

POWDER RIVER BASIN GAS CORP  
Form 10QSB  
August 14, 2007

**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 JUNE 30, 2007.

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 (I.R.S. Employer Identification No.)  
or organization)

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**Suite 202, 1212 31st Ave NE, Calgary, Alberta, Canada T2E 7S8**

(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

Indicate by check mark whether the registrant is a shell company (as defined in Rule 12b-2 of the Exchange Act). 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 June 30, 2007, there were outstanding 144,983,605 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)**

The accompanying unaudited financial statements have been prepared in accordance with the instructions to Form 10-QSB pursuant to the rules and regulations of the Securities and Exchange Commission and, therefore, do not include all information and footnotes necessary for a complete presentation of our financial position, results of operations, cash flows, and stockholders' equity in conformity with generally accepted accounting principles. In the opinion of management, all adjustments considered necessary for a fair presentation of the results of operations and financial position have been included and all such adjustments are of a normal recurring nature.

Our unaudited balance sheet at June 30, 2007 and our audited balance sheet at December 31, 2006; the related unaudited statements of operations for the three and six month periods ended June 30, 2007 and 2006; and the related unaudited statement of cash flows for the six month periods ended June 30, 2007 and 2006, are attached hereto.

**POWDER RIVER BASIN GAS CORP**

## Consolidated Balance Sheets

ASSETS

|  | June 30,<br>2007<br>(Unaudited) | December 31,<br>2006 |
|--|---------------------------------|----------------------|
| <b>CURRENT ASSETS</b>  |                                 |                      |
| Cash and cash equivalents                                    | \$ 3,634,610                    | \$ 2,733,437         |
| Accounts receivable related parties, net                     | 557,497                         | 513,625              |
| Accounts receivable  | 5,001,485                       | 4,251,599            |
| Deferred tax asset   | 376,849                         | 376,849              |
| Total Current Assets   | 9,570,441                       | 7,875,510            |
| <b>PROPERTY AND EQUIPMENT (Net)</b>                          | 58,010                          | 22,327               |
| <b>OIL AND GAS PROPERTIES USING<br/>FULL COST ACCOUNTING</b> |                                 |                      |
| Properties not subject to amortization                       | 9,384,730                       | 8,798,061            |
| Properties being amortized                                   | 12,244,879                      | 7,930,631            |
| Accumulated amortization                                     | (194,833)                       | (113,974)            |
| Net Oil and Gas Properties                                   | 21,434,776                      | 16,614,718           |
| <b>OTHER ASSETS</b>  |                                 |                      |
| Prepaid production payments                                  | 664,723                         | -                    |
| Deposits and other assets                                    | 397,500                         | 382,500              |
| Total Other Assets   | 1,062,223                       | 382,500              |
| <b>TOTAL ASSETS</b>  | <b>\$ 32,125,450</b>            | <b>\$ 24,895,055</b> |

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



**POWDER RIVER BASIN GAS CORP**  
 Consolidated Balance Sheets  
LIABILITIES AND STOCKHOLDERS' EQUITY

|  | June 30,<br>2007<br>(Unaudited) | December<br>31,<br>2006 |
|--|---------------------------------|-------------------------|
| <b>CURRENT LIABILITIES</b>   |                                 |                         |
| Accounts payable   | \$ 917,513                      | \$ 233,626              |
| Stock Deposits   | 32,000                          | 446,286                 |
| Accrued expenses   | 671,373                         | 322,620                 |
| Income taxes payable   | 4,847,040                       | 3,224,256               |
| Notes payable  | 5,890,000                       | 6,983,000               |
| Total Current Liabilities  | 12,357,926                      | 11,209,788              |
| Total Liabilities  | 12,357,926                      | 11,209,788              |
| <b>STOCKHOLDERS' EQUITY</b>  |                                 |                         |
| Common stock, 200,000,000 shares authorized of<br>\$0.001<br>par value, 144,983,605 and 137,123,194 shares issued<br>and outstanding, respectively | 144,984                         | 137,120                 |
| Capital in excess of par value   | 11,301,189                      | 10,380,513              |
| Subscriptions receivable   | (360,000)                       | (330,000)               |
| Other comprehensive income   | 2,705                           | 2,705                   |
| Accumulated earnings (deficit)   | 8,678,646                       | 3,494,929               |
| Total Stockholders' Equity   | 19,767,524                      | 13,685,267              |
| <b>TOTAL LIABILITIES AND<br/>STOCKHOLDERS' EQUITY</b>  | <b>\$ 32,125,450</b>            | <b>\$ 24,895,055</b>    |

