

Edgar Filing: POWDER RIVER BASIN GAS CORP - Form 10QSB

POWDER RIVER BASIN GAS CORP

Form 10QSB

November 14, 2006

1

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 SEPTEMBER 30, 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.)

202, 1212 31st Ave NE  
Calgary, AB T2E 7S8  
(Address of principal executive offices)

Issuer's telephone number: (403) 228-9222

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 September 30, 2006, there were outstanding 120,694,807 shares of the Registrant's Common Stock, \$.001 par value.

Transitional Small Business Disclosure Format: Yes  No

2

PART I

FINANCIAL INFORMATION

Item 1.

FINANCIAL STATEMENTS  
(UNAUDITED)

# Edgar Filing: POWDER RIVER BASIN GAS CORP - Form 10QSB

## TABLE OF CONTENTS

	Page -----
Part I Financial Information	
Item 1. Financial Statements	
Consolidated Balance Sheets	
September 30, 2006 (Unaudited) and December 31, 2005 . . . . .	.3
Consolidated Statements of Operations (Unaudited)	
For the three months and nine months ended	
September 30, 2006 and 2005. . . . .	.4
Consolidated Statements of Cash Flows (Unaudited)	
For the nine months ended September 30, 2006 and 2005. . . . .	
	.5
Notes to the Consolidated Financial Statements . . . . .	.7
Item 2. Management's Discussion and Analysis of Financial Condition and Results of Operations. . . . .	
	10
Item 3. Controls and Procedures. . . . .	14
Part II Other Information	
Item 1. Legal Proceedings. . . . .	14
Item 2. Unregistered Sales of Equity Securities and Use of Proceeds. . . . .	
	14
Item 3. Defaults by the Company on its Senior Securities. . . . .	
	14
Item 4. Submission of Matter to a Vote Of Security Holders. . . . .	
	15
Item 5. Other Information. . . . .	15
Item 6. Exhibits . . . . .	15
Signatures . . . . .	15

POWDER RIVER BASIN GAS CORP  
Consolidated Balance Sheets

	ASSETS		
		September 30, 2006	December 31, 2005
		-----	-----
		(Unaudited)	
CURRENT ASSETS			
Cash		\$ 2,343,872	\$ 382,861

Edgar Filing: POWDER RIVER BASIN GAS CORP - Form 10QSB

Accounts receivable, net	7,327,163	1,872,334
Accounts receivable, net - related parties	982,091	649,519
Prepaid stock offering costs	151,075	-
	-----	-----
Total Current Assets	10,804,201	2,904,714
	-----	-----
PROPERTY AND EQUIPMENT (Net)	26,485	26,721
	-----	-----
OIL AND GAS PROPERTIES USING FULL COST ACCOUNTING		
Properties not subject to amortization	3,107,444	3,535,724
Properties being amortized	6,506,626	1,367,251
Accumulated amortization	(144,605)	(25,241)
	-----	-----
Net Oil and Gas Properties	9,469,465	4,877,734
	-----	-----
OTHER ASSETS		
Deposits and other assets	176,537	15,500
	-----	-----
Total Other Assets	176,537	15,500
	-----	-----
TOTAL ASSETS	\$ 20,476,688	\$ 7,824,669
	=====	=====
LIABILITIES AND STOCKHOLDERS' EQUITY		
-----		
CURRENT LIABILITIES		
Accounts payable	\$ 89,317	\$ 51,739
Stock deposits	755,375	-
Accrued expenses	92,075	-
Income taxes payable	4,782,294	811,355
Note payable, related party	-	46,902
Notes payable	1,192,000	1,368,700
	-----	-----
Total Current Liabilities	6,911,061	2,278,696
	-----	-----
Total Liabilities	6,911,061	2,278,696
	-----	-----
STOCKHOLDERS' EQUITY		
Common stock, 200,000,000 shares authorized of \$0.001 par value, 120,694,807 and 115,314,807 shares issued and outstanding, respectively	120,694	115,314
Capital in excess of par value	8,583,014	7,678,394
Subscriptions receivable	(539,333)	(259,333)
Other comprehensive income	2,705	2,705
Accumulated deficit	5,398,547	(1,991,107)
	-----	-----
Total Stockholders' Equity	13,565,627	5,545,973
	-----	-----
TOTAL LIABILITIES AND STOCKHOLDERS' EQUITY	\$ 20,476,688	\$ 7,824,669
	=====	=====

