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POWDER RIVER BASIN GAS CORP

Form 10QSB

May 16, 2006

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

FORM 10-QSB

(Mark One)

QUARTERLY REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934 FOR THE QUARTERLY PERIOD ENDED MARCH 31, 2006.

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
(State or other jurisdiction of
incorporation or organization)

84-1521645
(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 No

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

At March 31, 2006, there were outstanding 116,414,807 shares of the Registrant's Common Stock, \$.001 par value.

Transitional Small Business Disclosure Format: Yes No

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PART I

FINANCIAL INFORMATION

Item 1.

FINANCIAL STATEMENTS
(UNAUDITED)

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CONSOLIDATED FINANCIAL STATEMENTS

March 31, 2006 and December 31, 2005

POWDER RIVER BASIN GAS CORP
Consolidated Balance Sheets

ASSETS

| | March 31, 2006 | December 31, 2005 |
|--|-------------------|----------------------|
| | ----- | ----- |
| | (Unaudited) | |
| CURRENT ASSETS | | |
| Cash | \$ 164,288 | \$ 382,861 |
| Accounts receivable | 6,430,399 | 2,521,853 |
| | ----- | ----- |
| Total Current Assets | 6,594,687 | 2,904,714 |
| PROPERTY AND EQUIPMENT (Net) | 25,108 | 26,721 |
| OIL AND GAS PROPERTIES USING FULL COST ACCOUNTING | | |
| Properties not subject to amortization | 3,943,964 | 3,535,724 |
| Properties being amortized | 1,700,429 | 1,367,251 |
| Accumulated amortization | (35,774) | (25,241) |
| | ----- | ----- |
| Net Oil and Gas Properties | 5,608,619 | 4,877,734 |

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| | | |
|---|--------------|--------------|
| OTHER ASSETS | | |
| Deposits and other assets | 145,500 | 15,500 |
| | ----- | ----- |
| Total Other Assets | 145,500 | 15,500 |
| | ----- | ----- |
| TOTAL ASSETS | \$12,373,914 | \$ 7,824,669 |
| | ===== | ===== |
| LIABILITIES AND STOCKHOLDERS' EQUITY | | |
| ----- | | |
| CURRENT LIABILITIES | | |
| Accounts payable | \$ 53,887 | \$ 51,739 |
| Accrued expenses | 1,407 | - |
| Income taxes payable | 2,335,810 | 811,355 |
| Note payable, related party | 16,902 | 46,902 |
| Notes payable | 1,344,700 | 1,368,700 |
| | ----- | ----- |
| Total Current Liabilities | 3,752,706 | 2,278,696 |
| | ----- | ----- |
| Total Liabilities | 3,752,706 | 2,278,696 |
| | ----- | ----- |
| STOCKHOLDERS' EQUITY | | |
| Common stock, 200,000,000 shares authorized of \$0.001 par value, 116,414,807 and 115,314,807 shares issued and outstanding, respectively | | |
| | 116,414 | 115,314 |
| Capital in excess of par value | 7,793,294 | 7,678,394 |
| Subscriptions receivable | (259,333) | (259,333) |
| Other comprehensive income | 2,705 | 2,705 |
| Accumulated earnings (deficit) | 968,128 | (1,991,107) |
| | ----- | ----- |
| Total Stockholders' Equity | 8,621,208 | 5,545,973 |
| | ----- | ----- |
| TOTAL LIABILITIES AND STOCKHOLDERS' EQUITY | \$12,373,914 | \$ 7,824,669 |
| | ===== | ===== |

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 March 31, | |
|--|--|------------------------|
| | ----- 2006 ----- | ----- 2005 ----- |
| REVENUE | | |
| Oil and gas sales | \$ 239,280 | \$ 76,221 |
| Property and working interest sales | 5,800,000 | 1,875,000 |
| | ----- | ----- |
| Total Revenue | 6,039,280 | 1,951,221 |
| EXPENSES | | |
| Depreciation, depletion and amortization | 12,145 | 2,400 |

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| | | |
|---|--------------|-------------|
| General and administrative | 296,083 | 231,400 |
| Commission on working interest sales | 1,180,000 | - |
| Value of warrants granted for marketing and legal costs | - | 91,650 |
| Lease operating costs | 65,955 | 54,459 |
| | ----- | ----- |
| Total Expenses | 1,554,183 | 379,909 |
| | ----- | ----- |
| NET OPERATING INCOME | 4,485,097 | 1,571,312 |
| | ----- | ----- |
| OTHER INCOME (EXPENSE) | | |
| Litigation settlement (Note 5) | - | (90,000) |
| Interest expense | (1,407) | (9,306) |
| | ----- | ----- |
| Total Other Income (Expense) | (1,407) | (99,306) |
| | ----- | ----- |
| NET INCOME BEFORE INCOME TAXES | 4,483,690 | 1,472,006 |
| | ----- | ----- |
| INCOME TAXES | (1,524,455) | (530,400) |
| | ----- | ----- |
| NET INCOME | \$ 2,959,235 | \$ 941,606 |
| | ===== | ===== |
| BASIC INCOME PER COMMON SHARE | \$ 0.03 | \$ 0.01 |
| | ===== | ===== |
| WEIGHTED AVERAGE NUMBER OF COMMON SHARES OUTSTANDING | 115,971,474 | 104,406,517 |
| | ===== | ===== |