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





**POWDER RIVER BASIN GAS CORP**Consolidated Statements of Operations and Other Comprehensive Income  
(Unaudited)

|  | For the<br>Three Months Ended<br>June 30, |            |
|--|---|------------|
|  | 2007                                      | 2006       |
| <b>REVENUE</b>                           |   |            |
| Oil and gas sales                        | \$ 648,548                                | \$ 556,517 |
| Property and working interest sales      | 4,800,000                                 | 4,595,000  |
| Total Revenue                            | 5,448,548                                 | 5,151,517  |
| <b>EXPENSES</b>                          |   |            |
| Depreciation, depletion and amortization | 40,094                                    | 20,087     |
| General and administrative               | 1,376,024                                 | 936,829    |
| Marketing administration                 | 200,166                                   | -          |
| Bonuses                                  | 317,643                                   | -          |
| Lease operating costs                    | 126,460                                   | 477,235    |
| Total Expenses                           | 2,060,387                                 | 1,434,151  |
| NET OPERATING INCOME                     | 3,388,161                                 | 3,717,366  |
| <b>OTHER INCOME (EXPENSE)</b>            |   |            |
| Other expenses                           | -   | (300,000)  |
| Interest income                          | 14,054                                    | 1,017      |
| Interest expense                         | -   | (10,142)   |
| Total Other Income (Expense)             | 14,054                                    | (309,125)  |
| NET INCOME BEFORE INCOME TAXES           | 3,402,215                                 | 3,408,241  |

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|   |    |             |              |
|---|----|-------------|--------------|
| INCOME TAXES  |    | (1,156,753) | (1,158,802)  |
| NET INCOME  | \$ | 2,245,462   | \$ 2,249,439 |
| BASIC INCOME PER COMMON SHARE                           | \$ | 0.02        | \$ 0.02      |
| WEIGHTED AVERAGE NUMBER OF<br>COMMON SHARES OUTSTANDING |    | 141,582,007 | 120,694,807  |
| OTHER COMPREHENSIVE INCOME                              |    |             |              |
| NET INCOME  | \$ | 2,245,462   | \$ 2,249,439 |
| Foreign currency translation adjustment                 |    | -           | -            |
| Total Other Comprehensive Income                        |    | -           | -            |
| NET COMPREHENSIVE INCOME                                | \$ | 2,245,462   | \$ 2,249,439 |

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

**POWDER RIVER BASIN GAS CORP**Consolidated Statements of Operations and Other Comprehensive Income  
(Unaudited)

|  | For the<br>Six Months Ended<br>June 30, |                    |
|--|---|--------------------|
|  | 2007                                    | 2006               |
| <b>REVENUE</b>                           |   |                    |
| Oil and gas sales                        | \$ 1,366,833                            | \$ 795,797         |
| Property and working interest sales      | 9,540,843                               | 9,215,000          |
| Total Revenue                            | 10,907,676                              | 10,010,797         |
| <b>EXPENSES</b>                          |   |                    |
| Depreciation, depletion and amortization | 88,074                                  | 32,232             |
| General and administrative               | 2,059,080                               | 1,232,912          |
| Marketing administration                 | 466,096                                 | -                  |
| Bonuses                                  | 673,675                                 | -                  |
| Lease operating costs                    | 833,500                                 | 543,190            |
| Total Expenses                           | 4,120,425                               | 1,808,334          |
| <b>NET OPERATING INCOME</b>              | <b>6,787,251</b>                        | <b>8,202,463</b>   |
| <b>OTHER INCOME (EXPENSE)</b>            |   |                    |
| Other expense                            | -                                       | (300,000)          |
| Interest income                          | 26,476                                  | 1,017              |
| Interest expense                         | -                                       | (11,549)           |
| Total Other Income (Expense)             | 26,476                                  | (310,532)          |
| <b>NET INCOME BEFORE INCOME TAXES</b>    | <b>6,813,727</b>                        | <b>7,891,931</b>   |
| <b>INCOME TAXES</b>                      | <b>(1,630,010)</b>                      | <b>(2,683,257)</b> |