The accompanying notes are an integral part of these financial statements

# Edgar Filing: POWDER RIVER BASIN GAS CORP - Form 10QSB

(Unaudited)

	For the Three Months Ended September 30,		For the Nine Months Ended September 30,	
	2006	2005	2006	2005
<b>REVENUE</b>				
Oil and gas sales, net	\$ 225,828	\$ 130,955	\$ 1,021,625	\$ 519,415
Property and working interest sales	5,171,145	946,083	16,771,145	3,246,083
<b>Total Revenue</b>	<b>5,396,973</b>	<b>1,077,038</b>	<b>17,792,770</b>	<b>3,765,498</b>
<b>EXPENSES</b>				
Depreciation, depletion and amortization	91,970	3,206	124,202	8,408
General and administrative	555,763	965,755	1,788,675	1,451,905
Commission on working interest sales	1,199,000	240,000	3,584,000	665,000
Value of warrants granted for marketing and legal costs	-	376,132	-	467,782
Lease operating costs	94,334	85,244	637,524	197,469
<b>Total Expenses</b>	<b>1,941,067</b>	<b>1,670,337</b>	<b>6,134,401</b>	<b>2,790,564</b>
<b>NET OPERATING INCOME (LOSS)</b>	<b>3,455,906</b>	<b>(593,299)</b>	<b>11,658,369</b>	<b>974,934</b>
<b>OTHER INCOME (EXPENSE)</b>				
Other expense	-	-	(300,000)	(90,000)
Gain on sale of assets	-	-	-	2,841
Interest income	12,756	-	13,773	-
Interest expense	-	(2,500)	(11,549)	(14,014)
<b>Total Other Income (Expense)</b>	<b>12,756</b>	<b>(2,500)</b>	<b>(297,776)</b>	<b>(101,173)</b>
<b>NET INCOME (LOSS) BEFORE INCOME TAXES</b>	<b>3,468,662</b>	<b>(595,799)</b>	<b>11,360,593</b>	<b>873,761</b>
<b>INCOME TAXES</b>	<b>(1,287,682)</b>	<b>-</b>	<b>(3,970,939)</b>	<b>(530,400)</b>
<b>NET INCOME (LOSS)</b>	<b>\$ 2,180,980</b>	<b>\$ (595,799)</b>	<b>\$ 7,389,654</b>	<b>\$ 343,361</b>
<b>BASIC INCOME (LOSS) PER COMMON SHARE</b>	<b>\$ 0.02</b>	<b>\$ (0.01)</b>	<b>\$ 0.06</b>	<b>\$ 0.00</b>
<b>WEIGHTED AVERAGE NUMBER OF COMMON SHARES OUTSTANDING</b>	<b>120,694,807</b>	<b>109,670,526</b>	<b>119,946,529</b>	<b>106,728,617</b>