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

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

| | For the Three Months Ended March 31, | |
|---|--|-------------|
| | 2006 | 2005 |
| | ----- | ----- |
| CASH FLOWS FROM OPERATING ACTIVITIES: | | |
| Net income | \$ 2,959,235 | \$ 941,606 |
| Adjustments to reconcile net income to net cash provided by operating activities: | | |
| Depreciation, depletion and amortization | 12,145 | 2,400 |
| Additional expense for granting of warrants | - | 91,650 |
| Changes in operating assets and liabilities: | | |
| Increase in accounts receivable | (3,908,546) | (1,386,038) |
| Increase in deposits and other assets | (130,000) | (3,089) |
| Increase in taxes payable | 1,524,455 | 530,400 |
| Increase in accounts payable and accrued expenses | 3,556 | 15,754 |
| | ----- | ----- |
| Net Cash Provided by Operating Activities | 460,845 | 192,683 |
| CASH FLOWS FROM INVESTING ACTIVITIES: | | |
| Expenditures for oil and gas property development | (741,418) | (87,956) |
| Proceeds from sale of interest in leases | - | 200,000 |
| | ----- | ----- |

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| | | |
|---|------------|------------|
| Net Cash Provided by (Used in) Investing Activities | (741,418) | 112,044 |
| CASH FLOWS FROM FINANCING ACTIVITIES: | | |
| Proceeds from notes payable and long-term liabilities | - | 90,000 |
| Payments on notes payable and long-term liabilities | (54,000) | (55,976) |
| Proceeds from issuance of common stock | 116,000 | - |
| | ----- | ----- |
| Net Cash Provided by Financing Activities | 62,000 | 34,024 |
| NET INCREASE (DECREASE) IN CASH | (218,573) | 338,751 |
| CASH AND CASH EQUIVALENTS AT BEGINNING OF PERIOD | 382,861 | 168,539 |
| | ----- | ----- |
| CASH AND CASH EQUIVALENTS AT END OF PERIOD | \$ 164,288 | \$ 507,290 |
| | ===== | ===== |

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 Three Months Ended March 31, | |
|--|--|------------|
| | 2006 | 2005 |
| | ----- | ----- |
| 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 |

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The accompanying notes are an integral part of these financial statements

POWDER RIVER BASIN GAS CORP.
Notes to the Consolidated Financial Statements
March 31, 2006 and December 31, 2005

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, 2005. 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 three months ended March 31, 2006 and 2005 are not necessarily indicative of the results to be expected for the full year.

NOTE 2 - FULLY DILUTED INCOME PER SHARE

Following is a reconciliation of the fully diluted income per share for the three months ended March 31, 2006 and 2005:

| | For the Three Months Ended March 31, | |
|--|--|-------------|
| | 2006 | 2005 |
| Net income available to common shareholders | \$ 2,959,235 | \$ 941,606 |
| | ===== | ===== |
| Weighted average shares | 115,971,474 | 104,406,517 |
| Effect of dilutive securities | 8,543,333 | 2,733,334 |
| | 124,514,807 | 107,139,851 |
| | ===== | ===== |
| Basic income per share (based on weighted average shares) | \$ 0.02 | \$ 0.01 |
| | ===== | ===== |

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POWDER RIVER BASIN GAS CORP.
Notes to the Consolidated Financial Statements
March 31, 2006 and December 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 three months ended March 31, 2006 and 2005 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 March 31, 2006 and December 31, 2005, proved oil and gas reserves had been identified on certain of the Company's oil and gas properties. During the three months ended March 31, 2006 and 2005, the Company recorded depletion of \$10,533 and \$1,600 on its producing properties. All other wells are incomplete as of March 31, 2006 and December 31, 2005.

NOTE 4 - SIGNIFICANT TRANSACTIONS

During the three months ended March 31, 2006, the Company issued a total of 1,100,000 shares of its common stock through the exercise of common stock warrants at prices ranging from \$0.10 to \$0.16 per share, for total proceeds of \$116,000.

Also during the three months ended March 31, 2006, the Company sold 25% of a working interest in a producing property to an unrelated party for a total of \$5,900,000, less a commission of \$1,180,000, resulting in a gain on the sale totaling \$5,800,000. The carrying value of the 25% working interest at the date of the sale was \$100,000. Since the Company is in the business of buying and selling working interests in producing oil and gas properties, the gain of \$5,800,000 has been included as revenue in the accompanying statement of operations for the three months ended March 31, 2005.

