

PetroHunter Energy Corp  
Form 10-K  
December 29, 2011

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

Form 10-K

(Mark One)

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

For the fiscal year ended September 30, 2011

or

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

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

Commission file number: 000-51152

PETROHUNTER ENERGY CORPORATION  
(Exact name of registrant as specified in its charter)

Maryland  
(State or other jurisdiction of  
incorporation or organization)

98-0431245  
(I.R.S. Employer  
Identification No.)

1600 Stout Street, Suite 720  
Denver, Colorado  
(Address of principal executive offices)

80202  
(Zip Code)

Registrant's telephone number, including area code:  
(303) 572-8900

Securities registered pursuant to Section 12(b) of the Act:  
None

Securities registered pursuant to Section 12(g) of the Act:  
Common Stock, \$0.001 par value  
(Title of class)

Indicate by check mark if the registrant is a well-known seasoned issuer, as defined in Rule 405 of the Securities Act.  
Yes  No

Indicate by check mark if the registrant is not required to file reports pursuant to Section 13 or 15(d) of the Act.  
Yes  No

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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 past 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 has submitted electronically and posted on its corporate Web site, if any, every Interactive Data File required to be submitted and posted pursuant to Rule 405 of Regulation S-T during the preceding 12 months (or for such shorter period that the registrant was required to submit and post such files).

Yes                       No

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Indicate by check mark if disclosure of delinquent filers pursuant to Item 405 of Regulation S-K (§ 229.405 of this chapter) is not contained herein, and will not 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-K or any amendment to this Form 10-K.

Indicate by check mark whether the registrant is a large accelerated filer, an accelerated filer, a non-accelerated filer, or a smaller reporting company. See definitions of "large accelerated filer," "accelerated filer" and "smaller reporting company" in Rule 12b-2 of the Exchange Act.

Large accelerated filer  
Non-accelerated filer

Accelerated filer  
Smaller reporting company

Indicate by check mark whether the registrant is a shell company (as defined in Rule 12b-2 of the Act). Yes  No

State the aggregate market value of the voting and non-voting common equity held by non-affiliates computed by reference to the price at which the common equity was last sold, or the average bid and asked price of such common equity, as of the last business day of the registrant's most recently completed second fiscal quarter: \$13,172,362 as of March 31, 2011.

As of December 21, 2011, the registrant had 439,078,759 shares of common stock outstanding.

#### FORWARD-LOOKING STATEMENTS

Certain statements contained in this Annual Report constitute "forward-looking statements". These statements, identified by words such as "plan", "anticipate", "believe", "estimate", "should", "expect" and similar expressions include expectations and objectives regarding our future financial position, operating results and business strategy. These statements reflect the current views of management with respect to future events and are subject to risks, uncertainties and other factors that may cause our actual results, performance or achievements, or industry results, to be materially different from those described in the forward-looking statements. Such risks and uncertainties include those set forth under the caption "Management's Discussion and Analysis of Financial Condition and Results of Operation" and elsewhere in this Annual Report. We do not intend to update the forward-looking information to reflect actual results or changes in the factors affecting such forward-looking information. We advise you to carefully review the reports and documents we file from time to time with the Securities and Exchange Commission (the "SEC").

All subsequent written and oral forward-looking statements attributable to us, or persons acting on our behalf, are expressly qualified in their entirety by the cautionary statements. We assume no duty to update or revise our forward-looking statements based on changes in internal estimates or expectations or otherwise.

#### CURRENCIES

All amounts expressed herein are in U.S. dollars.



## PART I

### ITEM 1. BUSINESS

#### General

PetroHunter Energy Corporation (collectively, with its subsidiaries, referred to herein as “PetroHunter”, “Company”, “we”, “us” or “our”), formerly Digital Ecosystems Corp. (“Digital”), is an oil and gas exploration company, which currently holds oil and gas interests located in the Piceance Basin of Western Colorado, and in the Beetaloo Basin in the Northern Territory in Australia through an equity investment. Since our inception in 2005, our business activities have been financed by raising capital through the sale of common stock, and through the issuance of notes and convertible notes.

Digital was incorporated on February 21, 2002, under the laws of the State of Nevada. On February 10, 2006, Digital entered into a Share Exchange Agreement (the “Agreement”) with GSL Energy Corporation (“GSL”) and certain shareholders of GSL pursuant to which Digital acquired more than 85% of the issued and outstanding shares of common stock of GSL, in exchange for shares of Digital’s common stock. On May 12, 2006, the parties to the Agreement completed the share exchange and Digital changed its business to the business of GSL. Subsequent to the closing of the Agreement, Digital acquired all the remaining outstanding stock of GSL, and effective August 14, 2006, Digital changed its name to PetroHunter Energy Corporation and reincorporated under the laws of the State of Maryland. In October 2006, GSL Energy Corporation changed its name to PetroHunter Operating Company.

As a result of the Agreement, GSL became a wholly-owned subsidiary of PetroHunter. Since this transaction resulted in the former shareholders of GSL acquiring control of PetroHunter, for financial reporting purposes the business combination was accounted for as an additional capitalization of PetroHunter (a reverse acquisition with GSL as the accounting acquirer).

In March 2006, GSL acquired a 50% interest in four exploration permits held by Sweetpea Petroleum Pty Ltd. (“Sweetpea”), an Australian corporation; and effective January 1, 2007, we acquired 100% of the common shares of Sweetpea from MAB Resources, LLC (“MAB”), a Delaware limited liability company which is also in the business of oil and gas exploration and development, and was at the time our largest shareholder.

In September 2008, Sweetpea sold 50% of its original 100% working interest in the four exploration permits to Falcon Oil & Gas Ltd. (“Falcon”). Falcon established a subsidiary, Falcon Oil & Gas Australia Limited (“Falcon Australia”) to hold this interest. An additional 25% interest in the permits was sold to Falcon in June 2009. In April 2010, Sweetpea exchanged its remaining 25% interest in the permits for 25% of the then outstanding shares of Falcon Australia in order to consolidate the interest in this property to facilitate its further financing. In September 2010, Falcon Australia completed a private placement of its shares, thus diluting the ownership interest of Sweetpea and Falcon.

As of September 30, 2011, PetroHunter through Sweetpea owns approximately 24% of Falcon Australia, which in turn owns the four exploration permits covering 7 million gross acres in Australia, including one well (collectively known as the Beetaloo Basin Project), and ten well bores and surrounding spacing acreage in the Piceance Basin in Western Colorado. These oil and gas wells have not yet commenced oil and gas production.

Our annual report on Form 10-K, quarterly reports on Form 10-Q, and current reports on Form 8-K, as well as any amendments to such reports and all other filings pursuant to Section 13(a) or 15(d) of the Securities Exchange Act of 1934 are available free of charge to the public on the Company’s website at <http://petrohunter.com>. To access the Company’s SEC filings, select “SEC FILINGS” under the INVESTOR RELATIONS tab on the Company’s website. You

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may also request a copy of these filings at no cost by making written or telephone requests for copies to our principal executive offices at PetroHunter Energy Corporation, Investor Relations, 1600 Stout Street, Suite 720, Denver, CO 80202. The telephone number is (303) 572-8900 and the facsimile number is (303) 648-4439. Our periodic and current reports filed with the SEC can be found on our website and on the SEC's website at [www.sec.gov](http://www.sec.gov).

## Business Strategy

During the year ended September 30, 2011, we continued to focus our efforts on two core areas: the Beetaloo Basin in Australia and the Piceance Basin of Western Colorado.