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

# Edgar Filing: POWDER RIVER BASIN GAS CORP - Form 10QSB

## Consolidated Statements of Cash Flows (Unaudited)

	For the Nine Months Ended September 30,	
	2006	2005
<b>CASH FLOWS FROM OPERATING ACTIVITIES:</b>		
Net income	\$ 7,389,654	\$ 343,361
Adjustments to reconcile net income to net cash provided by operating activities:		
Depreciation, depletion and amortization	124,202	8,408
Gain on sale of assets	-	(2,841)
Common stock issued for services rendered	399,000	656,750
Additional expense for granting of warrants	-	467,782
Changes in operating assets and liabilities:		
Increase in accounts receivable and accounts receivable, related	(5,787,401)	(1,201,079)
Increase in prepaid stock offering costs	(59,000)	-
Increase in deposits and other assets	(161,037)	(446,295)
Increase in taxes payable	3,970,939	530,400
Increase in accounts payable and accrued expenses	37,578	7,354
	-----	-----
Net Cash Provided by Operating Activities	5,913,935	363,840
	-----	-----
<b>CASH FLOWS FROM INVESTING ACTIVITIES:</b>		
Expenditures for oil and gas property development	(2,731,095)	(349,618)
Expenditures for property and equipment	(4,602)	(17,198)
Proceeds from sale of interest in leases	-	453,917
	-----	-----
Net Cash Used in Investing Activities	(2,735,697)	87,101
	-----	-----
<b>CASH FLOWS FROM FINANCING ACTIVITIES:</b>		
Proceeds from notes payable and long-term liabilities		-
Payments on notes payable and long-term liabilities	(1,973,602)	(332,976)
Stock deposits received	755,375	
Proceeds from issuance of common stock	116,000	
	-----	-----
Net Cash Used in Financing Activities	(1,102,227)	(182,976)
	-----	-----
NET INCREASE IN CASH	2,076,011	
	-----	-----
CASH AND CASH EQUIVALENTS AT BEGINNING OF PERIOD	382,861	
	-----	-----
CASH AND CASH EQUIVALENTS AT END OF PERIOD	\$ 2,458,872	\$ 436,504
	=====	=====

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

6

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

Edgar Filing: POWDER RIVER BASIN GAS CORP - Form 10QSB

For the Nine Months Ended  
September 30,  
-----  
2006                      2005  
-----

SUPPLEMENTAL CASH FLOW INFORMATION

CASH PAID FOR:

Interest	\$ 11,549	\$ 5,252
Income taxes	\$ -	\$ -

NON-CASH FINANCING ACTIVITIES

Common stock issued for acquired oil and gas properties	\$ 115,000	\$ 200,000
Oil and gas properties acquired through the issuance of debt	\$1,750,000	\$ 565,000
Common stock issued for subscriptions receivable	\$ 280,000	\$ -

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

6

POWDER RIVER BASIN GAS CORP.

Notes to the Consolidated Financial Statements  
September 30, 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 nine months ended September 30, 2006 and 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 nine months ended September 30, 2006 and 2005:

For the  
Three Months Ended

Edgar Filing: POWDER RIVER BASIN GAS CORP - Form 10QSB

	September 30,	
	2006	2005
Net income available to common shareholders	\$ 2,180,980	\$ (595,799)
Weighted average shares	120,694,807	109,670,526
Effect of dilutive securities	8,100,000	-
	128,794,807	109,670,526
Basic income per share (based on weighted average shares)	\$ 0.02	\$ (0.01)

The diluted income per share for the three months ended September 30, 2006 includes common stock equivalents, consisting of 8,100,000 warrants, which were granted during 2005. Weighted average shares issuable upon the exercise of stock warrants (8,100,000 warrants) were not included in the foregoing calculation for the three months ended September 30, 2005 because they are antidilutive.

7

POWDER RIVER BASIN GAS CORP.  
Notes to the Consolidated Financial Statements  
September 30, 2006 and December 31, 2005

NOTE 2 - DILUTED INCOME (LOSS) PER SHARE (Continued)

	For the Three Months Ended September 30,	
	2006	2005
Net income available to common shareholders	\$ 7,389,654	\$ 343,361
Weighted average shares	119,946,529	106,728,617
Effect of dilutive securities	8,246,154	8,255,311
	128,192,683	114,983,928
Basic income per share (based on weighted average shares)	\$ 0.06	\$ 0.00

The diluted income per share for the nine months ended September 30, 2006 and 2005 includes common stock equivalents, consisting of 8,100,000 and 8,100,000 warrants, respectively, which were granted during 2005.

