarbanes_Oxley Act Of 2002

Exhibit 32.1 - Certification of principal executive officer and principal financial officer pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes_Oxley Act of 2002

SIGNATURES

In accordance with the requirements of the Exchange Act, the registrant caused this report to be signed on its behalf by the undersigned thereunto duly authorized.

Powder River Basin Gas Corp.

Date: August 15, 2005

By: /s/ Brian Fox
Brian Fox, President and Chief Financial Officer