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POWDER RIVER BASIN GAS CORP

Form 10QSB

May 16, 2005

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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, 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 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, 2005, there were outstanding 106,050,961 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

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(UNAUDITED)

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March 31, 2005 and December 31, 2004

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POWDER RIVER BASIN GAS CORP
Consolidated Balance Sheets

	ASSETS -----	
	March 31, 2005	December 31, 2004
	-----	-----
	(Unaudited)	
CURRENT ASSETS		
Cash	\$ 507,290	\$ 168,539
Accounts receivable	2,467,757	1,081,719
	-----	-----
Total Current Assets	2,975,047	1,250,258
PROPERTY AND EQUIPMENT (Net)	12,096	12,896
	-----	-----
OIL AND GAS PROPERTIES USING FULL COST ACCOUNTING		
Properties not subject to amortization	2,322,070	1,669,114
Properties being amortized	1,063,674	1,063,674
Accumulated amortization	(7,230)	(5,630)
	-----	-----
Net Oil and Gas Properties	3,378,514	2,727,158
OTHER ASSETS		
Deposits and other assets	18,589	15,500
	-----	-----

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Total Other Assets	18,589	15,500
	-----	-----
TOTAL ASSETS	\$ 6,384,246	\$ 4,005,812
	=====	=====
LIABILITIES AND STOCKHOLDERS' EQUITY		

CURRENT LIABILITIES		
Accounts payable	\$ 32,566	\$ 23,094
Accrued expenses	6,282	-
Income taxes payable	530,400	-
Note payable, related party	100,250	137,226
Notes payable	990,700	354,700
	-----	-----
Total Current Liabilities	1,660,198	515,020
	-----	-----
Total Liabilities	1,660,198	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	(1,789,836)	(2,731,442)
	-----	-----
Total Stockholders' Equity	4,724,048	3,490,792
	-----	-----
TOTAL LIABILITIES AND STOCKHOLDERS' EQUITY	\$ 6,384,246	\$ 4,005,812
	=====	=====

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

	For the Three Months Ended March 31,	
	2005	2004
	-----	-----
REVENUE		
Oil and gas sales	\$ 76,221	\$ 39,063
Property and working interest sales	1,875,000	-
	-----	-----
Total Revenue	1,951,221	39,063
EXPENSES		
Depreciation, depletion and amortization	2,400	18,150
General and administrative	231,400	16,803
Value of warrants granted for marketing and legal costs	91,650	-
Lease operating costs	54,459	6,220
	-----	-----
Total Expenses	379,909	41,173
	-----	-----
NET OPERATING INCOME (LOSS)	1,571,312	(2,110)

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OTHER INCOME (EXPENSE)		
Litigation settlement (Note 5)	(90,000)	-
Interest expense	(9,306)	(12,810)
	-----	-----
Total Other Income (Expense)	(99,306)	(12,810)
	-----	-----
NET INCOME (LOSS) BEFORE INCOME TAXES	1,472,006	(14,920)
	-----	-----
INCOME TAXES	(530,400)	-
	-----	-----
NET INCOME (LOSS)	\$ 941,606	\$ (14,920)
	=====	=====
BASIC INCOME (LOSS) PER COMMON SHARE	\$ 0.01	\$ (0.00)
	=====	=====
WEIGHTED AVERAGE NUMBER OF COMMON SHARES OUTSTANDING	104,406,517	86,108,261
	=====	=====