NOTE 3 - OIL AND GAS PROPERTIES

## Edgar Filing: POWDER RIVER BASIN GAS CORP - Form 10QSB

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 and nine months ended September 30, 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 September 30, 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 nine months ended September 30, 2006 and 2005, the Company recorded depletion of \$119,363 and \$4,800 on its producing properties. All other wells are incomplete as of September 30, 2006 and December 31, 2005.

8

POWDER RIVER BASIN GAS CORP.  
Notes to the Consolidated Financial Statements  
September 30, 2006 and December 31, 2005

#### NOTE 4 - SIGNIFICANT TRANSACTIONS

During the nine months ended September 30, 2006, the Company issued the following shares of common stock:

- 1,100,000 shares through the exercise of common stock warrants at prices ranging from \$0.10 to \$0.16 per share, for total proceeds of \$116,000.
- 1,900,000 shares for services rendered to various outside consultants at \$0.21 per share, for a total value of \$399,000.
- 500,000 shares for work to be performed on one of the Company's oil and gas properties, valued at \$115,000, or \$0.23 per share.
- 2,000,000 shares to an unrelated individual in exercise of common stock warrants at prices ranging from \$0.12 to \$0.16 per share, for total proceeds of \$280,000. The \$280,000 was not received by the Company at September 30, 2006, thus the amount is recorded as a subscription receivable.

Also during the nine months ended September 30, 2006, the Company sold 25% of a working interest in a producing property to an unrelated party for a total of \$11,800,000, less a commission of \$2,360,000. The carrying value of the 25% working interest at the date of the sale was \$200,000. The receivable balance on this transaction at September 30, 2006 was \$3,512,000.

In May 2006, the Company purchased a 95% working interest in a separate property in Texas for a total of \$500,000. During the nine months ended September 30, 2006, the Company sold 7.5% of their working interest in this property to an unrelated party for a total of \$6,000,000, less a commission of \$1,200,000. The carrying value of the 7.5% interest at the date of the



## Edgar Filing: POWDER RIVER BASIN GAS CORP - Form 10QSB

sale was \$39,375. The receivable balance on this transaction at September 30, 2006 was \$2,536,190.

Since the Company is in the business of buying and selling working interests in producing oil and gas properties, the sale of working interests is being recorded as revenue in the accompanying statements of operations for the three months and nine months ended September 30, 2006 and 2005.

During 2005, the Company purchased a 75% working interest in a producing property for a total of \$800,000. During 2006, the Company purchased an additional 20% working interest on this same producing property for an additional \$1,000,000, plus \$250,000 worth of restricted common stock. At September 30, 2006, the balance owing on this note was \$750,000, payable at \$100,000 every ninety days, with no interest. The \$250,000 worth of stock had not been issued, thus the amount is also included in notes payable at September 30, 2006.

During the nine months ended September 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.

9

POWDER RIVER BASIN GAS CORP.  
Notes to the Consolidated Financial Statements  
September 30, 2006 and December 31, 2005

#### NOTE 4 - SIGNIFICANT TRANSACTIONS (Continued)

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.

During the nine months ended September 30, 2006, the Company received a total of \$755,375 for the issuance of a total of 2,289,015 shares of common stock, each at \$0.33 per share. Since the shares have not yet been issued by the Company, the amount received has been recorded as stock deposits until such time as the shares are issued to the investors. The Company has either paid or accrued a total of \$151,075 in stock offerings costs related to this stock issuance.

#### 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

## Edgar Filing: POWDER RIVER BASIN GAS CORP - Form 10QSB

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 current focus is in obtaining leasehold interests which have an upside through re-working existing wells or drilling in proven areas. With extensive research on each new purchase, the Company can minimize its risk as well as reduce any risk for the investors included in the marketing program.

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 is currently re-working 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 contains approximately 2300 acres. An additional 20% interest was purchased during 2006 for an additional \$1,250,000. At the time of this filing, 8 wells have been drilled which are now in production.

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.

In May 2006, the Company purchased a 95% working interest in the Brookshire Salt Dome in Waller County, Texas.