### Beetaloo Basin Project -Australia

As of September 30, 2011, Sweetpea owned approximately 24% of Falcon Australia, which owns the four exploration permits in the Northern Territory, comprising the Beetaloo Basin Project. Sweetpea participated in the deepening of the Shenandoah #1A to 2,714 meters (8,904 feet) during the year ended September 30, 2009. During September 2007, Sweetpea had drilled that well (as 100% working interest owner and operator as the Shenandoah #1) to a total depth of 1,555 meters (5,102 feet). From December 2009 to February 2011, Falcon Australia was engaged in raising funds for further exploration.

In February 2011, Falcon Australia entered into a letter of intent with a unit of Hess Corporation for the acquisition by Hess of an interest in three of the four exploration permits in the Beetaloo Basin. A definitive evaluation and participation agreement was executed with Hess in April 2011.

Falcon Australia, in which we hold an equity method investment re-entered the Shenandoah #1 well in September 2011 for testing operations. Operations were completed in November 2011 with five intervals having been tested.

We have also applied for three additional exploration permits in the Northern Territory in Australia covering an additional 1.8 million acres that are adjacent to our Beetaloo Basin Project acreage. Subsequent to September 30, 2011 we have substantially advanced the negotiations on two of the three permits.

### Buckskin Mesa Project -Piceance Basin, Colorado

The Buckskin Mesa Project area was purchased on September 17, 2005 from MAB, subject to certain agreements with Daniels Petroleum Company ("DPC"). The property is located in the northern part of the Piceance Basin in Rio Blanco County, Colorado. The acquisition included 20,000 net acres and five previously drilled wells that were shut-in. PetroHunter drilled five wells on this acreage during the years ended September 30, 2007 and 2008. We attempted to complete three of these wells in the quarter ending March 31, 2009; however, we were not successful in completing these three wells. All ten wells are shut-in.

Per the agreement with DPC we were required to drill 5 additional wells by July 31, 2009, or pay DPC \$2,000,000 or return these leases to DPC. We did not drill these additional five wells. In June 2010, we executed a letter of intent to transfer a significant portion of our interests into a vehicle formed to fund exploration of these interests, Buckskin Mesa, LLC. We were unsuccessful in finding partners for this project and returned the leases to DPC subsequent to December 31, 2010.

We continue to own ten well bores and surrounding spacing acreage in the Piceance Basin, but such assets are pledged to secure the repayment of debt. We hope to find one or more buyers for these assets to reduce the related debt.

## Marketing and Pricing

In the past, we derived our revenues principally from the sale of natural gas and associated condensate production from wells operated by us and others in the Piceance Basin, in Western Colorado. Our revenues were determined, to a large degree, by prevailing natural gas prices for production situated in the Rocky Mountain Region of the United States, specifically, Colorado. Energy commodity prices in general and the Company's regional prices in particular,

have been and continue to be highly volatile. We currently have no revenue or revenue producing assets.

#### Natural Gas Marketing

In the past, we sold all of our natural gas production to a diverse group of third-party, non-affiliated entities in a portfolio of transactions of various durations and prices (daily, monthly and longer term), under a marketing



agreement with EnCana Oil & Gas USA, which was the operator of our eight producing gas wells that we sold effective December 1, 2008. Since that sale, we have not produced or sold any natural gas.

### Competition

We operate in the highly competitive oil and gas areas of acquisition and exploration, areas in which other competing companies have substantially larger financial resources, operations, staffs and facilities. Such companies may be able to pay more for prospective oil and gas properties or prospects and to evaluate, bid for and purchase a greater number of properties and prospects than our financial or human resources permit.

### Employees

At September 30, 2011, we had one full time equivalent employee. In addition, we utilized the services of one full time consultant. Our employees are not covered by a collective bargaining agreement.

### Environmental Regulation

We are affected by environmental regulations through our ownership of our well bores and spacing acreage. Exploration and drilling activities from wells and natural gas facilities, including the operation and construction of pipelines, plants and other facilities for transporting, processing, treating or storing oil, natural gas and other products are subject to stringent federal, state and local laws and regulations governing environmental quality, including those relating to oil spills and pollution control, that are constantly changing. Compliance with existing federal, state and local laws, rules and regulations governing the release of materials in the environment or otherwise relating to the protection of the environment, could have a material effect upon our business operations, capital expenditures, operating results or competitive position.

## ITEM 1A. RISK FACTORS

### Risks Related to Our Business

We have a limited operating history and have generated only very limited revenues. We have incurred significant losses and will continue to incur losses for the foreseeable future. If we fail to secure significant sources of funding in the short term, we may not be able to continue in existence.

The report of our independent registered public accounting firm on the financial statements for the years ended September 30, 2011 and 2010 includes an explanatory paragraph relating to significant doubt and uncertainty of our ability to continue as a going concern. We have an accumulated deficit of \$292,987,591 as of September 30, 2011 and generated losses of \$7,013,787 for the year then ended. For the 2011 fiscal year, we did not own any revenue producing assets and thus do not have the ability to generate sufficient cash flows to provide working capital to pay overhead expenses. Without adequate financing, we may not be able to continue in existence.

As a result of severe cash flow constraints, we have experienced substantial difficulties in meeting our short term cash needs, particularly in relation to our past due financing and vendor commitments. Substantially all of our assets are pledged, and extreme volatility in energy pricing and a deteriorating global economy are creating great difficulties in the capital markets and have greatly hindered our ability to raise debt and/or equity capital. Further, as the result of a series of asset sale transactions, we no longer have proven reserves, which will increase our difficulties in obtaining any financing. During the two years ended September 30, 2011, we obtained minimal debt financing from related parties which we expect will not continue in the near future. Our liabilities exceeded our current assets by \$14,561,719 as of September 30, 2011, and substantially all of our current assets are concentrated in marketable equity securities

we received in conjunction with the sale of assets to a related party. Those securities have experienced a dramatic decline in value and the price of these securities remains highly volatile.

We have completed several significant asset dispositions during the past years, which leaves us with two primary projects that are both undeveloped and subject to substantial risks.

During the years ended September 30, 2011 and 2010, we experienced significant dispositions of assets, through sales and other transactions. These dispositions of assets resulted from our inability to maintain certain financial commitments and fund our ongoing operations. These dispositions of non-core assets have resulted in our development risks being concentrated in two primary projects in Australia and Colorado, which are both undeveloped and at this stage without proved reserves associated with them.

The value of the securities of Falcon received in the sale of a 50% working interest in four exploration permits in Australia is highly volatile and subject to significant changes in market value, and their value has substantial implications on our future liquidity.

The common stock of Falcon represents the substantial majority of current assets and our current liquidity, resulting in a concentration of risk. The shares are subject to significant market volatility and are subject to significant restrictions on our ability to sell the securities. Accordingly, our inability to realize sufficient value from these securities and/or our inability to convert the securities into cash to fund our operations and development plans when needed, could present material adverse consequences to us.

A related party controls a significant percentage of our outstanding common stock, which may enable it to control many significant corporate actions and may prevent a change in control that would otherwise be beneficial to our stockholders.

Entities related to or controlled by Christian Russenberger beneficially owned approximately 28.0% of our common stock as of September 30, 2011. The control and/or significant influence held by this shareholder may have a substantial impact on matters requiring the vote of common shareholders, including the election of our directors and most of our corporate actions. Such control could delay, defer or prevent others from initiating a potential merger, takeover or other change in control that might benefit us and our shareholders. Such control could adversely affect the voting and other rights of our other shareholders and could depress the market price of our common stock.