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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 in the business of acquiring the working interest in leases of oil and gas leases with the intent of reselling a portion of the working interests acquired. The Company reviews and evaluates the geological and other technical data applicable lease in order to determine the likely viability and possible profitability of commencing and completing multiple well drilling programs on the properties covered by the leases. If determined to be viable, the Company also engages third party contractors to explore for, drill, re-work and further develop the properties in order to maximize economically justified oil and gas production from those leases in a cost effective manner.

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.

During 2005, the Company acquired the Monroe project containing approximately 300 acres. The Company is working to activate the wells on this project.

During 2005, the Company acquired the Kirby lease in Polk County, TX containing one producer and on injection well. These wells were re-completed and put in production in 2005.

During 2005, the Company acquired a 75% working interest in Lincoln County, Oklahoma containing approximately 960 acres. The Company plans to rework the wells on this project.

During 2005, the Company purchased a 75% working interest in the Weesatche project in Goliad County, Texas. This is a drilling project which the Company plans to drill in 2006 and contains approximately 2300 acres.

During 2005, the Company purchased a project in the San Juan Basin in New Mexico. This is a re-work program as well as an offset drilling program which is planned to commence in 2006.

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At December 31, 2005, the Company held 80 to 100% working interest in the following lease properties in Wyoming, all of which were purchased prior to 2003, for future development:

| Lease ----- | WY County ----- | Net Acres ----- | Gross Acres ----- |
|----------------|--------------------|--------------------|----------------------|
| Cranston | Crook | 1,934 | 1,934 |
| Franklin | Crook | 620 | 1,944 |
| Griffith (1) | Crook | 320 | 640 |
| Griffith (2) | Crook | 160 | 320 |
| Griffith (3) | Crook | 440 | 600 |
| Kanode | Crook | 920 | 1,000 |
| Olds (D Road) | Crook | 200 | 640 |
| Olds (Keyhole) | Crook | 120 | 480 |
| Karmon | Johnston | 320 | 320 |
| Noteboom | Johnston | 800 | 800 |
| Legerski | Sheridan | 340 | 360 |
| Robb | Sheridan | 1,486 | 2,520 |
| Zullig | Sheridan | 256 | 320 |

The 2 wells were completed on the Zullig Lease in 2002 and tested again in 2004. Management of the Company has decided to seek to farm out further development on these wells. As of December 31, 2005, the Company had no material or significant production from any of these properties in WY.

At December 31, 2005, the Company owned working interests in producing oil and gas leases:

| Lease ----- | WY County ----- | Net Acres ----- | Percent of Working Interest Owned by the Co. ----- |
|----------------|----------------------|--------------------|---|
| Leonard Heirs | Arcadia Parish, LA | 960 | 75% |
| Osage Project | Osage County, OK | 960 | 25% |
| Springhill A | Webster Parish, LA | 154 | 75% |
| Springhill B | Bossier Parish, LA | 440 | 75% |
| Converse | Converse County, WY | 1,815 | 100% |
| Monroe Project | Franklin Parish, TX | 300 | 100% |
| Kirby Lease | Polk County, TX | 40 | 100% |
| Sparks Project | Lincoln County, OK | 960 | 75% |
| Weesatche | Goliad County, TX | 2,300 | 75% |
| San Juan | San Juan, New Mexico | 3,560 | 75% |

During the three months ended March 31, 2006, the Company sold 25% of a working interest in a producing property to an unrelated party for a total of \$5,900,000, less a commission of \$1,180,000, resulting in net revenues received of \$5,800,000. The carrying value of the 25% working interest at the date of the sale was \$100,000. Since the Company is in the business of buying and selling working interests in producing oil and gas properties,

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the \$5,800,000 has been included as revenue in the accompanying statement of operations for the three months ended March 31, 2006.

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Results of Operations

Three Months Ended March 31, 2006 compared with 2005

Revenues: During the three months ended March 31, 2006, the Company reported an increase in oil and gas sales compared to the three months ended March 31, 2005 of approximately \$163,000 or 214%. The Company also reported revenues related to property and working interest sales of \$5,800,000 during the three months ended March 31, 2006. 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.

Expenses: During the three months ended March 31, 2006, the Company reported a substantial increase in expenses of approximately \$1,174,000 compared to the three months ended March 31, 2005, primarily due to the increased commissions on working interest sales.

Liquidity and Capital Resources

On March 31, 2006, the Company had \$3,752,706 in current liabilities, which includes notes payable due within the next twelve months of \$1,361,602, and taxes payable estimated at \$2,335,810. 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.

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

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policies or estimates that are either selected from among available alternatives or require the exercise of significant management judgment to

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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.

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 September 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

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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 March 31, 2006.

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

During the three months ended March 31, 2006, the Company issued a total of 1,100,000 shares of its common stock through the exercise of common stock warrants at prices ranging from \$0.10 to \$0.16 per share, for total proceeds of \$116,000.

The shares issued in the foregoing transactions were issued in reliance on the exemption from registration and prospectus delivery requirements of the Act set forth in Section 3(b) and/or Section 4(2) of the Securities Act and the regulations promulgated thereunder.

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: May 15, 2006

By: /s/ Brian Fox

Brian Fox, President and Chief

Financial Officer