At the time of this filing one well has been drilled and is waiting completion to be put on production. The Company plans to continue drilling in the fourth quarter.

11

The Company also purchased a 100% working interest in a project in Amite County, Mississippi. This is a re-work program with production anticipated by December 2006.

## Edgar Filing: POWDER RIVER BASIN GAS CORP - Form 10QSB

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 September 30, 2006, 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	70%(1)
San Juan	San Juan, New Mexico	3,560	75%
Brookshire	Waller County, Texas	647	87.5%(2)
Foster Lease	Amite County, MS	40	100%

## Edgar Filing: POWDER RIVER BASIN GAS CORP - Form 10QSB

- (1) During the nine months ended September 30, 2006, the Company sold 25% of a working interest in a producing property to an unrelated party for a total of \$11,800,000, less a commission of \$2,360,000. The carrying value of the 25% working interest at the date of the sale was \$200,000. The receivable balance on this transaction at September 30, 2006 was \$3,512,000. As a result of this sale, the Company's owned working interest in this property was reduced to 70%.
- (2) During the nine months ended September 30, 2006, the Company sold 7.5% of a working interest in a non-producing property to an unrelated party for a total of \$6,000,000, less a commission of \$1,200,000. The carrying value of the 7.5% working interest at the date of the sale was \$39,375. The receivable balance on this transaction at September 30, 2006 was \$2,536,190. As a result of this sale, the Company's owned working interest in this property was reduced to 87.5%.

Since the Company is in the business of buying and selling working interests in producing oil and gas properties, the sale of working interests has been included as revenue in the accompanying statement of operations for the nine months ended September 30, 2006.

### Results of Operations

Nine Months Ended September 30, 2006 compared with 2005

---

**Revenues:** During the nine months ended September 30, 2006, the Company reported an increase in oil and gas sales compared to the nine months ended September 30, 2005 of approximately \$502,000 or approximately 97%. The Company also reported revenues related to property and working interest sales of \$16,771,145 during the nine months ended September 30, 2006, compared to \$3,246,083 for the nine months ended September 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.

**Expenses:** During the nine months ended September 30, 2006, the Company reported a substantial increase in expenses of approximately \$3,344,000 compared to the nine months ended September 30, 2005, primarily due to the increased commissions on working interest sales, increased lease operating costs related to the increase in production revenue, and consulting services rendered.

### Liquidity and Capital Resources

---

On September 30, 2006, the Company had \$6,911,061 in current liabilities, which includes notes payable due within the next twelve months of \$1,192,000, and taxes payable estimated at \$4,782,294. 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, and stock deposits received totaling \$755,375 for which shares will be issued during the next few months.

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. The Company believes, also, that its current marketing program of selling working interests will generate sufficient cash flow in the future. There can be no assurance, however, 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

## Edgar Filing: POWDER RIVER BASIN GAS CORP - Form 10QSB

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.

14

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.

## PART II

### OTHER INFORMATION ITEM 1 - LEGAL PROCEEDINGS

The Company is not subject to any legal proceedings at September 30, 2006.

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

During the nine months ended September 30, 2006, the Company issued the following shares of common stock:

- 1,100,000 shares through the exercise of common stock warrants at prices ranging from \$0.10 to \$0.16 per share, for total proceeds of \$116,000.
- 1,900,000 shares for services rendered to various outside consultants at \$0.21 per share, for a total value of \$399,000.
- 500,000 shares for work to be performed on one of the Company's oil and gas properties, valued at \$115,000, or \$0.23 per share.
- 2,000,000 shares to an unrelated individual in exercise of common stock warrants at prices ranging from \$0.12 to \$0.16 per share, for total proceeds of \$280,000. The \$280,000 was not received by the Company at September 30, 2006, thus the amount is recorded as a subscription

Edgar Filing: POWDER RIVER BASIN GAS CORP - Form 10QSB

receivable.

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.

15

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: November 14, 2006

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