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|   |    |             |    |             |
|---|----|-------------|----|-------------|
| NET INCOME  | \$ | 5,183,717   | \$ | 5,208,674   |
| BASIC INCOME PER COMMON SHARE                           | \$ | 0.04        | \$ | 0.04        |
| WEIGHTED AVERAGE NUMBER OF<br>COMMON SHARES OUTSTANDING |    | 141,314,604 |    | 119,566,188 |
| OTHER COMPREHENSIVE INCOME                              |    |             |    |             |
| NET INCOME  | \$ | 5,183,717   | \$ | 5,208,674   |
| Foreign currency translation adjustment                 |    | -           |    | -           |
| Total Other Comprehensive Income                        |    | -           |    | -           |
| NET COMPREHENSIVE INCOME                                | \$ | 5,183,717   | \$ | 5,208,674   |

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

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

|   | For the Six Months Ended<br>June 30, |              |
|---|--------------------------------------|--------------|
|   | 2007                                 | 2006         |
| <b>CASH FLOWS FROM OPERATING ACTIVITIES:</b>                                      |                                      |              |
| Net income  | \$ 5,183,717                         | \$ 5,208,674 |
| Adjustments to reconcile net income to net cash provided by operating activities: |                                      |              |
| Depreciation, depletion and amortization  | 88,074                               | 32,232       |
| Additional expense for the extension of warrants                                  | 201,399                              | -            |
| Common stock issued for services rendered   | -                                    | 399,000      |
| Changes in operating assets and liabilities:                                      |                                      |              |
| Increase in accounts receivable   | (793,758)                            | (3,687,273)  |
| Increase in deposits, prepaids and other assets                                   | (679,722)                            | (121,615)    |
| Increase in taxes payable   | 1,622,784                            | 2,683,257    |
| Increase in accounts payable and accrued expenses                                 | 1,032,640                            | 149,912      |
| Net Cash Provided by Operating Activities   | 6,655,134                            | 4,664,187    |
| <b>CASH FLOWS FROM INVESTING ACTIVITIES:</b>                                      |                                      |              |
| Expenditures for oil and gas property development                                 | (4,900,917)                          | (1,605,524)  |
| Expenditures for property and equipment   | (42,899)                             | (4,602)      |
| Net Cash Used by Investing Activities   | (4,943,816)                          | (1,610,126)  |
| <b>CASH FLOWS FROM FINANCING ACTIVITIES:</b>                                      |                                      |              |
| Stock deposits received   | -                                    | 185,000      |
| Payments on notes payable and long-term liabilities                               | (1,093,000)                          | (1,609,602)  |
| Cash paid to repurchase shares  | (83,145)                             | -            |
| Proceeds from issuance of common stock  | 366,000                              | 116,000      |

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|  |              |              |
|--|--------------|--------------|
| Net Cash Used by Financing Activities            | (810,145)    | (1,308,602)  |
| NET INCREASE (DECREASE) IN CASH                  | 901,173      | 1,745,459    |
| CASH AND CASH EQUIVALENTS AT BEGINNING OF PERIOD | 2,733,437    | 382,861      |
| CASH AND CASH EQUIVALENTS AT END OF PERIOD       | \$ 3,634,610 | \$ 2,128,320 |

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

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

|   | For the Six Months Ended<br>June 30, |      |
|---|--------------------------------------|------|
|   | 2007                                 | 2006 |
| <b>SUPPLEMENTAL CASH FLOW INFORMATION</b>   |                                      |      |
| <b>CASH PAID FOR:</b>   |                                      |      |
| Interest  | \$ -                                 | \$ - |
| Income taxes  | \$ -                                 | \$ - |
| <b>NON-CASH FINANCING ACTIVITIES</b>  |                                      |      |
| Stock issued through the exercise of warrants pursuant to a subscription receivable | \$ 30,000                            | \$ - |
| Additional expense for the extension of warrants                                    | \$ 210,399                           | \$ - |

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

**POWDER RIVER BASIN GAS CORP.**

Notes to the Consolidated Financial Statements

June 30, 2007 and December 31, 2006

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, 2006. 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 and six months ended June 30, 2007 are not necessarily indicative of the results to be expected for the full year.