Christian Russenberger, a related party and significant shareholder, is President of Global Project Finance AG, our most significant creditor.

Our convertible debentures could significantly dilute the interests of shareholders.

Our 8.5% convertible debentures, in the aggregate principal amount of \$6,956,292 are presently convertible into shares of our common stock at any time prior to their maturity dates at conversion prices of \$0.125 and \$0.15, subject to adjustments for stock splits, stock dividends, stock combinations and other similar transactions. The conversion prices of the convertible debentures could be further lowered, perhaps significantly, in the event of our issuance of common stock below the convertible debentures' conversion price, either directly or in connection with the issuance of securities that are convertible into, or exercisable for, shares of our common stock.

In addition to date, we have issued five-year warrants to the holders of the convertible debentures. The warrant holders are entitled to purchase an aggregate of 52,174,223 shares of our common stock at exercise prices ranging from \$0.12 to \$0.28 per share, inclusive of warrants issued in consideration of certain waivers and amendments during our fiscal years ended September 30, 2011 and 2010. Both the number of warrants and the exercise price are subject to potential adjustments which could result in further dilution to our stockholders.

Neither the convertible debentures nor the warrants establish a "floor" that would limit reductions in the conversion price of the convertible debentures or the exercise price of the warrants that may occur under certain circumstances.

Correspondingly, there is no “ceiling” on the number of shares that may be issuable under certain circumstances under the anti-dilution adjustment in the convertible debentures and warrants. Accordingly, our issuance of the convertible debentures and warrants could significantly dilute the interests of our shareholders.

We are required to accrue significant amounts of interest payable on our portfolio of debt.

Through a series of waivers and amendments we are no longer currently required to make interest payments on the majority of our debt portfolio. However we continue to accrue approximately \$4,200,000 in interest expense on an annual basis. If we do not have cash to make interest payments at the time these interest accruals come due we may have to issue additional shares of our common stock, warrants, and or options.

The issuance of shares upon exercise of outstanding warrants and options may cause immediate and significant dilution to our existing stockholders.

As of September 30, 2011, we have issued warrants and options to purchase a total of 110,239,223 shares of common stock. The issuance of shares upon exercise of warrants and options may result in significant dilution to the interests of our existing stockholders.

Our officers, directors and advisors are engaged in other businesses, which may result in conflicts of interest.

Certain of our officers, directors, and advisors also serve as directors of other companies or have significant shareholdings in other companies. To the extent that such other companies participate in ventures in which we may participate, or compete for prospects or financial resources with us, these officers and directors will have a conflict of interest in negotiating and concluding terms relating to the extent of such participation. In the event that such a conflict of interest arises at a meeting of the Board of Directors, a director who has such a conflict must disclose the nature and extent of his interest to the Board of Directors and abstain from voting for or against the approval of such participation or such terms.

We depend on a limited number of key personnel who would be difficult to replace.

We depend on the performance of our executive officer and key consultant. The loss of our key employee and/or consultant could negatively impact our ability to execute our strategy. We do not maintain key person life insurance policies on our employee.

Substantially all of our oil and gas interests are located in the Piceance Basin of Western Colorado and in the Northern Territory in Australia, making us vulnerable to specific risks associated with operating in these geographic areas.

We may be exposed to the effect of seasonal weather conditions, lease stipulations, delays or interruptions of production from these areas caused by significant governmental regulation, transportation capacity constraints, the availability and capacity of compression and gas processing facilities, curtailment of production or interruption of transportation of natural gas produced from the wells in these areas, as well as the remoteness and lack of infrastructure in the case of the Australian properties.

We have limited control over activities on our oil and gas properties as we do not operate or do not intend to operate.

As we do not operate the properties in which we own an interest, we do not have control over normal operating procedures, expenditures or future development of underlying properties.

We are subject to various risks associated with our equity interest in Australia.

A significant portion of our remaining assets are in Australia, which subjects us to various risks associated with doing business in a foreign country. These risks include, among other things:

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- governmental and regulatory requirements unique to the country;
  - exposure to foreign currency losses;
- foreign taxation requirements, which can differ significantly from U.S. regulations;

- local economic and/or political instability; and
- potential difficulties in our ability to expatriate cash and/or assets to the U.S.

These risks are beyond our control, and could result in material adverse consequences to us.

#### Risks Relating to the Oil and Gas Industry

We are subject to various risks associated with the oil and gas industry, summarized as follows:

- Drilling for and producing natural gas and oil are high-risk activities with many uncertainties that could adversely affect our business, financial condition or results of operations.
- Competition in the oil and gas industry is intense, and many of our competitors have greater financial, technological and other resources than we do, which may adversely affect our ability to compete.
- Our industry is heavily regulated which increases our cost of doing business and decreases our profitability.
- Our operations must comply with complex environmental regulations that may have a material adverse effect on our business.

#### Risks Related to Our Common Stock

We are subject to various risks in respect to our common stock, summarized as follows:

- Our stock price and trading volume may be volatile, which could result in losses for our stockholders.
- Our common stock may not meet the criteria necessary to qualify for listing on one or more particular stock exchanges on which we seek or desire a listing. Even if our common stock does meet the criteria, it is possible that our common stock will not be accepted for listing on any of these exchanges.
- Our common stock may be thinly traded, and therefore, an investor may not be able to easily liquidate his or her investment.
  - We have not and do not anticipate paying dividends on our common stock.

#### ITEM 1B. UNRESOLVED STAFF COMMENTS

Not Required by Form 10-K for Smaller Reporting Companies.

#### ITEM 2. PROPERTIES

##### Location and Characteristics

Our headquarters are located at 1600 Stout Street, Suite 720, Denver, Colorado, 80202. We occupy approximately 200 square feet on a month to month basis and our annual rent for this space is \$12,000.

Currently, we own ten well bores in the Buckskin Mesa and a 24% interest in the Beetaloo Basin project (7,000,000 gross and 1,750,000 net acres), including one well, through an equity investment in Falcon Australia. The wells on these properties have not yet commenced oil and gas production.

#### Plan of Operations

In fiscal 2012, we will focus on pursuing our applications for exploration permits in Australia, as well as pursuing opportunities related to these permits in the Beetaloo Basin. We will continue to pursue opportunities to realize some type of return in our Buckskin Mesa wellbores. We will continue to reduce operating costs and attempt to reduce/renege our debt, accounts payable and other liabilities.



## Oil and Gas Reserves

As of September 30, 2011 and 2010 we had no oil and gas reserves.

## Production Volumes, Average Sales Prices and Average Production Costs

The following table sets forth certain information regarding our historical U.S. net production of oil and natural gas, and certain price and cost information.

	2011	Year ended September 30,		2009
		2010		
Production Data:				
Natural gas (Mcf)	-	-		66,527
Oil (Bbl)	-	-		74
Average Prices:				
Natural gas (per Mcf)	\$ -	\$ -		\$ 5.43
Oil (per Bbl)	\$ -	\$ -		\$ 37.35
Production Costs:				
Lease operating expenses (per Mcf)	\$ -	\$ -		\$ 8.82

## Productive Wells

As of September 30, 2011 and 2010 we did not have any producing wells.

## Oil and Gas Drilling Activities

During the years ended September 30, 2011 and 2010, we did not participate in any drilling activity.

