

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

POWDER RIVER BASIN GAS CORP  
Form 10KSB  
April 18, 2006

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

FORM 10-KSB

ANNUAL REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES  
EXCHANGE ACT OF 1934

For the fiscal year ended December 31, 2005  
-----

TRANSITION REPORT UNDER SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE  
ACT OF 1934

For the transition period from \_\_\_\_\_ to \_\_\_\_\_

Commission file number 000-31945  
-----

POWDER RIVER BASIN GAS CORP.  
-----

(Name of small business issuer as specified in its charter)

202, 1212 - 31st Avenue NE  
Calgary, Alberta T2E 7S8  
(403) 263-4145  
-----

(Address of principal executive office & telephone number)

Colorado  
-----

84-1521645  
-----

(State of incorporation)

(IRS Employer Identification #)

Securities registered under Section 12(b) of the Exchange Act: None

Securities registered under Section 12(g) of the Exchange Act: Common  
Stock, \$.001 par value

Check whether the issuer (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.

Check if disclosure of delinquent filers in response to Item 405 of  
Regulation SB is not contained in this form, and no disclosure will be  
contained, to the best of registrant's knowledge, in definitive proxy  
or information statements incorporated by reference in Part III of  
this Form 10-KSB or any amendment to this Form 10-KSB

State issuer's revenues for the most recent fiscal year: 2005 \$4,643,965

The current number of shares outstanding of Powder River Basin Gas  
common stock is 115,314,807 as of December 31, 2005.

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

Documents Incorporated by Reference: None

Transitional Small Business Disclosure Format (check one): [ ] Yes  
[X] No

## Table of Contents

Part I		Page
Item 1	Description of Business. . . . .	3
Item 2	Description of Properties. . . . .	5
Item 3	Legal Proceedings. . . . .	7
Item 4	Submission of Matters to a Vote of Security Holders. . . . .	7
Part II		
Item 5	Market for Common Equity and Related Stockholder Matters and Small Business Issuer Purchases of Equity Securities . . . . .	7
Item 6	Management's Discussion and Analysis or Plan of Operation. . . . .	8
Item 7	Financial Statements . . . . .	10
Item 8	Changes In and Disagreements With Accountants on Accounting and Financial Disclosure . . . . .	37
Item 8A	Controls and Procedures. . . . .	37
Item 8B	Other Information. . . . .	37
Part III		
Item 9	Directors, Executive Officers, Promoters and Control Persons; Compliance with Section 16(a) of the Exchange Act. . . . .	37
Item 10	Executive Compensation . . . . .	38
Item 11	Security Ownership of Certain Beneficial Owners and Management and Related Stockholder Matters . . . . .	38
Item 12	Certain Relationships and Related Transactions . . . . .	39
Item 13	Exhibits . . . . .	39
Item 14	Principal Accountant Fees and Services . . . . .	39
	Signatures . . . . .	40

## Part I

### ITEM 1. DESCRIPTION OF BUSINESS

#### (a) BUSINESS DEVELOPMENT

##### 1. Organization.

-----  
Powder River Basis Gas Corp. ("Company") was incorporated as Celebrity Sports Network, Inc. in Colorado on August 29, 1999. On September 5, 2001, Celebrity Sports acquired Powder River Basin Gas Corporation, and on June 13, 2001, Celebrity Sports changed its name to Powder River Basin Gas Corp. Until December, 2003, the Company was essentially dormant.

##### 2. No Bankruptcy or Other Proceedings or Events.

-----  
The Company has not experienced any bankruptcy, receivership

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

proceedings or any material reclassification, merger, consolidation or purchase and sale of assets not in the ordinary course of business.

### 3. Change of Control.

-----  
On December 18, 2003, a group of investors lead by Brian Fox acquired control of the Company by way of the acquisition of a majority of the issued and outstanding shares of the Company. Brian Fox became the sole Director, President and Chief Executive Officer as a result of that transaction.

#### (b) BUSINESS OF ISSUER

##### General.

-----  
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.

### 1. Principal Products and Services.

-----  
The principal products of the Company are working interests in its oil and gas leases and the oil and gas production from those leases. Each sale of working interests is made based upon the evaluation of that property. At December 31, 2005, the Company had a long term arrangement for the sale of working interests in properties which it acquired. The Company has sold most of its working interests to an investor in the Far East. The revenues received from the sale of a portion of the working interests is used by the Company to develop the properties and for working capital expenses. During the year ended December 31, 2005, the Company received gross revenues of \$4,021,083 from the sale of working interests in oil and gas leases. There exist an active market for working interests in oil and gas properties, and the Company does not believe that it will have difficulty in selling working interests in existing or future properties acquired.

2

### 2. Distribution of Products and Services.

-----  
The oil and gas produced production is sold at the wellhead or transported to the nearest market on a spot basis. The Company has no refining, treatment or processing facilities at any of its properties. The Company has no long term contracts for the sale of its oil and gas production. The revenues received from the sale of oil and gas production are added to working capital. Gathering and transportation facilities owned by others are generally available in near proximity to the oil and gas production of the Company. During the year ended December 31, 2005, the Company received gross revenues of \$622,882 from the sale of its oil and gas production at an average price of \$56.64 per barrel of oil and \$7.51 per mcf. Management of the Company expects oil and gas prices to remain above historic levels in the near future.

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

### 3. No New Products or Services.

-----  
The Company has not announced any new products or services during 2005. However, the Company has engaged in the acquisition of working interests in various oil and gas properties during 2005.

During 2005, the Company acquired the Monroe project containing 300 acres (more or less). 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 one 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 960 acres more or less. The Company plans to rework the wells on this project.

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

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.

### 4. Competition.

-----  
The acquisition of working interests in oil and gas properties is highly competitive. The market consists of many purchaser with substantially greater financial, technical and business assets than available to the Company. Likewise, the sale of oil and gas production is competitive.

### 5. Sources of Raw Materials.

-----  
The demand for oil and gas drilling equipment and crews has intensified as the market for oil and gas production and related prices has increased. The Company has not experienced significant delays in procuring the necessary equipment or crews when needed, though such delays may be anticipated in the future.

3

### 6. Dependence Upon Major Customers.

-----  
In the sale of working interests in oil and gas leases, the Company is not dependent upon any major customers, though all of its sales during 2005 were to a single entity. The Company believes that there are a large number of persons and entities interested in purchasing working interests in oil and gas properties, so that the Company is not dependent upon a single buyer. In the sale of its oil and gas production, the Company is dependent upon gathering and transportation facilities owned by

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

others in the near proximity of the wells the Company drills in order to market its production from such wells.

### 7. Patents and Other Intellectual Property Rights.

-----  
The Company has no patents, trademarks, franchises, concessions, royalty arrangements other than those associated with its working interests in oil and gas properties described in Item 2 below.

### 8. Government Regulation.

-----  
Drilling for oil and gas is regulated by state agencies in which the properties are located. Permits and bonds are required to commence such operations. The Company is headquartered in Calgary, Alberta, Canada, and most of its oil and gas operations are located in the United States. Further, the Company has sold working interests in its oil and gas properties to persons and entities who are not citizens of Canada or of the United States. Despite the international nature of its business, the Company has not experienced any material delays or costs in meeting applicable regulatory requirements or in obtaining all requisite authorizations in order to drill and re-complete its wells.

### 9. Future Government Regulation.

-----  
The exploration, production and sale of oil and gas are subject to various government regulations and requirements and future governmental regulation is possible. The Company is not aware of any pending governmental proposals that will have a material effect upon its operations.