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

	For the Three Months Ended March 31,	
	2005	2004
	-----	-----
CASH FLOWS FROM OPERATING ACTIVITIES:		
Net income (loss)	\$ 941,606	\$ (14,920)
Adjustments to reconcile net income (loss) to net cash provided by (used in) operating activities:		
Depreciation, depletion and amortization	2,400	18,150
Additional expense for granting of warrants	91,650	-
Changes in operating assets and liabilities:		
Increase in accounts receivable	(1,386,038)	-
Increase (decrease) in deposits and other assets	(3,089)	(2,000)
Increase in taxes payable	530,400	-
Increase (decrease) in accounts payable and accrued expenses	15,754	16,430
	-----	-----
Net Cash Provided by (Used in) Operating Activities	192,683	17,660
CASH FLOWS FROM INVESTING ACTIVITIES:		
Expenditures for oil and gas property development	(87,956)	(17,660)
Proceeds from sale of interest in leases	200,000	-
	-----	-----
Net Cash Used in Investing Activities	112,044	(17,660)
	-----	-----
CASH FLOWS FROM FINANCING ACTIVITIES:		
Proceeds from notes payable and long-term liabilities	90,000	-
Payments on notes payable and long-term liabilities	(55,976)	-
Proceeds from issuance of common stock	-	-
	-----	-----

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Net Cash Provided by Financing Activities	34,024	-
	-----	-----
NET INCREASE (DECREASE) IN CASH	338,751	-
CASH AND CASH EQUIVALENTS AT BEGINNING OF PERIOD	168,539	-
	-----	-----
CASH AND CASH EQUIVALENTS AT END OF PERIOD	\$ 507,290	\$ -
	=====	=====

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

	For the Three Months Ended March 31,	
	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

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POWDER RIVER BASIN GAS CORP.
Notes to the Consolidated Financial Statements
March 31, 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

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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, 2005 and 2004 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 ended March 31, 2005 and 2004:

	For the Three Months Ended March 31,	
	2005	2004
Net income (loss) available to common shareholders	\$ 941,606	\$ (14,920)
Weighted average shares	104,406,517	86,108,261
Effect of dilutive securities	2,733,334	-
	107,139,851	86,108,261
	=====	=====
Basic income (loss) per share (based on weighted average shares)	\$ 0.01	\$ (0.00)

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

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

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, 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

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costs to be amortized. As of March 31, 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 three months ended March 31, 2005 and 2004, the Company recorded depletion of \$1,600 and \$1,408 on its producing properties. All other wells are incomplete as of March 31, 2005 and December 31, 2004.

NOTE 4 - SIGNIFICANT TRANSACTIONS

During the three months ended March 31, 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.

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

NOTE 4 - SIGNIFICANT TRANSACTIONS (Continued)

Also during the three months ended March 31, 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

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the three months ended March 31, 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 three months ended March 31, 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.

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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 March 31, 2005, the Company has drilled and completed two CBM wells

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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 three months ended March 31, 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 Ended March 31, 2005 compared with 2004

Revenues: During the three months ended March 31, 2005, the Company reported an increase in oil and gas sales compared to the three months ended March 31, 2004 of approximately \$37,000 or 95%. The Company also reported revenues related to property and working interest sales of \$1,875,000 during the three months ended March 31, 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 ended March 31, 2005, the Company reported a substantial increase in expenses of approximately \$339,000 compared to the three months ended March 31, 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 three months ended March 31, 2005 as a result of certain common stock warrants granted during the period for marketing and legal services rendered.

Liquidity and Capital Resources

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On March 31, 2005, the Company had \$1,660,198 in current liabilities, which includes notes payable due within the next twelve months of \$1,090,950, 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.

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.

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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.

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.

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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.

PART II

OTHER INFORMATION
ITEM 1 - LEGAL PROCEEDINGS

The Company is not subject to any legal proceedings at March 31, 2005.

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

During the three months ended March 31, 2005, the Company issued 2,000,000 shares of common stock valued at \$0.10 per share or \$200,000 as part of a transaction to purchase a 75% working interest in a producing property.

The Company effected the above transaction in reliance upon exemptions from registration under the Securities Act of 1933 as amended (the "Act") as provided in Section 4(2) thereof. Each certificate issued for unregistered securities contained a legend stating that the securities have not yet been registered under the Act and setting forth the restrictions on the transferability and the sale of the securities. No underwriter participated in, nor were any commissions or fees paid to any underwriter in connection with any of these transactions. None of the transactions

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involved a public offering. The Company believes that each person had knowledge and experience in financial and business matters which allowed them to evaluate the merits and risks of its securities; and that each person was knowledgeable about its operations and financial condition.

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

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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 13, 2005

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