During the year ended September 30, 2009, we participated in the deepening of the Shenandoah # 1 well (Shenandoah #1A) in the Beetaloo Basin in Australia and conducted completion activities on three wells at our Buckskin Mesa Project.

## Oil and Gas Interests

As of September 30, 2011, we had no interests in any undeveloped acreage positions. Undeveloped acreage refers to acreage that has not been placed in production.

## Impairment of Oil and Gas Properties

Costs capitalized for properties accounted for under the full cost method of accounting are subjected to a ceiling test limitation to the amount of costs included in the cost pool by geographic cost center. Costs of oil and gas properties may not exceed the ceiling which is an amount equal to the present value, discounted at 10%, of the estimated future net cash flows from proved oil and gas reserves plus the cost, or estimated fair market value, if lower, of unproved properties. Should capitalized costs exceed this ceiling, impairment expense equal to the costs exceeding the ceiling is recognized. As the Company did not have available capital to develop the U.S. properties, the entire U.S. Full Cost Pool was written down to \$nil as of September 30, 2009. During the fiscal years ended September 30, 2011 and 2010, we recorded no impairment expenses.

## Depreciation, Depletion, Amortization and Accretion

Depreciation, depletion, amortization and accretion expense was \$1,472 in 2011 and \$90,086 in 2010.

ITEM 3. LEGAL PROCEEDINGS

As of September 30, 2011, there are no legal proceedings filed or threatened (to our knowledge) against or involving the Company.

ITEM 4. REMOVED AND RESERVED

PART II

ITEM 5. MARKET FOR REGISTRANT’S COMMON EQUITY, RELATED STOCKHOLDER MATTERS AND ISSUER PURCHASES OF EQUITY SECURITIES

Market Information

Our common stock commenced trading on the OTC bulletin board on April 20, 2005, under the symbol “DGEO,” and has been trading under the symbol “PHUN” since August 21, 2006. The following table sets forth the high and low bid prices per share of our common stock, as reported on the OTC Link for the periods indicated.

Quarter Ended	High	Low
December 31, 2009	\$0.02	\$0.01
March 31, 2010	\$0.05	\$0.02
June 30, 2010	\$0.05	\$0.03
September 30, 2010	\$0.03	\$0.02
December 31, 2010	\$0.03	\$0.01
March 31, 2011	\$0.05	\$0.02
June 30, 2011	\$0.03	\$0.02
September 30, 2011	\$0.03	\$0.01

On December \_\_, 2011 the last sale price for our common stock was \$\_\_\_\_.

Holder and Dividends

We have neither declared nor paid cash dividends on our capital stock and do not anticipate paying cash dividends in the foreseeable future. Our current policy is to retain cash to finance operations. Our Board of Directors will determine future declaration and payment of dividends, if any, in accordance with applicable corporate law.

As of December \_\_, 2011, there were 187 record holders of our common stock.

Recent Sales of Unregistered Securities

None.

ITEM 6. SELECTED FINANCIAL DATA

Not Required by Form 10-K for Smaller Reporting Companies.

ITEM 7. MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATION

The following discussion of our financial condition and results of operations should be read in conjunction with our consolidated financial statements and notes appearing elsewhere in this Form 10-K.

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Results of Operations - Year Ended September 30, 2011 versus Year Ended September 30, 2010

Oil and Gas Revenues – Oil and gas revenues were \$nil and \$nil for the fiscal years ended September 30, 2011 and 2010, respectively. We sold our only revenue producing assets as of December 1, 2008.

### Operating Expenses

General and Administrative – During 2011, general and administrative expenses were \$1,439,460 as compared to \$2,073,513 in fiscal 2010, representing a decrease of \$634,053 or 31%. The following table highlights significant general and administrative expenses for the respective periods:

	Period Ending September 30,		Change	
	2011	2010		
Payroll	\$ 498,835	\$ 529,752	\$ (30,917 )	(6 )%
Consulting fees	46,705	116,688	(69,983 )	(60 )%
Stock - based compensation expense	211,888	318,508	(106,620 )	(33 )%
Legal	82,985	30,622	52,363	171 %
Investor relations	289	1,122	(833 )	(74 )%
Insurance office and other	598,759	1,076,821	(478,062 )	(44 )%
<b>Total</b>	<b>\$ 1,439,461</b>	<b>\$ 2,073,513</b>	<b>\$ (634,052 )</b>	<b>(31 )%</b>

Payroll Expense – As of September 30, 2011, the rightsizing of our labor force was complete as we had reduced the workforce from 30 full time equivalents as of March 31, 2009 to one full time equivalent and one full time consultant.

Consulting Fees – Declined \$69,983 or 60% due to the Company's cost reduction efforts and lower activity levels.

Stock-Based Compensation– Decreased to \$211,888 in 2011 from \$318,508 in 2010, a decrease of \$106,620. This 33% decrease results from grants of options during the period being valued at a lower intrinsic value caused by significant declines in the value of our common stock.

Legal Fees – Increased to \$82,985 in 2011 from \$30,622 in 2010, an increase of \$52,363. This 171% increase is primarily attributable to increased utilization of outside legal counsel related to our efforts to find alternative uses for our Colorado property interests as well as our applications for permit applications in Australia.

Investor Relations – Decreased to \$289 in 2011 from \$1,122 in 2010. This 74% decrease is due primarily to our focus on expense management and the status of our business.

Insurance, Office, and Other – Decreased to \$598,759 in 2011 from \$1,076,821 in 2010, a decrease of \$478,062. This 44% decrease is primarily due to the termination of office and office equipment leases, decreases in office supplies expense and significant decreases in premium expense related to our various insurance policies.

Depreciation, Depletion, Amortization and Accretion – Depreciation, depletion, amortization and accretion expense was \$1,472 in 2011 and \$90,086 in 2010, respectively. This decrease is primarily attributable to the fact that our asset retirement obligations were fully accreted as of September 30, 2010.

### Other Costs and Expenses

Interest Expense – During 2011, interest expense was \$5,501,282 in comparison to \$5,718,754 incurred in 2010. The \$217,472 decrease in interest expense, or 3.8% during the 2011 period, results from a reduction of interest rates on our

largest debt instruments, which were reduced in connection with amendments to existing debt instruments in March 2010 and non-cash charges incurred in connection with this debt restructure in the 2010 period, offset by non-cash interest charges incurred in the current period related to our settlement related to amounts included in other accrued liabilities and as described more fully herein.

Net Loss – Our net loss of \$7,013,787 in 2011 compared to the loss of \$6,755,118 in 2010 represents an increase of \$258,669 or 3.8%, as a result of the decreases in expenses as delineated above offset by non cash other income and gains incurred in the prior period.

#### Going Concern

The report of our independent registered public accounting firm on the financial statements for the years ended September 30, 2011 and 2010 includes explanatory paragraphs relating to substantial doubt and uncertainty of our ability to continue as a going concern. We have generated a cumulative net loss of \$292,987,591 and our current liabilities exceeded our current assets by \$14,561,719 as of September 30, 2011. For our 2012 fiscal year, we expect that we will be able to fund, on a very limited basis, overhead expenses from the proceeds of sales of our Falcon shares. We do not believe we will be investing cash in our properties in the foreseeable future. Our ability to establish ourselves as a going concern is dependent upon our ability to obtain additional funding in order to finance our planned operations. Management continues to negotiate with the Company's various creditors. However, our ability to establish ourselves as a going concern is dependent upon our ability to either refinance our currently outstanding obligations or obtain additional funding and there are no assurances either of these can occur in the foreseeable future.