### 10. Research and Development.

-----  
The Company has no ongoing research and development program, but the Company spent approximately \$150,000 evaluating and attempting to acquire working interests in leases on oil and gas prospects during 2005.

### 11. Environmental Compliance.

-----  
The Company estimates that it spent approximately \$15,000 during 2005 on compliance with environmental laws, rules and regulations related to its operations.

### 12. Employees.

-----  
At December 31, 2005, the Company had a total of 6 full time and 2 part time employees. Much of the work done for the benefit of the Company is done by independent contractors and third party advisors on an as needed contract basis.

## Item 2. Description of Property

### (a) Principal Properties.

-----  
At December 31, 2005, the Company leased its offices in Calgary and in Tulsa, Oklahoma. These offices were adequate for the needs of the Company.

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

the following shall 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
		-----	-----
		7,916	11,878
		-----	-----

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

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

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

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

The Company does not invest in real estate, real estate mortgages, securities of persons which invest in real estate, except that the Company is engaged in the business of buying and selling working interests in oil and gas leases.

### Item 3. Legal Proceedings

-----

Before current Management purchased control of the Company in December, 2003, a default judgment was taken against the Company in the case styled JOHN SKINNER V. POWDER RIVER BASIN GAS CORP., Case No. 03-D-540 (MJW) in the US District Court for the District of Colorado for \$111,500. The judgment was for services provided to the Company prior to 2003. New management did not learn of the matter until after it acquired control of the Company. On June 29, 2004, the Company settled this judgment by delivering the plaintiff a promissory note for \$115,000 payable in monthly installments of \$3,000 through December, 2006. The Note is secured by the Companies interest in the Zullig Oil and Gas Lease in Sheridan County, WY.

Before current Management purchased control of the Company in November, 2002, a default judgment was taken against the Company in the case styled Enercom, Inc. v. Powder River Basis Gas Corp., Case No. 02-CV 6801 in the District Court of Denver County, Colorado for approximately \$90,000 including post-judgment interest. The judgment was for services allegedly provided to the Company before 2003. New management did not learn of the matter until after it acquired control of the Company. On December 14, 2004, the Company settled this judgment by delivering the plaintiff a promissory note for \$90,000 payable in monthly installments of \$5,000 through July, 2007.

Various other claims have been made against the Company for allegations arising prior to January 1, 2004, as well as other claims, which, when resolved, will not have a material adverse effect upon the Company in the judgment of management of the Company.

### Item 4. Submission of Matters to a Vote of Security Holders

-----

None

## Part II

### Item 5. Market for Common Equity, Related Stockholder Matters and Small Business Issuer Purchases of Equity Securities

-----

(a) MARKET INFORMATION. The Company's common stock is actively traded on the US Over the Counter Market Bulletin Board under symbol "PRVB". The following is the range of bid and asked prices on the OTC during the following periods:

6

Quarter Ended

High

Low

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

-----	-----	-----
March 31, 2004	\$0.05	\$0.05
June 30, 2004	0.05	0.04
September 30, 2004	0.07	0.07
December 31, 2004	0.08	0.08
March 31, 2005	\$0.40	\$0.33
June 30, 2005	0.23	0.21
September 30, 2005	0.25	0.22
December 31, 2005	0.24	0.23

Quotations on the OTC Bulletin Board reflect bid and asked quotations, may reflect inter-dealer prices, without retail markups, mark-downs or commissions, and may not represent actual transactions.

HOLDERS. As of December 31, 2005, the Company estimates that there are more than 400 persons and entities which own beneficial interests in the Company's common stock. Because many shareholders hold their shares in the Company's common stock in the name of their broker-dealers or in other nominee or street names, it is not possible for the Company to be know exactly how many persons own shares of its common stock.

DIVIDENDS. The Company has not paid any dividends on its common stock and it does not intend to do so in the future. There are no restrictions on the Company's ability to pay dividends in the future.

SECURITIES AUTHORIZED FOR ISSUANCE UNDER EQUITY COMPENSATION PLANS. At December 31, 2005, the Company had not adopted any equity compensation plans.

(b) Not applicable

(c) Not applicable

Item 6. Management's Discussion and Analysis or Plan of Operation

-----  
General.  
-----

Until late December 2003, the Company was essentially dormant, holding its oil and gas properties for future development and experiencing significant operating losses. In late December, 2003, the current management of the Company acquired control of the Company by purchasing a controlling block of the issued and outstanding stock of the Company. The Company's current operations consist of acquiring and operating oil and gas properties and exploration and development of oil and gas properties. The Company does not refine or process any of the oil and gas produced from its properties. The Company sells the oil and gas produced from its properties under short-term contracts at market prices, generally at FOB field prices. The Company generally finances the purchase of new oil and gas properties by selling a portion of the working interest the Company acquires.

Liquidity:  
-----

The price of oil at December 31, 2005 was \$49.56 per barrel as compared to \$32.07 per barrel at December 31, 2004. The price of natural



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

gas at December 31, 2005 was 10.02 per mcf as compared with \$6.04 per mcf at December 31, 2004. The Company expects that world demand for oil and gas and the current world political situation, particularly in the major oil and gas producing countries in the Middle East to be uncertain, thereby maintaining upward pressures on the price of oil and gas in the near future.

### 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 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.

### Plan of 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.

### Results of Operations:

#### 2004 to 2005

#### Total Revenues

-----  
Total Revenues during 2005 were \$4,643,965 as compared to \$2,184,880 in 2004.

#### Total Expenses

-----  
Total Expenses increased to \$3,033,599 in 2005 from \$1,089,298 in 2004. This increase is directly attributable to the increase in business activity over 2004.

#### Income before Taxes and non cash expenses

-----  
Income before Taxes and non cash expenses of \$1,510,690 as compared with \$1,048,575 is directly attributable to the effort of management aggressively seeking to acquire, develop and operate additional oil and gas properties and to be able to finance the projects through its strategic marketing program pertaining to working interest sales.

#### Cash

----  
Cash on hand at December 31, 2005 was \$382,861 as compared to \$168,539 at December 31, 2004. The increase in Cash on hand occurred by reason of oil and gas operations of the Company during 2005.

#### Accounts Receivable

-----  
Accounts Receivable at December 31, 2005 was \$2,521,853 as compared to \$1,081,719 at December 31, 2004. The increase in Accounts Receivable occurred by reason of oil and gas operations of the Company during 2005.

Property and Equipment  
-----

Property and Equipment of the Company at December 31, 2005 was \$26,721 as compared to \$12,896 at December 31, 2004. The increase in Property and Equipment occurred by reason of oil and gas operations of the Company during 2005.

Oil and Gas Properties  
-----

Oil and Gas Properties of the Company at December 31, 2005 was \$4,877,734 as compared to \$2,727,158 at December 31, 2004. The increase in Oil and Gas Properties of \$2,150,576 occurred by reason of the acquisition of additional oil and gas properties of the Company during 2005.

Total Assets  
-----

Total Assets of the Company at December 31, 2005 was \$7,824,669 as compared to \$4,005,812 at December 31, 2004. The increase in Total Assets of \$3,818,857 occurred by reason of the acquisition of additional oil and gas properties by the Company during 2005 and the conduct of oil and gas operations during 2005.

Total Current Liabilities  
-----

Total Current Liabilities were \$1,538,696 at December 31, 2005 as compared to \$515,020 at December 31, 2004. The increase of \$1,023,676 in current liabilities is attributable to the increase in income taxes payable and notes payable incurred during 2005.

Shareholders Equity  
-----

Shareholders Equity was \$5,545,973 at December 31, 2005 as compared to \$3,490,792 at December 31, 2004. The increase of \$2,055,181 is largely due to increased acquisition of oil and gas properties, the sale of oil and gas produced for operating those properties and the sale of working interests in properties of the Company.