NOTE 2 -

**BASIC AND FULLY DILUTED INCOME PER SHARE**

Following is a reconciliation of the basic income per share for the three and six months ended June 30, 2007 and 2006:

| For the Three Months Ended |      | For the Six Months Ended |      |
|----------------------------|------|--------------------------|------|
| June 30,                   |      | June 30.                 |      |
| 2007                       | 2006 | 2007                     | 2006 |



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|   |              |              |              |              |
|---|--------------|--------------|--------------|--------------|
| Net income available to common shareholders               | \$ 2,245,462 | \$ 2,249,439 | \$ 5,183,717 | \$ 5,208,674 |
| Weighted average shares                                   | 141,582,007  | 120,694,807  | 141,314,604  | 119,566,188  |
| Basic income per share (based on weighted average shares) | \$ 0.02      | \$ 0.02      | \$ 0.04      | \$ 0.04      |

Following is a reconciliation of the fully diluted income per share for the three and six months ended June 30, 2007 and 2006:

|   | For the Three Months Ended<br>June 30, |              | For the Six Months Ended<br>June 30, |              |
|---|--|--------------|--------------------------------------|--------------|
|   | 2007                                   | 2006         | 2007                                 | 2006         |
| Net income available to common shareholders                 | \$ 2,245,462                           | \$ 2,249,439 | \$ 5,183,717                         | \$ 5,208,674 |
| Weighted average shares                                     | 141,582,007                            | 120,694,807  | 141,314,604                          | 119,566,188  |
| Effect of dilutive securities                               | 6,700,000                              | 8,320,442    | 6,967,403                            | 8,320,442    |
| Diluted income per share (based on weighted average shares) | \$ 0.02                                | \$ 0.02      | \$ 0.04                              | \$ 0.04      |

The diluted income per share for the three and six months ended June 30, 2007 and 2006 includes common stock equivalents, consisting of 6,700,000 and 8,100,000 warrants, respectively, which were granted during 2005.

**POWDER RIVER BASIN GAS CORP.**

Notes to the Consolidated Financial Statements

June 30, 2007 and December 31, 2006

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, 2007 and 2006 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, 2007 and December 31, 2006, 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, 2007 and 2006, the Company recorded depletion of \$80,858 and \$29,007 on its producing properties. All other wells are incomplete as of June 30, 2007 and December 31, 2006.

NOTE 4 -

**SIGNIFICANT TRANSACTIONS**

During the six months ended June 30, 2007, the Company issued the following shares of common stock:

-

2,200,000 shares through the exercise of common stock warrants at prices ranging from \$0.06 to \$0.20 per share, for total proceeds of \$230,000 and a subscription receivable of \$30,000.

-

5,966,212 shares for cash in the amount of \$687,857, at prices ranging from \$0.05 to \$0.28 per share.

In May 2007, the Company extended the maturity date on 2,000,000 common stock warrants, exercisable at prices ranging from \$0.12 to \$0.16 per share. The extension of these warrants resulted in an additional expense of \$201,399 for the three months ended June 30, 2007.

The Company uses the Black-Scholes model to value stock options. The Black-Scholes model requires the use of employee exercise behavior data and the use of a number of assumptions, including volatility of the Company's stock price, the weighted average risk-free rate, and the weighted average expected life of the options. Because the Company does not pay dividends, the dividend rate variable in the Black-Scholes model is zero. The Company estimated the fair value of the stock options at the grant date based on the following weighted average assumptions:

|                         | For the six month<br>period ended<br>June 30, 2007 | For the six month<br>period ended<br>June 30, 2006 |
|-------------------------|--|--|
| Risk free interest rate | 4.93%  | N/A  |
| Expected life           | 1.25 years   | N/A  |
| Expected volatility     | 58.10%   | N/A  |
| Dividend yield          | 0.00%  | N/A  |

During the period ended June 30, 2007 the Company repurchased and cancelled 302,800 shares of its own stock on the open market at prices ranging from \$0.25 to \$0.31 per share. The total cost of these shares was \$83,145.

**POWDER RIVER BASIN GAS CORP.**

Notes to the Consolidated Financial Statements

June 30, 2007 and December 31, 2006

NOTE 4 -

SIGNIFICANT TRANSACTIONS (Continued)

In May 2006, the Company purchased a 95% working interest in a separate property in Texas for a total of \$500,000. In addition, the Company also implemented a plan to sell 25% of their working interest in the property in increments of 2.5% as follows:

-

During the year ended December 31, 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.