#### Plan of Operation

##### Colorado

In fiscal year 2012, we will continue to focus on exploring alternative financing and/or working interest partners to further explore opportunities related to our ten wellbores in the Buckskin Mesa.

##### Australia

During fiscal 2012, we plan to focus on executing and implementing a strategy for our participation in exploration and development efforts in the Beetaloo Basin project area located in Australia, through Falcon Australia, and on pursuing our three exploration permit applications.

#### Liquidity and Capital Resources

Our most recent year ended September 30, 2011 continued to be a year of significant transition for us. Our cash flows from operations continued to be insufficient for us to meet our operating commitments. Given these circumstances, our primary goal during 2011 was to ensure liquidity to continue in existence, and further our exploration activities, on a limited basis, on our remaining properties. We continued to seek financing transactions, and to seek development partners for our Buckskin Mesa Project in Colorado and our Beetaloo Basin Project in Australia through our equity investment in Falcon Australia. As of September 30, 2011, we are dependent upon proceeds from the sale of our Falcon shares, which we obtained in 2008, to cover our operating expenses.

#### Working Capital

Working capital is the amount by which current assets exceed current liabilities, and our working capital deficit is the result of having current liabilities in excess of our current assets. Our working capital is impacted by changes in our ongoing operating costs, along with the timing of operating cash receipts and disbursements, borrowings of and payments toward debt, expenditures for and sales of oil and gas properties, and increases and decreases in other assets involving cash. We are in default of the underlying debt instruments included in current liabilities, and penalty interest is accruing on this debt.

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As of September 30, 2011, our current liabilities exceed our current assets by \$14,561,719 and we had an unrestricted cash balance of \$65,759. As of September 30, 2010 our current liabilities exceed our current assets by \$11,333,436 and we had an unrestricted cash balance of \$75,624; accordingly our working capital deficit increased by \$3,228,283 during 2011 primarily as a result of the decreases in the value of our remaining current assets coupled with increases in current liabilities, specifically accrued interest recorded in connection with the settlement of contingent liabilities.



Cash Flow – Year Ended September 30, 2011 versus Year Ended September 30, 2010

Net cash used in or provided by operating, investing and financing activities for the years ended September 30, 2011 and 2010 were as follows:

	Year Ended September 30,	
	2011	2010
Net cash (used) in operating activities	\$ (945,286 )	\$ (2,096,999 )
Net cash provided by investing activities	\$ 935,421	\$ 1,954,557
Net cash (used) in financing activities	\$ -	\$ (17,402 )

Net Cash (Used in) Operating Activities. Net cash used in operating activities of \$945,286 and \$2,096,999 for the years ended September 30, 2011 and 2010, respectively, are attributable to our net income adjusted for non-cash charges as presented in the consolidated statements of cash flows and changes in working capital as discussed above.

Net Cash Provided in Investing Activities. Net cash provided by investing activities decreased by \$1,019,136 in 2011 as compared to 2010. The decrease in cash provided is primarily attributed to a decrease in the number of shares of our marketable securities sold to fund our operations during the 2011 period.

Net Cash (Used in) Financing Activities. Net cash used in financing activities decreased \$17,402 in 2011 as compared to 2010 due to the fact that we did not enter into any financing transactions during the 2011 period.

#### 2011 Financing Transactions

We did not enter into any financing transactions during the fiscal year ended September 30, 2011.

#### 2010 Financing Transactions

During 2010, we completed financing transactions as follows:

- (1) In March and April 2010 we entered into waiver and amendment agreements with our largest creditors whereby we extended the maturity date of debt to December 31, 2014 and paid accrued interest with shares of our common stock. Interest will accrue but not be payable until December 31, 2014.
- (2) In June 2010, we borrowed a total of \$150,000 from officers and directors of the Company to fund our operations. The 15% per annum notes were repaid with all accrued interest in September 2010.

#### Off-Balance Sheet Arrangements

We do not have any off-balance sheet arrangements.

#### Critical Accounting Policies and Estimates

We believe the following critical accounting policies affect our more significant judgments and estimates used in the preparation of our Financial Statements.

#### Oil and Gas Properties

The Company utilizes the full cost method of accounting for its oil and gas properties. Under this method, subject to a limitation based on estimated value, all costs associated with property acquisition, exploration and development, including costs of unsuccessful exploration, are capitalized within a cost center on a by country basis. No gain or loss is recognized upon the sale or abandonment of undeveloped or producing oil and gas properties unless the sale

represents a significant portion of oil and gas properties and the gain significantly alters the relationship between capitalized costs and proved oil and gas reserves of the cost center. Depreciation, depletion and amortization of oil and gas properties are computed on the units-of-production method based on proved reserves. Amortizable costs include estimates of future development costs of proved undeveloped reserves.

Capitalized costs of oil and gas properties may not exceed an amount equal to the present value, discounted at 10%, of the estimated future net cash flows from proved oil and gas reserves plus the cost, or estimated fair market value, if lower, of unproved properties. Should capitalized costs exceed this ceiling, an impairment is recognized. The present value of estimated future net cash flows is computed by applying the average of first-day-of-the-month oil and gas prices during the 12-month period ended September 30, 2011 to estimated future production of proved oil and gas reserves as of year-end, less estimated future expenditures to be incurred in developing and producing the proved reserves and assuming continuation of existing economic conditions.

#### Asset Retirement Obligation

Asset retirement obligations associated with tangible long-lived assets are accounted for in accordance with Financial Accounting Standards Board (“FASB”) Accounting Standards Codification (“ASC”) 410, “Accounting for Asset Retirement Obligations.” The estimated fair value of the future costs associated with dismantlement, abandonment and restoration of oil and gas properties is recorded generally upon acquisition or completion of a well. The net estimated costs are discounted to present values using a risk adjusted rate over the estimated economic life of the oil and gas properties. Such costs are capitalized as part of the related asset. The asset is depleted on the units-of-production method on a field-by-field basis. The liability is periodically adjusted to reflect (1) new liabilities incurred, (2) liabilities settled during the period, (3) accretion expense, and (4) revisions to estimated future cash flow requirements. The accretion expense is recorded as a component of depreciation, depletion, amortization and accretion expense in the accompanying consolidated statements of operations.

#### Share - Based Compensation

We use the Black-Scholes option-pricing model and the straight-line attribution approach to determine the fair-value of stock-based awards in accordance with FASB ASC 718, “Compensation.” The option-pricing model requires the input of highly subjective assumptions, including the option’s expected life and the price volatility of the underlying stock. The Company’s expected term represents the period that stock-based awards are expected to be outstanding and is determined based on historical experience of similar awards, giving consideration to the contractual terms of the stock-based awards, vesting schedules and expectations of future employee behavior as influenced by changes to the terms of its stock-based awards. The expected stock price volatility is based on the Company’s historical stock prices.

#### Impairment

We apply the provisions of FASB ASC 360, “Property Plant and Equipment,” which addresses financial accounting and reporting for the impairment or disposal of long-lived assets. FASB ASC 360 requires a long-lived asset to be sold to be classified as “held for sale” in the period in which certain criteria are met, including that the sale of the asset within one year is probable. FASB ASC 360 also requires that the results of operations of a component of an entity that either has been disposed of or is classified as held for sale be reported in discontinued operations if the operations and cash flows of the component have been or will be eliminated from the Company’s ongoing operations.