General and Administrative Expenses  
-----

General and Administrative Expenses increase to \$1,181,374 in 2005 as compared to \$513,854 in 2004. The increase in these expenses occurred primarily because of increased business activity, the addition of staff associated with a higher level of operations and increased accounting, legal, travel and other general administrative expenses.

Item 7. Financial Statement  
-----

The Consolidated Financial Statements of the Company for the year ended December 31, 2005 are included in this Report.

10

POWDER RIVER BASIN GAS CORP.  
CONSOLIDATED FINANCIAL STATEMENTS  
December 31, 2005 and 2004

10

C O N T E N T S

Independent Auditors' Report . . . . .	F-3
Consolidated Balance Sheets. . . . .	F-4
Consolidated Statements of Operations. . . . .	F-6
Consolidated Statements of Comprehensive Income. . . . .	F-7
Consolidated Statements of Stockholders' Equity. . . . .	F-8
Consolidated Statements of Cash Flows. . . . .	F-10
Notes to the Consolidated Financial statements . . . . .	F-12

/Letterhead/

INDEPENDENT AUDITORS' REPORT

To the Stockholders and Board of Directors  
Powder River Basin Gas Corp.  
Calgary, Alberta, Canada

We have audited the accompanying consolidated balance sheets of Powder River Basin Gas Corp. as of December 31, 2005 and the related consolidated statement of operations, stockholders' equity and cash flows for the years ended December 31, 2005 and 2004. These consolidated financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on these consolidated financial statements based on our audits.

We conducted our audits in accordance with standards of the Public Company Accounting Oversight Board (United States). Those standards require that we plan and perform the audits to obtain reasonable assurance about whether the consolidated financial statements are free of material misstatement. An audit also includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements, assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

In our opinion, the consolidated financial statements referred to above present fairly, in all material respects, the consolidated financial position of Powder River Basin Gas Corp. as of December 31, 2005 and the consolidated results of their operations and their cash flows for the years ended December 31, 2005 and 2004, in conformity with accounting principles generally accepted in the United States of America.

Chisholm, Bierwolf & Nilson, LLC  
Bountiful, Utah  
February 20, 2006

POWDER RIVER BASIN GAS CORP  
Consolidated Balance Sheet

ASSETS  
-----

December 31,  
2005

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

-----	
CURRENT ASSETS	
Cash	\$ 382,861
Accounts receivable (Notes 1 and 4)	2,521,853
-----	
Total Current Assets	2,904,714
-----	
PROPERTY AND EQUIPMENT (Net) (Notes 1 and 2)	26,721
-----	
OIL AND GAS PROPERTIES USING FULL COST ACCOUNTING (Note 1)	
Properties not subject to amortization	3,535,724
Properties being amortized	1,367,251
Accumulated amortization	(25,241)
-----	
Net Oil and Gas Properties	4,877,734
-----	
OTHER ASSETS	
Deposits and other assets	15,500
-----	
Total Other Assets	15,500
-----	
TOTAL ASSETS	\$ 7,824,669
=====	
LIABILITIES AND STOCKHOLDERS' EQUITY	
-----	
CURRENT LIABILITIES	
Accounts payable	\$ 51,739
Income taxes payable (Note 1)	811,355
Note payable, related party (Notes 3 and 4)	46,902
Notes payable (Note 3)	1,368,700
-----	
Total Current Liabilities	2,278,696
-----	
Total Liabilities	2,278,696
-----	
COMMITMENTS AND CONTINGENCIES (Note 5)	
STOCKHOLDERS' EQUITY	
Common stock, 200,000,000 shares authorized of \$0.001 par value, 115,314,807 shares issued and outstanding, respectively	115,314
Capital in excess of par value	7,678,394
Subscriptions receivable (Note 6)	(259,333)
Other comprehensive income (Note 10)	2,705
Accumulated deficit	(1,991,107)
-----	
Total Stockholders' Equity	\$ 5,545,973
-----	
TOTAL LIABILITIES AND STOCKHOLDERS' EQUITY	\$ 7,824,669
=====	

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

The accompanying notes are an integral part of these financial statements  
F-4

## POWDER RIVER BASIN GAS CORP Consolidated Statements of Operations

	For the Years Ended December 31,	
	2005	2004
<b>REVENUE</b>		
Oil and gas sales	\$ 622,882	\$ 248,328
Property and working interest sales	4,021,083	1,936,552
	4,643,965	2,184,880
<b>EXPENSES</b>		
Depreciation, depletion and amortization	22,985	5,773
Bad debt expense	54,046	-
General and administrative	1,181,374	513,854
Commission on working interest sales	482,500	472,646
Value of warrants granted for marketing, legal and consulting costs	467,782	-
Stock compensation	566,250	-
Lease operating costs	258,662	97,025
	3,033,599	1,089,298
<b>NET OPERATING INCOME</b>	1,610,366	1,095,582
<b>OTHER INCOME (EXPENSE)</b>		
Litigation settlement (Note 9)	(90,000)	-
Interest expense	(9,676)	(47,007)
	(99,676)	(47,007)
<b>NET INCOME BEFORE INCOME TAXES</b>	1,510,690	1,048,575
<b>INCOME TAXES (Note 1)</b>	(811,355)	-
<b>NET INCOME</b>	\$ 699,335	\$ 1,048,575
<b>BASIC INCOME PER COMMON SHARE</b>	\$ 0.01	\$ 0.01
<b>WEIGHTED AVERAGE NUMBER OF COMMON SHARES OUTSTANDING</b>	108,326,453	92,967,515

The accompanying notes are an integral part of these financial statements.  
F-5

## POWDER RIVER BASIN GAS CORP Consolidated Statements of Comprehensive Income (Loss)

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

	For the Years Ended December 31,	
	2005	2004
	-----	-----
NET INCOME	\$ 699,335	\$ 1,048,575
OTHER COMPREHENSIVE INCOME		
Foreign currency translation adjustment	-	2,705
	-----	-----
Total Other Comprehensive Income (Note 7)	-	2,705
	-----	-----
NET COMPREHENSIVE INCOME	\$ 699,335	\$ 1,051,280
	=====	=====

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

F-6

POWDER RIVER BASIN GAS CORP  
Consolidated Statements of Stockholders' Equity (Deficit)

Additional    Subscri-    Compre-    Accumu-

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

	Common Stock Shares	Stock Amount	Paid-in Capital	ption Receivable	hensive Income	lated Deficit
	-----	-----	-----	-----	-----	-----
Balance, December 31, 2003	84,387,833	\$84,387	\$5,316,524	\$ -	\$ -	\$(3,739,017)
Common stock issued for conversion of debt at \$0.023 per share	3,440,856	3,441	76,559	-	-	-
Common stock issued for cash at \$0.04 per share	2,500,000	2,500	97,500	-	-	-
Common stock issued for cash at \$0.04 per share	1,250,000	1,250	48,750	-	-	-
Common stock issued for debt financing costs and interest at \$0.024 per share	2,918,939	2,919	65,899	-	-	-
Common stock issued for cash at \$0.04 per share	1,250,000	1,250	48,750	-	-	-
Common stock issued for cash at \$0.04 per share	2,000,000	2,000	78,000	-	-	-
Common stock issued for conversion of debt at \$0.064 per share	4,583,333	4,583	286,817	-	-	-
Common stock issued for services at \$0.05 per share	1,100,000	1,100	53,900	-	-	-
Common stock issued for services at \$0.07 per share	620,000	620	42,780	-	-	-
Foreign						