-

During the three months ended March 31, 2007, 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.

-

During the six months ended June 30, 2007, the Company sold 7.5% of their working interest in this property to an unrelated party for \$6,000,000, less a commission of \$1,200,000. The receivable balance related to this transaction at June 30, 2007 was \$2,281,163.

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 six months ended June 30, 2007 and 2006.

Employment Agreement

On May 10, 2007 the Company entered into an employment agreement with its Chief Executive Officer (CEO), effective January 1, 2007. Per the terms of the agreement the Company is to pay the CEO a salary of \$600,000 per year, payable semi-monthly. In addition, the Company will also pay a cash bonus of 10% of the Company's net income before taxes to the Company that exceeds \$750,000 per quarter. For the six months ended June 30, 2007, the amount of accrued bonus related to this agreement was \$594,132.

## 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.

General. The Company is in the business of acquiring and developing 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.

During 2006, the Company acquired a 95% working interest in the Brookshire Salt Dome project in Waller County, Texas, containing approximately 647 acres. Two wells are currently in production. During the three months ended June 30, 2007, 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 sale was \$0.00. The receivable balance on this transaction at June 30, 2007 was \$2,281,163. Since the Company is in the business of buying and selling working interest 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 ended June 30, 2007 and 2006.

### Employment Agreement

On May 10, 2007 the Company entered into an employment agreement with its Chief Executive Officer (CEO), effective January 1, 2007. Per the terms of the agreement the Company is to pay the CEO a salary of \$600,000 per year, payable semi-monthly. In addition, the Company will also pay a cash bonus of 10% of the Company's net income before taxes to the Company that exceeds \$750,000 per quarter. For the six months ended June 30, 2007 the amount of accrued bonus related to this agreement was \$594,132.

**Results of Operations for the Three and Six Months Ended June 30, 2007 compared with 2006**

Revenues: Total revenues increased to \$5,448,548 in the three months ended June 30, 2007 from \$5,151,517 in the prior year period. During the three months ended June 30, 2007, the Company had revenues from oil and gas sales of \$648,548, an increase of \$92,031 or approximately 16.5% compared to \$556,517 for the three months ended June 30, 2006. The Company also had revenues from property and working interest sales of \$4,800,000, an increase of \$205,000 or approximately 4.5% compared to \$4,595,000 for the three months ended June 30, 2006.

Revenues: Total revenues increased to \$10,907,676 in the six months ended June 30, 2007 from \$10,010,797 in the prior year period. During the six months ended June 30, 2007, the Company had revenues from oil and gas sales of \$1,366,833, an increase of \$571,036 or approximately 71.8% compared to \$795,797 for the six months ended June 30, 2006. The Company also had revenues from property and working interest sales of \$9,540,843, an increase of \$325,843 or approximately 3.5% compared to \$9,215,000 for the six months ended June 30, 2006. Based on the increased number of lease acquisitions and the continued effort to produce oil and gas from these leases, the Company anticipates that oil and gas sales in the balance fiscal 2007 will increase but expects that sales of property and working interests will continue to produce the majority of the Company's revenues.

Expenses: Total expenses increased significantly for the three and six months ended June 30, 2007. Total expenses related to the three months ended June 30, 2007 increased to \$2,060,387 from \$1,434,151 in the prior year period and total expenses related to the six months ended June 30, 2007 increased to \$4,120,425 from \$1,808,334 in the prior year period. The increase is attributable primarily to large increases in general and administrative expenses, lease operating costs, bonuses, marketing administration and legal and professional fees. Some of these increases are in expenses directly associated with the increase in business activities over the prior year period. In addition, the Company entered into an employment agreement with its Chief Executive Officer, as described above, that includes the payment of a salary and bonus based on the Company's net income before taxes. The Company has also incurred additional expenses for marketing its property and working interests.