The Company periodically reviews the carrying value of its long-term assets in relation to historical results, current business conditions and trends to identify potential situations in which the carrying value of assets may not be recoverable. If such reviews indicate that the carrying value of such assets may not be recoverable, the Company would estimate the undiscounted sum of the expected cash flows of such assets to determine if such sum is less than

the carrying value of such assets to ascertain if an impairment exists. If an impairment exists, the Company would determine the fair value by using quoted market prices, if available for such assets, or if quoted market prices are not available, the Company would discount the expected future cash flows of such assets.

## Marketable Securities

We received marketable equity securities as consideration from the sale of certain of our oil and gas properties, and account for them in accordance with FASB ASC 320, "Accounting for Certain Investments in Debt and Equity Securities." We account for marketable securities by marking to market with unrealized gains and losses reflected as a component of Other Comprehensive Income, until such gains or losses become realized, at which time they are then recognized in our statement of operations. In addition, in circumstances where significant price declines are experienced subsequent to the balance sheet date, we consider whether such declines are other than temporary, after considering our expected holding period, we may record a provision for impairment in the event we do not expect the value of the securities to recover from such a decline in market value. We consider our accounting for marketable securities to involve significant management judgment that is subject to estimation.

## Recently Issued Accounting Pronouncements

In June 2011, the FASB issued Accounting Standards Update 2011-05, Presentation of Comprehensive Income. This update provides the option to present the total of comprehensive income, the components of net income and the components of other comprehensive income either in a single continuous statement of comprehensive income or in two separate but consecutive statements. The Company does not believe that this will materially impact the presentation of its financial statements.

In May 2011, the FASB issued Accounting Standards Update 2011-04, Amendments to Achieve Common Fair Value Measurement and Disclosure Requirements in U.S. GAAP and IFRS . This update does not require additional fair value measurements and is not intended to establish valuation standards or affect valuation practices outside of financial reporting. This update may require certain additional disclosures related to fair value measurements. We do not expect the adoption of this update will materially impact our financial statement disclosures.

Other accounting standards that have been issued or proposed by the FASB, or other standards-setting bodies, that do not require adoption until a future date are not expected to have a material impact on the financial statements upon adoption.

Other recent accounting pronouncements issued by the FASB (including its Emerging Issues Task Force), the AICPA, and the SEC did not, or are not believed by management to, have a material impact on our present or future consolidated financial statements.

## ITEM 7A. QUANTITATIVE AND QUALITATIVE DISCLOSURES ABOUT MARKET RISK

Not required by Form 10-K for Smaller Reporting Companies.

## ITEM 8. FINANCIAL STATEMENTS AND SUPPLEMENTARY DATA

[EIDE BAILLY LLP LETTERHEAD]

REPORT OF INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRM

To the Board of Directors of  
PetroHunter Energy Corporation  
Denver, Colorado

We have audited the accompanying consolidated balance sheets of PetroHunter Energy Corporation (the “Company”) as of September 30, 2011 and 2010, and the related consolidated statements of operations, stockholders’ equity (deficit) and comprehensive income (loss), and cash flows for the years then ended. The Company’s management is responsible for these financial statements. Our responsibility is to express an opinion on these financial statements based on our audits.

We conducted our audits in accordance with the 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 financial statements are free of material misstatement. The company is not required to have, nor were we engaged to perform, an audit of its internal control over financial reporting. Our audits included consideration of internal control over financial reporting as a basis for designing audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the company’s internal control over financial reporting. Accordingly, we express no such opinion. 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 financial statements referred to above present fairly, in all material respects, the financial position of PetroHunter Energy Corporation as of September 30, 2011 and 2010 and the results of its operations and its cash flows for the years then ended in conformity with accounting principles generally accepted in the United States of America.

The accompanying financial statements have been prepared assuming that PetroHunter Energy Corporation will continue as a going concern, which contemplates the realization of assets and the satisfaction of liabilities in the normal course of operations. As discussed in Note 2, certain factors indicate substantial doubt that the Company will be able to continue as a going concern. The financial statements do not include any adjustments to reflect the possible future effect on the recoverability and classification of assets or the amounts and classification of liabilities that might result from the outcome of these uncertainties.

As discussed in Notes 3, 4, 5, 9, 10 and 13, the Company has numerous significant transactions with related parties.

/s/ Eide Bailly LLP

Greenwood Village, Colorado  
December 20, 2011

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PETROHUNTER ENERGY CORPORATION  
CONSOLIDATED BALANCE SHEETS

ASSETS	September 30,	
	2011	2010
<b>Current Assets</b>		
Cash and cash equivalents	\$ 65,759	\$ 75,624
Receivables		
Other receivables	—	13,204
Restricted marketable securities	650,000	1,015,241
Unrestricted marketable securities	—	837,000
Prepaid expenses and other assets	33,930	164,441
<b>TOTAL CURRENT ASSETS</b>	<b>749,689</b>	<b>2,105,510</b>
<b>Property and Equipment, at cost</b>		
Furniture and equipment, net	1,808	3,280
	1,808	3,280
<b>Other Assets</b>		
Restricted cash	85,000	130,600
Deposits and other assets	555	676
<b>TOTAL ASSETS</b>	<b>\$ 837,052</b>	<b>\$ 2,240,066</b>
<b>LIABILITIES AND STOCKHOLDERS' DEFICIT</b>		
<b>Current Liabilities</b>		
Accounts payable and accrued expenses	\$ 2,619,560	\$ 2,371,902
Convertible notes payable	717,873	717,873
Notes payable –related party	2,722,060	2,722,060
Accrued interest payable	204,517	116,773
Accrued interest and fees payable – related party	100,000	100,000
Other accrued liabilities	8,605,147	7,273,331
Asset retirement obligation	342,251	137,007
<b>TOTAL CURRENT LIABILITIES</b>	<b>15,311,408</b>	<b>13,438,946</b>
Notes payable – related party	40,759,000	40,759,000
Convertible notes payable	6,238,419	6,238,419
Accrued interest and fees payable – related party	6,464,524	2,969,889
Accrued interest payable	840,850	310,576
Asset retirement obligation	396,971	632,471
<b>TOTAL LIABILITIES</b>	<b>70,011,172</b>	<b>64,349,301</b>
<b>Stockholders' Deficit</b>		
Preferred stock, \$0.001 par value; authorized 100,000,000 shares; none issued	—	—
Common stock, \$0.001 par value; authorized 1,000,000,000 shares; 439,078,759 and 439,078,759 issued and outstanding at September 30, 2011 and 2010, respectively	439,079	439,079
Additional paid-in-capital	223,493,218	223,281,330



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Other comprehensive income(loss)	(118,826 )	144,160
Accumulated deficit	(292,987,591 )	(285,973,804 )
<b>TOTAL STOCKHOLDERS' DEFICIT</b>	<b>(69,174,120 )</b>	<b>(62,109,235 )</b>
<b>TOTAL LIABILITIES AND STOCKHOLDERS' DEFICIT</b>	<b>\$ 837,052</b>	<b>\$ 2,240,066</b>

See accompanying notes to consolidated financial statements.