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

currency translation adjustment	-	-	-	-	2,705	-
---------------------------------	---	---	---	---	-------	---

The accompanying notes are an integral part of these financial statements  
F-7

POWDER RIVER BASIN GAS CORP  
Consolidated Statements of Stockholders' Equity (Deficit)

	Common Stock Shares	Stock Amount	Additional Paid-in Capital	Subscri- ption Receivable	Compre- hensive Income	Accumu- lated Deficit
	-----	-----	-----	-----	-----	-----
Net income for the year ended December 31, 2004	-	-	-	-	-	1,048,575
Balance, December 31, 2004	104,050,961	104,050	6,115,479	-	2,705	(2,690,442)
Common stock issued in acquisition of properties at \$0.10 per share	2,208,133	2,208	218,605	-	-	-
Issuance of common stock warrants	-	-	91,650	-	-	-
Common stock issued for cash in exercise of common stock warrants at \$0.05 per share	1,000,000	1,000	49,000	(50,000)	-	-
Common stock issued for cash in exercise of common stock warrants at \$0.06 per share	1,000,000	1,000	59,000	-	-	-
Common stock issued for services at \$0.21 per						

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

share	119,047	119	24,881	-	-	-
Common stock issued for services at \$0.25 per share	500,000	500	124,500	-	-	-
Common stock issued for services at \$0.185 per share	2,250,000	2,250	414,000	-	-	-
Issuance of common stock warrants	-	-	376,132	-	-	-

The accompanying notes are an integral part of these financial statements  
F-8

POWDER RIVER BASIN GAS CORP  
Consolidated Statements of Stockholders' Equity (Deficit)

	Common Shares	Stock Amount	Additional Paid-in Capital	Subscri- ption Receivable	Compre- hensive Income	Accumu- lated Deficit
	-----	-----	-----	-----	-----	-----
Common stock issued for cash in exercise of common stock warrants at \$0.05 per share	4,186,666	4,187	205,147	(209,333)	-	-
Net income for the year ended December 31, 2005	-	-	-	-	-	699,335
	-----	-----	-----	-----	-----	-----
Balance, December 31, 2005	115,314,807	\$ 115,314	\$7,678,394	\$ (259,333)	\$ 2,705	\$ (1,991,107)
	=====	=====	=====	=====	=====	=====

The accompanying notes are an integral part of these financial statements  
F-9

POWDER RIVER BASIN GAS CORP  
Consolidated Statements of Cash Flows

	For the Years Ended December 31,	
	2005	2004
	-----	-----
CASH FLOWS FROM OPERATING ACTIVITIES:		
Net income	\$ 699,335	\$ 1,048,575
Adjustments to reconcile net income to net cash provided by operating activities:		
Depreciation, depletion and amortization	22,984	5,773
Additional expense for granting of warrants	467,782	-
Common stock issued for services rendered	566,250	98,400
Changes in operating assets and liabilities:		
Increase in accounts receivable	(1,440,134)	(826,445)
(Increase) decrease in deposits and other assets	25,000	(15,500)
Increase in taxes payable	811,355	-
Increase in accounts payable and accrued expenses	28,645	34,941
	-----	-----
Net Cash Provided by Operating Activities	1,181,217	345,744
CASH FLOWS FROM INVESTING ACTIVITIES:		

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

Expenditures for oil and gas property development	(1,124,091)	(230,297)
Expenditures for property and equipment	(16,397)	(13,039)
Proceeds from sale of interest in leases	453,917	-
	-----	-----
Net Cash (Used in) Investing Activities	(686,571)	(243,336)
CASH FLOWS FROM FINANCING ACTIVITIES:		
Proceeds from notes payable and long-term liabilities	90,000	75,000
Payments on notes payable and long-term liabilities	(430,324)	(291,574)
Proceeds from issuance of common stock	60,000	280,000
	-----	-----
Net Cash Provided by (Used in) Financing Activities	(280,324)	63,426
EFFECT OF CURRENCY EXCHANGE RATE CHANGES ON CASH AND CASH EQUIVALENTS		
	-	2,705
NET INCREASE IN CASH	214,322	168,539
CASH AND CASH EQUIVALENTS AT BEGINNING OF PERIOD	168,539	-
	-----	-----
CASH AND CASH EQUIVALENTS AT END OF PERIOD	\$ 382,861	\$ 168,539
	=====	=====

The accompanying notes are an integral part of these financial statements  
F-10

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

	For the Years Ended December 31,	
	2005	2004
	-----	-----
	(Restated)	
SUPPLEMENTAL CASH FLOW INFORMATION		
CASH PAID FOR:		
Interest	\$ 9,676	\$ 22,226
Income taxes	\$ -	\$ -
NON-CASH FINANCING ACTIVITIES		
Common stock issued for satisfaction of debt and interest	\$ -	\$ 440,218
Common stock issued for acquired oil and gas properties	\$ 220,814	\$ -
Oil and gas properties acquired through the issuance of debt	\$1,305,000	\$ 427,500
Common stock issued for services rendered	\$ 566,250	\$ 98,400
Common stock issued for retirement of payables	\$ -	\$ 68,818

The accompanying notes are an integral part of these financial statement.  
F-11

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

NOTE 1 - ORGANIZATION AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

a. Organization

The Company was incorporated under the laws of Colorado on August 27, 1999 as Celebrity Sports Network, Inc. The principal activities since inception have been organizational matters and obtaining financing. The Company was formed in an effort to broaden the scope of public appearances available to current and former professional athletes. The Company, however, changed their operations in 2001 through a reverse acquisition with Powder River Basin Gas Corp., an oil and gas company.

Power River Basin Gas Corp. (PRBG) was incorporated in the state of Colorado on June 13, 2001. The Company is engaged in the business of assembling and managing a portfolio of undeveloped acreage in the Powder River basin coal bed methane (CBM) play in Sheridan County, Wyoming. This acreage is located in a proven geological setting and near operators such as Western Gas Resources, Barrett Resources, Phillips Petroleum, J.M. Huber and others. The Company has leasehold interests in 8,097 net acres. Two wells have been drilled on one lease and eleven additional wells have been spudded. During 2004, the Company also purchased a 960 acre oil and gas lease in Louisiana which has nine wells. Five of the wells are in production and the other four require rework and cleanout to be activated. In November 2004, the Company purchased twenty-two wells in Louisiana, which also require rework and cleanout to be activated. Also during 2004, the Company purchased a 25% working interest in nine wells in Osage County, Oklahoma.

During 2005, the following properties were acquired:

- A 75% working interest in Lincoln County, Oklahoma, containing 960 acres.

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

- A reactivation project called the Monroe project, containing 300 acres.
- The Kirby lease in Polk County, TX containing one producer and one injection well.
- A 75% working interest in the Weesatche project in Goliad County, Texas, containing approximately 2300 acres.

Pursuant to a reverse acquisition and reorganization agreement, PRBG was acquired by Celebrity Sports on September 5, 2001. At the time of the acquisition, the Company changed its name to Power River Basin Gas Corp. and issued 9,000,000 shares of common stock for all the issued and outstanding stock of PRBG; thus, making PRBG a wholly-owned subsidiary of the Company. Because PRBG is the accounting acquirer in the reverse acquisition, all financial history in these financial statements are that of PRBG.

The Company issued 9,000,000 shares of common stock for the receipt of 9,000,000 shares of PRBG, therefore, an adjustment to the shares outstanding was necessary to reflect the other shareholders of the Company at the time of acquisition. No goodwill was recorded in the acquisition, and the purchase method of accounting was issued in recording the business combination.

### b. Accounting Method

The Company's consolidated financial statements are prepared using the accrual method of accounting. The Company has elected a December 31 year-end.