Net Income: Due to the significant increases in expenses outlined above, net income for the three months ended June 30, 2007 decreased to \$2,245,462 from \$2,249,439 in the prior year period and net income for the six months ended June 30, 2007 decreased to \$5,183,717 from \$5,208,674 in the prior year period. Management believes that the increased expenses are necessary to support operations staff and services such that the Company can continue to achieve sales of oil and gas properties and working interests, as well as to continue to acquire, develop and operate additional oil and gas properties. Management plans to continue to aggressively pursue its strategic objectives in the balance of fiscal 2007.

### **Liquidity and Capital Resources**

The Company's need for new capital is directly related to the acquisition of new oil and gas properties and to associated drilling and operating expenses. The Company expects to be able to finance new and existing drilling activities primarily out of cash flow. The Company expects to identify and acquire oil and gas properties for future development where the cost of acquiring a working interest in identified reserves that can be exploited for cost-efficient future production and can be financed by selling a portion of the working interest to be acquired.

Cash and cash equivalents on hand at June 30, 2007, was \$3,634,610 as compared to \$2,733,437 at December 31, 2006. At June 30, 2007, accounts receivable from related parties totaled a net of \$557,497. The related party is a Company that is owned by the Company's President. Accounts receivable totaled \$5,001,485, consisting of amounts received primarily from the sale of 7.5% of the Companies working interest in a property in Texas to an unrelated party for a total of \$6,000,000, less a commission of \$1,200,000.

Property and equipment of the Company at June 30, 2007 was \$58,010, net. Property and equipment consists primarily of vehicles and computer equipment associated with operations.

At June 30, 2007, net oil and gas properties totaled \$21,296,609 compared to \$16,614,718 at December 31, 2006. The increase in oil and gas properties occurred due to management's acquisition of additional oil and gas properties during the six months ended June 30, 2007.



At June 30, 2007, total assets were \$32,125,450 compared to \$24,895,055 at December 31, 2006, due to the acquisition of additional oil and gas properties. Total liabilities increased to \$12,357,926 at June 30, 2007 from \$11,209,788 at December 31, 2006 due primarily to increases in income taxes payable, accrued expenses and accounts payable, offset by a decrease in stock deposits and notes payable.

For the six months ended June 30, 2007, cash flows from operations totaled \$6,655,134 compared to \$4,664,187 for the prior year period. Cash for operations was generated primarily from sales of properties and working interests.

For the six months ended June 30, 2007, cash used by investing activities totaled \$4,943,916, primarily for expenditures for the development of oil and gas properties. In the prior year, cash used by investing activities totaled \$1,610,126, for expenditures for the development of properties.

For the six months ended June 30, 2007, cash used by financing activities was \$810,145, including payments on notes payable and long-term liabilities offset by proceeds from the issuance of common stock for the exercise of outstanding warrants. In the prior year, proceeds from financing activities was \$1,308,602, including proceeds from the issuance of common stock offset by payments on notes payable and long-term liabilities.

Plans for continuing operations. Management believes its business and marketing strategy is proving to be a successful strategy for operations. The Company plans to continue to identify, evaluate, acquire working interests in oil and gas leases; sell a portion of the working interests so acquired; and to explore for, develop and market production from those operations. The Company expects to continue to be able to finance acquisitions through the sale of working interests. Management believes that revenues from operations of developed properties will increase in the balance of fiscal 2007.

## **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 February 2006, the Financial Accounting Standards Board (FASB) issued Statement of Financial Accounting Standard ( SFAS ) 155, Accounting for Certain Hybrid Financial Instruments, which amends SFAS 133, Accounting for Derivative Instruments and Hedging Activities, and SFAS 140, Accounting for Transfers and Servicing of Financial Assets and Extinguishments of Liabilities a replacement of FASB Statement No. 125. SFAS 155 will be effective for all financial instruments issued or acquired after the beginning of an entity's first fiscal year that begins after September 15, 2006. Management has no present expectation of issuing or acquiring any financial instruments likely to be affected by SFAS 155 in the foreseeable future.

In July 2006, the FASB issued Interpretation No. 48 ( FIN 48 ), Accounting for Uncertainty in Income Taxes, an Interpretation of Statement of Financial Accounting Standard No. 109. FIN 48 prescribes a recognition threshold and measurement attribute for the financial statement recognition and measurement of a tax position taken in a tax return. We must determine whether it is more likely than not that a tax position will be sustained upon examination based on the technical merits of the position. FIN 48 is effective for fiscal years beginning after December 15, 2006. Management is currently evaluating the likely impact of adopting FIN 48 on its financial statements.