PETROHUNTER ENERGY CORPORATION  
CONSOLIDATED STATEMENTS OF OPERATIONS

	Year Ended September 30, 2011	Year Ended September 30, 2010
<b>Revenues</b>		
Oil and gas revenues	\$ —	\$ —
Other revenues	—	—
<b>Total Revenues</b>	<b>—</b>	<b>—</b>
<b>Operating Expenses</b>		
General and administrative	1,439,461	2,073,513
Depreciation, depletion, amortization and accretion	1,472	90,086
<b>Total operating expenses</b>	<b>1,440,933</b>	<b>2,163,599</b>
<b>Loss from Operations</b>	<b>(1,440,933)</b>	<b>(2,163,599)</b>
<b>Other Income (Expense)</b>		
Interest income	57	2,385
Interest expense	(5,501,282)	(5,718,754)
Gain (loss) on sale of securities	(27,647)	283,566
Gain recognized in connection with debt restructure	1,618	572,157
Gain recognized in connection with asset retirement obligation revisions	—	270,095
Loss from equity method investment	—	(149,153)
Other income (expense)	(45,600)	166,357
Loss on abandonment	—	(18,172)
<b>Total other income (expense)</b>	<b>(5,572,854)</b>	<b>(4,591,519)</b>
<b>Net Loss</b>	<b>\$ (7,013,787)</b>	<b>\$ (6,755,118)</b>
Net loss per common share — basic and diluted	\$ (0.02)	\$ (0.02)
Weighted average number of common Shares outstanding — basic and diluted	439,078,759	413,762,329

See accompanying notes to consolidated financial statements

PETROHUNTER ENERGY CORPORATION  
CONSOLIDATED STATEMENTS OF STOCKHOLDERS' (DEFICIT) AND COMPREHENSIVE LOSS

	Common Stock		Additional	Accumulated	Accumulated	Total	Total
	Shares	Amount	Paid-In		Other		
			Capital	Deficit	Comprehensive	(Deficit)	Loss
					Income		
					(Loss)		
Balance, September 30, 2009	380,468,544	\$ 380,468	\$ 215,575,521	\$(279,218,686)	\$—	\$(63,262,697)	\$(206,592,386)
Common Stock Issued in connection with modification of terms related party debt	5,000,000	5,000	145,000	—	—	150,000	—
Additional Paid in Capital associated with debt forgiveness-related party	48,391,520	48,392	6,000,548	—	—	6,048,940	—
Additional Paid in Capital associated with re-pricing of warrants related party	—	—	31,200	—	—	31,200	—
Common Stock Issued in connection with debt restructure	5,218,695	5,219	173,167	—	—	178,386	—
Additional Paid in Capital associated with re-issuance of warrants	—	—	1,036,386	—	—	1,036,386	—
Other comprehensive income	—	—	—	—	144,160	144,160	144,160
Stock-based compensation	—	—	319,508	—	—	319,508	—
Net Loss	—	—	—	(6,755,118 )	—	(6,755,118 )	(6,755,118 )
Balance, September 30, 2010	439,078,759	\$ 439,079	\$ 223,281,330	\$(285,973,804)	\$ 144,160	\$(62,109,235)	\$(213,203,344)

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Other comprehensive income	—	—	—	(262,986)	(262,986 )	(262,986 )	
Stock-based compensation	—	—	211,888	—	211,888	—	
Net Loss	—	—	(7,013,787 )	—	(7,013,787 )	(7,013,787 )	
Balance, September 30, 2011	439,078,759	\$439,079	\$223,493,218	\$(292,987,591)	\$(118,826)	\$(69,174,120)	\$(220,480,117)

See accompanying notes to consolidated financial statements.

PETROHUNTER ENERGY CORPORATION  
CONSOLIDATED STATEMENTS OF CASH FLOWS

	Year Ended September 30, 2011	Year Ended September 30, 2010
Cash flows used in operating activities		
Net loss	\$ (7,013,787)	\$ (6,755,118)
Adjustments used to reconcile net loss to net cash used in operating activities:		
Stock based compensation	211,888	319,508
Depreciation, depletion, amortization and accretion	1,472	90,086
Loss on equity method investment	—	149,153
Warrants issued to settle interest costs –related party	—	31,200
Loss on abandonment	7,138	43,172
(Gain) on estimated cost of asset retirement obligation	—	(270,095)
(Gain) Loss on sale of marketable securities	(13,463)	(283,566)
Non cash interest expense incurred in connection with debt restructure forgiveness	—	1,183,000
Gain on forgiveness of debt	(1,618)	(572,157)
Changes in operating assets and liabilities:		
Receivables	13,204	4,143
Prepaid expenses and other assets	130,632	89,388
Accounts payable and accrued expenses	2,224,613	6,109,842
Due to shareholder and related parties	3,494,635	(2,235,555)
Net cash used in operating activities	(945,286)	(2,096,999)
Cash flows provided by investing activities		
Proceeds from sale of marketable securities	935,421	1,984,557
Change in restricted cash	—	(30,000)
Net cash provided by investing activities	935,421	1,954,557
Cash flows from financing activities		
Borrowing on short-term notes payable	—	(17,402)
Proceeds from related party borrowings	—	150,000
Payments on related party borrowings	—	(150,000)
Net cash (used in) financing activities	—	(17,402)
Net decrease in cash and cash equivalents	(9,865)	(159,844)
Cash and cash equivalents, beginning of period	75,624	235,468
Cash and cash equivalents, end of period	\$ 65,759	\$ 75,624

See accompanying notes to consolidated financial statements.

PETROHUNTER ENERGY CORPORATION  
CONSOLIDATED STATEMENTS OF CASH FLOWS

	Year Ended September 30, 2011	Year Ended September 30, 2010
Supplemental schedule of cash flow information		
Cash paid for interest	\$ —	\$ 6,000
Cash paid for income taxes	\$ —	\$ —
Supplemental disclosures of non-cash investing and financing activities		
Common shares issued in connection with debt forgiveness	\$ —	\$ 59
Warrant value associated with re-pricing of stock purchase warrants issued in connection with amendments to debt instruments	\$ —	\$ 1,216,000
Accounts payable and other amounts relieved in connection with equity method investment	\$ —	\$ (1,838,000)

See accompanying notes to consolidated financial statements.

PETROHUNTER ENERGY CORPORATION  
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

Note 1 — Organization and Basis of Presentation

We are an oil and gas exploration company, and we currently own oil and gas leasehold interests located in Western Colorado (Piceance Basin) and in Australia (Beetaloo Basin) through an equity investment in another entity. We are incorporated in the State of Maryland.

Our predecessor, Digital Ecosystems Corp. (“Digital”), was incorporated on February 21, 2002 under the laws of the state of Nevada. On February 10, 2006, Digital entered into a Share Exchange Agreement (the “Exchange Agreement”) with GSL Energy Corporation (“GSL”) and certain shareholders of GSL pursuant to which Digital acquired more than 85% of the issued and outstanding shares of common stock of GSL in exchange for shares of Digital’s common stock. The Exchange Agreement was completed on May 12, 2006. At that time, GSL’s business, which was formed in 2005 for the purpose of acquiring, exploring, developing and operating oil and gas properties, became Digital’s business and GSL became a subsidiary of Digital. Since this transaction resulted in the former shareholders of GSL acquiring control of Digital, for financial reporting purposes, the business combination was accounted for as an additional capitalization of Digital (a reverse acquisition with GSL as the accounting acquirer).

Subsequent to the closing of the Exchange Agreement, Digital acquired all the remaining outstanding stock of GSL, and effective August 14, 2006, Digital changed its name to PetroHunter Energy Corporation (“PetroHunter”) and reincorporated under the laws of the state of Maryland. Likewise, in October 2006, GSL changed its name to PetroHunter Operating Company.