### c. Basis of Consolidation

The consolidated financial statements include the accounts of Celebrity Sports Network, Inc. and PRBG. All significant inter-company accounts and transactions have been eliminated in the consolidation.

F-12

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

#### NOTE 1 - ORGANIZATION AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

### d. Use of Estimates

The preparation of financial statements in conformity with generally accepted accounting principles requires management to make estimates and assumptions that affect reported amounts of assets and liabilities, disclosure of contingent assets and liabilities at the date of the financial statements and revenues and expenses during the reporting period. In these consolidated financial statements assets and liabilities involve extensive reliance on management's estimates. Actual results could differ from those estimates.

### e. Cash and Cash Equivalents

The Company considers all highly liquid investments with maturities of three months or less to be cash equivalents.

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

### f. Bad Debts

Bad debts on receivables are charged to expense in the year the receivable is determined uncollectible, therefore, no allowance for doubtful accounts is included in the consolidated financial statements. Amounts determined as uncollectible are not significant to the overall presentation of the consolidated financial statements.

### g. Revenue and Cost Recognition

#### 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 years ended December 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 costs to be amortized. During the years ended December 31, 2005 and 2004, the Company recorded depletion of \$25,241 and \$5,630 on its properties. All other wells are incomplete as of December 31, 2005 and 2004.

#### Sale of Working Interests

-----

The company is also in the business of selling working interest to an investment group in Singapore. As the Company finds and purchases new properties, it makes arrangements to sell a 25% interest to various individuals referred by the Singapore group. The revenues are recorded as operating revenues and all commissions associated from the sale are expensed in operating expenses. The related 25% capitalized cost of the property sold is removed from the oil and gas property account and offset against the proceeds to calculate the net revenue recorded in operating revenues.

F-13

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

NOTE 1 - ORGANIZATION AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES  
(Continued)

### h. Income (Loss) Per Share

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

The computation of income (loss) per share of common stock is based on the weighted average number of shares outstanding at the date of the consolidated financial statements.

	Income (Numerator)	Shares (Denominator)	Per-Share Amount
	-----	-----	-----
For the year ended December 31, 2005:			
Basic EPS			
Income to common stockholders	\$ 699,335	108,326,453	\$ 0.01
	=====	=====	=====
For the year ended December 31, 2004:			
Basic EPS			
Income to common stockholders	\$ 1,048,575	92,967,515	\$ 0.01
	=====	=====	=====

### i. Income Taxes

Income taxes are provided for the tax effects of transactions reported in the financial statements and consist of taxes currently due plus deferred taxes. Deferred taxes are provided on a liability method whereby deferred tax assets are recognized for deductible temporary differences and operating loss, tax credit carry-forwards, and deferred tax liabilities are recognized for taxable temporary differences. Temporary differences are the differences between the reported amounts of assets and liabilities and their tax bases. Deferred tax assets are reduced by a valuation allowance when, in the opinion of management, it is more likely than not that some portion or all of the deferred tax will not be realized. Deferred tax assets and liabilities are adjusted for the effects of changes in tax laws and rates on the date of enactment.

The income tax provision differs from the amount of income tax as determined by applying the U.S. federal income tax rate of 34% to pretax income (loss) from operations due to the following:

	For the Years Ended December 31,	
	2005	2004
	-----	-----
Net income	\$ 513,634	\$ 356,515
Stock issued for services	297,721	33,456
Depreciation and amortization	-	(5,440)
NOL carryforward applied to current year	(49,970)	(370,592)
Valuation allowance	49,970	(13,939)
	-----	-----
Net tax provision	\$ 811,355	\$ -
	=====	=====



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

F-14

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

NOTE 1 - ORGANIZATION AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES  
(Continued)

i. Income Taxes (Continued)

At December 31, 2004, the Company had net operating loss carryforwards of approximately \$146,971 that was used during the year ended December 31, 2005.

Net deferred tax assets (liabilities) consist of the following components:

	December 31,	
	2005	2004
Operating loss carryforwards	\$ -	\$ 49,970
Valuation allowance	-	(49,970)
Net deferred tax assets (liabilities)	\$ -	\$ -
	=====	=====

j. Property and Equipment

Property and equipment is stated at cost. Expenditures that materially increase useful lives are capitalized, while ordinary maintenance and repairs are expensed as incurred. Depreciation is computed using the straight-line method over the estimated useful lives of the respective assets, ranging as follows:

Vehicles	5 years
Computer equipment	3 years

k. Impairment of Long-Lived Assets

In accordance with Financial Accounting Standards Board Statement No. 121, the Company records impairment of long-lived assets to be held and used or to be disposed of when indicators of impairment are present and the undiscounted cash flows estimated to be generated by those assets are less than the carrying amount. At December 31, 2005 and 2004, no impairments were recognized.

l. Financial Instruments

The recorded amounts of financial instruments, including cash equivalents, accounts payable and accrued expenses, and long-term debt approximate their market values as of December 31, 2005 and 2004. The Company has no investments in derivative financial

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

instruments.

F-15

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

NOTE 1 - ORGANIZATION AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES  
(Continued)

m. Concentrations of Risk

Functional Currency & Foreign Currency Translation  
-----

The Company's functional currency is the U.S. dollar. In accordance with the Statement of Financial Accounting Standard No. 52, Foreign Currency Translation, the assets and liabilities denominated in foreign currency are translated into U.S. dollars at the current rate of exchange existing at period end and revenues and expenses are translated at average monthly exchange rates. Related translation adjustments are reported as a separate component of stockholders' equity, whereas, gains or losses relating from foreign currency transactions are included in the results of operations.

Cash  
----

The Company has, in its bank account, funds in excess of the \$100,000 that is federally insured. In the event of the failure of the bank, the Company would sustain a loss of funds that exceed \$100,000. At December 31, 2005, the amount of funds in a single account that exceeded the federally insured limit was \$341,226.

n. Newly Adopted Pronouncements

In November 2004, the FASB issued SFAS No. 151 "Inventory Costs, an amendment of ARB No. 43, Chapter 4. The amendments made by Statement 151 clarify that abnormal amounts of idle facility expense, freight, handling costs, and wasted materials (spoilage) should be recognized as current-period charges and require the allocation of fixed production overheads to inventory based on the normal capacity of the production facilities. The guidance is effective for inventory costs incurred during fiscal years beginning after June 15, 2005. Earlier application is permitted for inventory costs incurred during fiscal years beginning after November 23, 2004. The Company has evaluated the impact of the adoption of SFAS 151, and does not believe the impact will be significant to the Company's overall results of operations or financial position.

In December 2004, the FASB issued SFAS No.152, "Accounting for Real Estate Time-Sharing Transactions--an amendment of FASB Statements No. 66 and 67" ("SFAS 152) The amendments made by Statement 152 This Statement amends FASB Statement No. 66, Accounting for Sales of Real Estate, to reference the financial accounting and reporting guidance for real estate time-sharing

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

transactions that is provided in AICPA Statement of Position (SOP) 04-2, Accounting for Real Estate Time-Sharing Transactions. This Statement also amends FASB Statement No. 67, Accounting for Costs and Initial Rental Operations of Real Estate Projects, to state that the guidance for (a) incidental operations and (b) costs incurred to sell real estate projects does not apply to real estate time-sharing transactions. The accounting for those operations and costs is subject to the guidance in SOP 04-2. This Statement is effective for financial statements for fiscal years beginning after June 15, 2005. The Company has evaluated the impact of the adoption of SFAS 152, and does not believe the impact will be significant to the Company's overall results of operations or financial position.