In September 2006, the FASB issued SFAS 157, Fair Value Measurements, which defines fair value, establishes a framework for measuring fair value, and expands disclosures about fair value measurements. SFAS 157 will be effective for fiscal years beginning after November 15, 2007, and interim periods within those fiscal years. Management does not believe that the application of SFAS 157 will have a material impact on the Company's

consolidated financial statements.

### **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 a named defendant in a personal injury suit, Michael Tripkovich, et al, v Affiliated Holdings, Inc., et al, No. 72217, filed in the 16<sup>th</sup> Judicial District Court, Parish of St. Martin, State of Louisiana filed July 17, 2007. The suit names more than 100 companies and plaintiff requests damages related to exposure to toxic chemicals, including radon and benzene, while plaintiff was working as a natural gas technician. The Company owns working interests in a small number of properties in Louisiana but does not operate any of the properties. At this time, management believes the Company's potential exposure is small but cannot fully assess the suit which is in the early stages.

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

During the Six months ended June 30, 2007, the Company issued 2,200,000 shares through the exercise of common stock warrants at prices ranging from \$0.06 to \$0.20 per share, for total proceeds of \$230,000 and a subscription receivable of \$30,000.

During the six months ended June 30, 2007, the Company issued 5,966,212 shares for cash in the amount of \$687,857, at prices ranging from \$0.05 to \$0.28 per share.

In May 2007, the Company extended the maturity date on 2,000,000 common stock warrants, exercisable at prices ranging from \$0.12 to \$0.16 per share. The extension of these warrants resulted in an additional expense of \$201,399 for the three months ended June 30, 2007.

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**

The Company has appointed Jonathan Niles Havelock as a member of the board of directors, effective August 15, 2007. Since 2001, Mr. Havelock, 51, has been President and Managing Director of Strategic Relations Inc., a company that provides organizations with strategic roadmaps on government, regulatory structures and competing stakeholder interests. From 1993 to 2001, Mr. Havelock served as a Member of the Alberta Legislature for Calgary

Shaw, during which time he held positions of Minister of Economic Development (1999 to 2001) and Minister of Justice and Attorney General (1997 to 1999). Prior to entering the legislature, Mr. Havelock worked in marketing, real estate and law, including as Legal Counsel with Amoco Canada Petroleum Company in Calgary, Alberta (1982 to 1988) and Senior Real Estate Representative with Amoco Corporation in Chicago (1988 to 1989). He has served on the Board of Governors of the Northern Alberta Institute of Technology (2001-2004), as an Alderman for the City of Calgary (1986 to 1988) and on the Calgary Board of Education, as Chair the last two years of his term (1983 to 1986). Mr. Havelock has earned a B. Comm with Honours from the University of Alberta and a B.A. (Law) and M.A. from Downing College, University of Cambridge, England.

Also effective August 15, 2007, the Company has appointed Jeffery Johnson as its Chief Financial Officer. Mr. Johnson is currently a manager with the accounting firm of Stayner Bates & Jensen P.C., in Salt Lake City, Utah. He was formerly a senior auditor with Piercy Bowler Taylor & Kern of Las Vegas, Nevada from 2002 to 2006. Mr. Johnson received a B. A in Business Administration from Southern Utah University in 2002 as well as a Masters of Accountancy degree from Southern Utah University in 2002. He has worked as both an auditor and outside consultant with many small to medium sized public companies in numerous industries.

#### Employment Agreement

On May 10, 2007 the Company entered into an employment agreement with its Chief Executive Officer (CEO), effective January 1, 2007. Per the terms of the agreement the Company is to pay the CEO a salary of \$600,000 per year, payable semi-monthly. In addition, the Company will also pay a cash bonus of 10% of the Company's net income before taxes to the Company that exceeds \$750,000 per quarter. For the period ended June 30, 2007 the amount of accrued bonus related to this agreement was \$594,132.

**ITEM 6 - EXHIBITS**

Exhibit 31.1 - Certification of principal executive and financial officer as adopted pursuant to Section 302 of the Sarbanes-Oxley Act Of 2002

Exhibit 32.1 - Certification of principal executive and 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 14, 2007

By: /s/ Brian Fox

Brian Fox, Chief Executive Officer, President and Chief Financial Officer