F-16

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

NOTE 1 - ORGANIZATION AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES  
(Continued)

n. Newly Adopted Pronouncements (Continued)

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 Statement 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 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. Previously, Opinion 29 required that the accounting for an exchange of a productive asset for a similar productive asset or an equivalent interest in the same or similar productive asset should be based on the recorded amount of the asset relinquished. Opinion 29 provided an exception to its basic measurement principle (fair value) for exchanges of similar productive assets. The Board believes that exception required that some nonmonetary exchanges, although commercially substantive, be recorded on a carryover basis. By focusing the exception on exchanges that lack commercial substance, the Board believes this Statement produces financial reporting that more faithfully represents the economics of the transactions. The Statement is effective for nonmonetary asset exchanges occurring in fiscal periods beginning after June 15, 2005. Earlier application is permitted for nonmonetary asset exchanges occurring in fiscal periods beginning after the date of issuance. The provisions of this Statement shall be applied prospectively. The Company has evaluated the impact of the adoption of SFAS 153, and does not believe the impact will be significant to the Company's overall results of operations or financial position.

In December 2004, the FASB issued SFAS No.123 (revised 2004), "Share-Based Payment". Statement 123(R) will provide investors and other users of financial statements with more complete and

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

neutral financial information by requiring that the compensation cost relating to share-based payment transactions be recognized in financial statements. That cost will be measured based on the fair value of the equity or liability instruments issued. Statement 123(R) covers a wide range of share-based compensation arrangements including share options, restricted share plans, performance-based awards, share appreciation rights, and employee share purchase plans. Statement 123(R) replaces FASB Statement No. 123, Accounting for Stock-Based Compensation, and supersedes APB Opinion No. 25, Accounting for Stock Issued to Employees. Statement 123, as originally issued in 1995, established as preferable a fair-value-based method of accounting for share-based payment transactions with employees. However, that Statement permitted entities the option of continuing to apply the guidance in Opinion 25, as long as the footnotes to financial statements disclosed what net income would have been had the preferable fair-value-based method been used. Public entities (other than those filing as small business issuers) will be required to apply Statement 123(R) as of the first interim or annual reporting period that begins after June 15, 2005. The Company adopted Statement 123(R) in December of 2005.

In December 2004, the Financial Accounting Standards Board issued two FASB Staff Positions - FSP FAS 109-1, Application of FASB Statement 109 "Accounting for Income Taxes" to the Tax Deduction on Qualified Production Activities Provided by the American Jobs Creation Act of 2004, and FSP FAS 109-2 Accounting and Disclosure Guidance for the Foreign Earnings Repatriation Provision within the American Jobs Creation Act of 2004. Neither of these affected the Company as it does not participate in the related activities.

F-17

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

NOTE 1 - ORGANIZATION AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES  
(Continued)

n. Newly Adopted Pronouncements (Continued)

In March 2005, the SEC released Staff Accounting Bulletin No. 107, "Share-Based Payment" ("SAB 107"), which provides interpretive guidance related to the interaction between SFAS 123(R) and certain SEC rules and regulations. It also provides the SEC staff's views regarding valuation of share-based payment arrangements. In April 2005, the SEC amended the compliance dates for SFAS 123(R), to allow companies to implement the standard at the beginning of their next fiscal year, instead of the next reporting period beginning after June 15, 2005. Management is currently evaluating the impact SAB 107 will have on our consolidated financial statements.

In March 2005, the FASB issued FASB Interpretation No. 47, "Accounting for Conditional Asset Retirement Obligations" ("FIN 47"). FIN 47 provides guidance relating to the identification of and financial reporting for legal obligations to perform an asset retirement activity. The Interpretation requires recognition of a

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

liability for the fair value of a conditional asset retirement obligation when incurred if the liability's fair value can be reasonably estimated. FIN 47 also defines when an entity would have sufficient information to reasonably estimate the fair value of an asset retirement obligation. The provision is effective no later than the end of fiscal years ending after December 15, 2005. The Company will adopt FIN 47 beginning the first quarter of fiscal year 2006 and does not believe the adoption will have a material impact on its consolidated financial position or results of operations or cash flows.

In May 2005, the FASB issued FASB Statement No. 154, "Accounting Changes and Error Corrections." This new standard replaces APB Opinion No. 20, "Accounting Changes, and FASB Statement No. 3, Reporting Accounting Changes in Interim Financial Statements," and represents another step in the FASB's goal to converge its standards with those issued by the IASB. Among other changes, Statement 154 requires that a voluntary change in accounting principle be applied retrospectively with all prior period financial statements presented on the new accounting principle, unless it is impracticable to do so. Statement 154 also provides that (1) a change in method of depreciating or amortizing a long-lived non-financial asset be accounted for as a change in estimate (prospectively) that was effected by a change in accounting principle, and (2) correction of errors in previously issued financial statements should be termed a "restatement." The new standard is effective for accounting changes and correction of errors made in fiscal years beginning after December 15, 2005. Early adoption of this standard is permitted for accounting changes and correction of errors made in fiscal years beginning after June 1, 2005. The Company has evaluated the impact of the adoption of Statement 154 and does not believe the impact will be significant to the Company's overall results of operations or financial position.

In February of 2006, the FASB issued SFAS No. 155, "Accounting for Certain Hybrid Financial Instruments", which is intended to simplify the accounting and improve the financial reporting of certain hybrid financial instruments (i.e., derivatives embedded in other financial instruments). The statement amends SFAS No. 133, "Accounting for Derivative Instruments and Hedging Activities", and SFAS No. 140, "Accounting for Transfers and Servicing of Financial Assets and Extinguishments of Liabilities a replacement of FASB Statement No. 125." SFAS No. 155 is effective for all financial instruments issued or acquired after the beginning of an entity's first fiscal year that begins after September 15, 2006. The Company is currently evaluating the impact SFAS No. 155 will have on its consolidated financial statements, if any.

F-18

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

### NOTE 2 - PROPERTY AND EQUIPMENT

Property and equipment consisted of the following:

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

	December 31,	
	2005	2004
Vehicles	\$ 24,856	\$ 8,600
Computer equipment	4,439	4,439
Totals	29,295	13,039
Less: accumulated depreciation	(2,574)	(143)
Property and Equipment    Net	\$ 26,721	\$ 12,896

Depreciation expense for the years ended December 31, 2005 and 2004 was \$3,373 and \$143, respectively.

F-19

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

NOTE 3 - NOTES PAYABLE

Notes payable are detailed in the following schedules:

	December 31,	
	2005	2004
Note payable to an individual, due on demand, non-interest bearing.	\$ 69,000	\$ 146,000
Note payable to a related company, due on demand, including interest at 12%.	46,902	137,226
Note payable to a company, due on demand, non-interest bearing.	320,000	-
Note payable to a company, \$5,000 due monthly, non-interest bearing.	35,000	-
Note payable to a company, due in February 2006 Non-interest bearing.	740,000	-
Note payable to a company, due on demand, non-interest bearing.	204,700	208,700
Total Notes Payable	1,415,602	491,926
Less: related party note	(46,902)	(137,226)
Less: current portion	(1,368,700)	(354,700)

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

	-----	-----
Total Long-Term Notes Payable	\$	-
	-	-
	=====	=====

### NOTE 4 - RELATED PARTY TRANSACTIONS

As of December 31, 2005 and 2004, the Company was owed \$649,519 and \$265,193; respectively, from a related company. This amount is included in accounts receivable.

As of December 31, 2005 and 2004, the Company had a note payable due to a related company in the amount of \$46,902 and \$137,226, respectively. The note payable is due upon demand and bears interest at 12% per annum.

### NOTE 5 - COMMITMENTS AND CONTINGENCIES

The Company has entered into various oil and gas leases from several land owners. Associated with the agreements, the Company is committed to various royalty agreements ranging from 15% to 25% of gross revenue production. Some of the leases also provide for a minimum royalty. As of December 31, 2005 and 2004, no royalties were due.

F-20

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

### NOTE 6 - STOCK TRANSACTIONS

On February 24, 2004, the Company issued 3,440,856 shares of common stock in satisfaction of \$260,000 of notes payable at \$0.023 per share.

On June 4, 2004, the Company issued 2,500,000 shares of common stock for cash at \$0.04 per share.

On August 3, 2004, the Company issued 1,250,000 shares of common stock for cash at \$0.04 per share.

On August 3, 2004, the Company issued 2,918,939 shares of common stock in satisfaction of debt financing costs and interest at \$0.024 per share.

On September 1, 2004, the Company issued 1,250,000 shares of common stock for cash at \$0.04 per share.

On September 24, 2004, the Company issued 2,000,000 shares of common stock for cash at \$0.04 per share.

On September 24, 2004, the Company issued 4,583,333 shares of common stock for the conversion of debt at \$0.064 per share.

On September 24, 2004, the Company issued 1,100,000 shares of common stock for the reduction of wages at \$0.05 per share.

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

On December 6, 2004, the Company issued 620,000 shares of common stock for sales bonuses at \$0.07 per share.

During the March 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.

Also during March 2005, the Company issued an additional 2,208,133 shares of common stock for an additional working interest in a property. The issuance was valued at \$.10 per share.

During 2005, the Company issued 1,000,000 shares of common stock through the exercise of common stock warrants at \$0.06 per share for total cash proceeds of \$60,000. In addition, during 2005, the Company issued an additional 5,186,666 shares of common stock through the exercise of common stock warrants at \$0.05 per share for subscriptions receivable totaling \$259,333.

During 2005, the Company issued a total of 2,869,047 shares of common stock at prices ranging from \$0.185 to \$0.25 per share to various employees and consultants for services rendered totaling \$566,250. The shares were valued based upon the market price of the shares on the date of issuance.

F-21

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

NOTE 7 - PROPERTY AND WORKING INTEREST SALES

As previously discussed, during the March 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).

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.

On August 22, 2005, the Company sold a working interest in a separate producing property to an unrelated party for a total of \$1,200,000, less a commission of \$240,000, resulting in a gain on the sale of \$946,083.

During the year ended December 31, 2004, the Company made sales of working interests in certain of its oil and gas properties to various unrelated parties that resulted in revenues of \$1,936,552.



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

### NOTE 8 - COMMON STOCK WARRANTS

During the year ended December 31, 2005, the Company granted a total of 9,200,000 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
4,000,000	\$ 0.185	December 31, 2007 (see note below)
500,000	\$ 0.21	December 31, 2007
100,000	\$ 0.185	December 31, 2006
100,000	\$ 0.30	December 31, 2007
200,000	\$ 0.20	August 31, 2006
200,000	\$ 0.30	August 31, 2007

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 \$467,782 was recorded for the year ended December 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 2.42 years
Expected volatility	126.40%
Dividend yield	0.00%

F-22

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

### NOTE 8 - COMMON STOCK WARRANTS (Continued)

Note: A total of 2,000,000 of these options were granted to an employee of the Company, were issued at the market price of the Company's common stock on the date of issue and are accounted for under APB 25, "Accounting for Stock Issued to Employees". As such, no compensation expense was recognized. Had compensation cost for the issuance of the options been determined based on fair market value at the grant dates consistent with the method of FASB Statement 123, "Accounting for Stock Based Compensation," our net income and income per share would have changed, as noted with the pro forma amounts indicated below:

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

	December 31,	
	2005	2004
Net income as reported	\$ 699,335	\$ 1,048,575
Pro forma	\$ 445,599	\$ 1,048,575
Basis income per share		
As reported	\$ 0.01	\$ 0.01
Pro forma	\$ 0.01	\$ 0.01

NOTE 9 - LITIGATION SETTLEMENT

During the year ended December 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.

NOTE 10 - OTHER COMPREHENSIVE INCOME

The Company reports other comprehensive income in accordance with Statement of Financial Accounting Standards No. 130, "Reporting Comprehensive Income" ("SFAS No. 130"). SFAS No. 130 establishes standards for reporting in the financial statements all changes in equity during a period, except those resulting from investments by and distributions to owners. The cumulative effect of foreign currency translation adjustments to a cash account held by the Company in Canadian dollars, which is included in other comprehensive income in the stockholders' equity section, consisted of the following:

	December 31,	
	2005	2004
Balance, beginning of year	\$ 2,705	\$ -
Effect of currency exchange rate changes	-	2,705
Balance, end of year	\$ 2,705	\$ 2,705

F-23

POWDER RIVER BASIN GAS CORP.  
S.F.A.S. 69 Supplemental Disclosures  
December 31, 2005 and 2004  
(Unaudited)

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

## S.F.A.S. 69 SUPPLEMENTAL DISCLOSURES

- (1) Capitalized Costs Relating to  
Oil and Gas Producing Activities  
(In Thousands)

	December 31,	
	2005	2004
Proved oil and gas producing properties and related lease and well equipment	\$ 1,367	\$ 1,063
Accumulated depreciation and depletion	(25)	(5)
Net Capitalized Costs	\$ 1,342	\$ 1,058

- (2) Costs Incurred in Oil and Gas Property  
Acquisition, Exploration, and Development Activities  
(In Thousands)

	December 31,	
	2005	2004
Acquisition of Properties		
Proved	\$ 882	\$ -
Unproved	777	502
Exploration Costs	-	-
Development Costs	1,508	56
Total Costs incurred	\$ 3,168	\$ 658

The Company does not have any investments accounted for by the equity method.

- (3) Results of Operations for  
Producing Activities  
(In Thousands)

	December 31,	
	2005	2004
Sales	\$ 623	\$ 248
Production costs	(259)	(97)
Depreciation and depletion	-	(5)
Results of operations for producing		

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

activities (excluding corporate overhead and interest costs)	\$	364	\$	146
		=====		=====

F-24

POWDER RIVER BASIN GAS CORP.  
S.F.A.S. 69 Supplemental Disclosures (Continued)  
December 31, 2005 and 2004  
(Unaudited)

S.F.A.S. 69 SUPPLEMENTAL DISCLOSURES (Continued)

(4) Reserve Quantity Information  
(In Thousands)

	Oil BBL	Gas MCF
	-----	-----
Proved developed and undeveloped reserves:		
Balance, December 31, 2004	446	601
Change in estimates	(211)	236
Production	(6)	-
Purchases of Reserves in place	2,855	118,727
Balance, December 31, 2005	3,084	119,565

Proved developed reserves: (in Thousands)

	Oil BBL	Gas MCF
	-----	-----
Beginning of the year ended December 31, 2005	446	601
End of the year ended December 31, 2005	374	838

The Company has reserve studies and estimates prepared on the various properties acquired and developed. The difficulties and uncertainties involved in estimating proved oil and gas reserves makes comparisons between companies difficult. Estimation of reserve quantities is subject to wide fluctuations because it is dependent on judgmental interpretation of geological and geophysical data.

(5) Standardized Measure of Discounted  
Future Net Cash Flows Relating to  
Proved Oil and Gas Reserves

The standardized measure of discounted future net cash flows is computed by applying year-end prices of oil and gas (with consideration of price changes only to the extent provided by

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

contractual arrangements) to the estimated future production of proved oil and gas reserves, less estimated future expenditures (based on year-end costs) to be incurred in developing and producing the proved reserves, less estimated future income tax expenses (based on year-end statutory tax rates, with consideration of future tax rates already legislated) to be incurred on pretax net cash flows less tax basis of the properties and available credits, and assuming continuation of existing economic conditions. The estimated future net cash flows are then discounted using a rate of 10 percent a year to reflect the estimated timing of the future cash flows.

F-25

POWDER RIVER BASIN GAS CORP.  
S.F.A.S. 69 Supplemental Disclosures (Continued)  
December 31, 2005 and 2004  
(Unaudited)

S.F.A.S. 69 SUPPLEMENTAL DISCLOSURES (Continued)

(5) Standardized Measure of Discounted  
Future Net Cash Flows Relating to  
Proved Oil and Gas Reserves  
(Continued)

	At December 31, 2005 (In Thousands)
	-----
Future cash inflows	\$ 770,152
Future production and development costs	(308,061)
	-----
Future net inflows before income taxes	462,091
Future income tax expense	(73,934)
	-----
Future net cash flows	388,156
10% annual discount for estimated timing of cash flows	(101,392)
	-----
Standardized measure of discounted future net cash flows	\$ 286,764
	=====

The above schedules relating to proved oil and gas reserves, standardized measure of discounted future net cash flows and changes in the standardized measure of discounted future net cash flows have their foundation in engineering estimates of future net revenues that are derived from proved reserves and with the assumption of current pricing and current costs of production for oil and gas produces in future periods. These reserve estimates are made from evaluations conducted by Edward J. Chesny, Jr., P.E., of such properties and will be periodically reviewed based upon updated geological and production data. Estimates of proved reserves are inherently imprecise.

Subsequent development and production of the Company's reserves will necessitate revising the present estimates. In addition, information provided in the above schedules does not provide

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

definitive information as the results of any particular year but, rather, helps explain and demonstrate the impact of major factors affecting the Company's oil and gas producing activities. Therefore, the Company suggests that all of the aforementioned factors concerning assumptions and concepts should be taken into consideration when reviewing and analyzing this information.

F-26

Item 8. Changes In and Disagreements With Accountants on Accounting and Financial Disclosure

-----  
None

Item 8A. Controls and Procedures

-----  
Management of the Company believes that the existing controls and procedures are sufficient.

Item 8B. Other Information

-----  
Not applicable

Part III

Item 9. Directors, Executive Officers, Promoters and Control Persons; Compliance with Section 16(a) of the Exchange Act

-----  
(a)-(b) IDENTIFICATION OF DIRECTORS AND EXECUTIVE OFFICERS. Brian Fox, age 59, is the only director of the Company. He also serves as President, Chief Executive Officer, and Chief Financial Officer of the Company. As a director, Mr. Fox serves until his successor is duly elected by the shareholders of the Company. As a director, Mr. Fox serves at the pleasure of the Board of Directors. Because Mr. Fox and members of his family who are not affiliates own approximately 60 % of the 111,601,000 shares of common stock of the Company which were issued and outstanding at December 31, 2005, it is expected that Mr. Fox will continue to serve in these capacities at his pleasure.

(c) IDENTIFICATION OF CERTAIN SIGNIFICANT EMPLOYEES. Except for Mr. Fox and his office support staff, the other employees of the company are involved in administration, accounting and shareholder relations for the Company. The Company uses third party contractors to perform the geological, geophysical and field operations for the Company.

(d) FAMILY RELATIONSHIPS. Not applicable.

(e) BUSINESS EXPERIENCE. The business background and experience of Mr. Fox for the last 5 years is as follows:

Mr. Fox has been in management in the oil and gas exploration and production business for more than 27 years. During the past 5 years, Mr. Fox has been President of Renco Energy, Inc. and Renard Resources, Inc., both Oklahoma corporations engaged in acquiring and developing working interests in oil and gas properties in the US and in marketing the production from those properties. Mr. Fox has also been President of Zorro Resources, Inc., an Alberta Canada corporation which engages in oil and gas exploration, production and development in Canada.

The only person that owns beneficially more than 10% of the issued and outstanding shares of common stock of the Company is Brian Fox. He has not failed to comply with Section 16(a) of the Exchange Act.

(f) INVOLVEMENT IN CERTAIN LEGAL PROCEEDINGS. No person named as a director, officer or other material employee of the Company has not been a party to any bankruptcy or similar proceeding, been convicted of a crime or found to have violated any securities laws or similar laws required to be disclosed by this item.

(g) PROMOTERS AND CONTROL PERSONS. Not applicable.

(h) AUDIT COMMITTEE FINANCIAL EXPERT. The Company does not have an audit committee.

The Company has not adopted a code of ethics governing the conduct of his officers and directors. The only officer and director to which such a code would apply is Brian Fox. He would essentially be adopting a code by the company which would govern only his conduct. The Company intends to adopt a code of ethics when such a code would have applicability to a number of other officers and directors of the Company.

ITEM 10. EXECUTIVE COMPENSATION

-----

Brian Fox is the President and sole director of the Company. He was paid compensation of approximately \$120,000 by the Company during 2005. The Company did reimburse approximately \$165,000 in out of pocket expenses incurred by Mr. Fox in connection with business for the Company. There are no other officers or directors of the Company receiving compensation of any kind from the Company.

ITEM 11. SECURITY OWNERSHIP OF CERTAIN BENEFICIAL OWNERS AND MANAGEMENT AND RELATED STOCKHOLDER MATTERS

-----

Brian Fox owns or controls approximately 56,985,000 shares or 54 % of the 111,601,000 shares of common stock issued and outstanding at December 31, 2005.

Adult sons and daughters of Mr. Fox, who do not live with him and over which Mr. Fox has no voting or investment control, then owned in the aggregate 3,600,000 shares of common stock of the Company. Mr. Fox disclaims beneficial ownership over these shares.

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

ITEM 12. CERTAIN RELATIONSHIPS AND RELATED TRANSACTIONS  
-----

On December 17, 2003, effective January 1, 2004, Renard Resource, Inc. assigned to the Company the Leonard Heirs Lease in Acadia Parish, LA in exchange for 38,500,000 shares of common stock of the Company at \$.007 per share, the fair market value of the common stock on the date of the assignment. Mr. Fox is the sole owner of Renard Resources.

ITEM 13. EXHIBITS  
-----

- 31.1 Certification by Brian Fox, Chief Financial Officer
- 32.1 Certification Pursuant to 18 U.S.C. Section 1350 as adopted pursuant to Section 906 of the Sarbannes-Oxley Act of 2002.

ITEM 14 PRINCIPAL ACCOUNTANT FEES AND SERVICES  
-----

(1) AUDIT FEES. During 2004 and 2005 the Company paid professional services rendered in audit fees of \$10,500 and \$20,000, respectively, for the audit of the Company financial statements and for the review of financial statements included in the Company's Form 10-KSB and Forms 10-QSB to Chisholm Bierwolf & Nilson, LLC, the principal independent Certified Public Accountants for the Company.

During 2005

(2) AUDIT RELATED FEES. Stayner, Bates & Jensen were paid \$8,069.00 for preparation of statements to provide to auditors.

(3) TAX COMPLIANCE MATTERS. All tax compliance advise and other tax related services rendered in 2003 and 2004 were included in (1) above.

(4) ALL OTHER FEES. None

(5) AUDIT COMMITTEE POLICIES. The Company does not have an audit committee.

(6) Not applicable.

38

Signatures

In accordance with Section 13 and 15(d) 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.

By /S/ Brian Fox

-----  
Brian D. Fox, President and

April 17, 2006