Effective January 1, 2007, we acquired all of the common shares of Sweetpea Petroleum Pty Ltd. (“Sweetpea”).

Unless otherwise noted in this report, any description of “us” or “we” refers to PetroHunter Energy Corporation and its subsidiaries.

Financial information in this report is presented in U.S. dollars.

Note 2 — Summary of Significant Accounting Policies

**Basis of Accounting** – The accompanying financial statements have been prepared on the basis of accounting principles applicable to a going concern, which contemplates the realization of assets and extinguishment of liabilities in the normal course of business. The report of our independent registered public accounting firm on the financial statements for the years ended September 30, 2011 and 2010 includes an explanatory paragraph relating to substantial doubt and uncertainty of our ability to continue as a going concern. As shown in the accompanying statements of operations, we have an accumulated deficit of \$292,987,591 and a net loss of \$7,013,787 for the year ending September 30, 2011, and as of that date our current liabilities exceeded our current assets by \$14,561,719. The Company’s ability to meet its contractual obligations and remit payment to its vendors depends on its ability to generate additional financing. PetroHunter's management continues to explore arrangements and whereby it may raise additional capital through the sale of existing assets and or through joint ventures related to its pending permit applications as well as through a potential debt or equity issuance. However there are no assurances the plans of the Company will result in its ability to raise funds. If the Company is unable to execute these plans it may have to cease operations or curtail operations further.

**Cash and Cash Equivalents** – We consider investments in highly liquid financial instruments with an original stated maturity of three months or less to be cash equivalents.

Comprehensive Income (Loss) – FASB ASC 220, “Comprehensive Income,” establishes standards for reporting and display of comprehensive income and its components in financial statements. It requires that all items that are required to be recognized under accounting standards as components of comprehensive income be reported in the financial statement that is displayed with the same prominence as other financial statements. The Company’s comprehensive loss consists of both net losses on foreign currency translation adjustments and unrecognized gains



in connection with mark to market adjustments on its marketable securities and it is presented in the accompanying consolidated statements of shareholders' deficit and comprehensive income (loss).

**Concentration of Credit Risk** – Financial instruments which potentially subject us to concentrations of credit risk consist of cash and marketable securities. We periodically evaluate the credit worthiness of financial institutions, and maintain cash accounts only with major financial institutions, thereby minimizing exposure for deposits in excess of federally insured amounts. On occasion, the Company may have cash in banks in excess of federally insured amounts. We believe that credit risk associated with cash is remote. Marketable securities credit risk is discussed later in Note 3 – Restricted Cash and Marketable Securities.

**Fair Value** – We apply the provisions of FASB ASC 820, “Fair Value Measurements.” The carrying amounts reported in the consolidated balance sheets for cash, receivables, marketable securities, prepaid assets, accounts payable and accrued liabilities approximate fair value because of the immediate or short-term maturity of these financial instruments. Fair values of assets and liabilities measured on a recurring basis as of September 30, 2011 included restricted and unrestricted marketable securities, recorded at fair values of \$650,000 and \$1,852,241, respectively, which had quoted prices in active markets for identical assets (level 1) of \$ 650,000 and \$1,852,241, respectively.

**Impairment** – We apply the provisions of FASB ASC 360, “Property Plant and Equipment,” which addresses financial accounting and reporting for the impairment or disposal of long-lived assets. FASB ASC 360 requires a long-lived asset to be sold to be classified as “held for sale” in the period in which certain criteria are met, including that the sale of the asset within one year is probable. FASB ASC 360 also requires that the results of operations of a component of an entity that either has been disposed of or is classified as held for sale be reported in discontinued operations if the operations and cash flows of the component have been or will be eliminated from the Company’s ongoing operations.

The Company periodically reviews the carrying value of its long-term assets in relation to historical results, current business conditions and trends to identify potential situations in which the carrying value of assets may not be recoverable. If such reviews indicate that the carrying value of such assets may not be recoverable, the Company would estimate the undiscounted sum of the expected cash flows of such assets to determine if such sum is less than the carrying value of such assets to ascertain if an impairment exists. If an impairment exists, the Company would determine the fair value by using quoted market prices, if available for such assets, or if quoted market prices are not available, the Company would discount the expected future cash flows of such assets.

**Income Taxes** – We record income taxes under the asset and liability method prescribed by FASB ASC 740, “Income Taxes.” Under this method, deferred tax assets and liabilities are recognized for temporary differences between the financial statement amounts and the tax basis of certain assets and liabilities by applying statutory rates in effect when the temporary differences are expected to reverse.

**Loss Per Common Share** – We do not report fully diluted loss per common share as the effect would be anti-dilutive.

**Marketable Securities** – We account for marketable securities with FASB ASC 320, “Accounting for Certain Investments in Debt and Equity Securities.” We account for marketable securities by marking to market with unrealized gains and losses reflected as a component of Other Comprehensive Income, until such gains or losses become realized, at which time they are then recognized in our statement of operations. In addition, in circumstances where significant price declines are experienced subsequent to the balance sheet date, we consider whether such declines are other than temporary. After considering our expected holding period, we may record a provision for impairment in the event we do not expect the value of the securities to recover from such a decline in market value. We consider our accounting for marketable securities to involve significant management judgment that is subject to estimation.

Oil and Gas Properties— The Company applies the full cost method of accounting for its oil and gas properties. Under this method, subject to a limitation based on estimated value, all costs associated with property acquisition, exploration and development, including costs of unsuccessful exploration, are capitalized within a cost center on a by country basis. No gain or loss is recognized upon the sale or abandonment of undeveloped or producing oil and

gas properties unless the sale represents a significant portion of oil and gas properties and the gain significantly alters the relationship between capitalized costs and proved oil and gas reserves of the cost center. Depletion of oil and gas properties is computed on the units-of-production method based on proved reserves. This includes estimates of future development costs of proved undeveloped reserves.

Capitalized costs of oil and gas properties may not exceed an amount equal to the present value, discounted at 10%, of the estimated future net cash flows from proved oil and gas reserves plus the cost, or estimated fair market value, if lower, of unproved properties. Should capitalized costs exceed this ceiling, an impairment is recognized.

Property and Equipment – Property and equipment are stated at cost and depreciated using the straight-line method over the estimated useful lives of the related assets approximating seven years. Leasehold improvements are amortized over the shorter of the lease term or the estimated useful lives of the related assets using the straight-line method. We have capitalized costs associated with various equipment leases in accordance with FASB ASC 840, “Accounting for Leases.” These amounts have been presented as components of our property and equipment in our consolidated balance sheets.

Reclassifications – Certain prior period amounts have been reclassified in the consolidated financial statements to conform to the current period presentation.

Restricted Cash – Restricted cash consists of certificates of deposit, underlying letters of credit for exploration permits, state and local bonds and guarantees to vendors.

Revenue Recognition – Historically we recognized revenues from the sale of natural gas and crude oil related to our interests in producing wells when delivery to the customer has occurred and title has transferred. Revenue is presented on a gross basis, prior to deductions for taxes and gathering expenses.

Share-Based Compensation – We use the Black-Scholes option-pricing model and the straight-line attribution approach to determine the fair-value of stock-based awards in accordance with FASB ASC 718, “Stock Compensation.” The option-pricing model requires the input of highly subjective assumptions, including the option’s expected life and the price volatility of the underlying stock. The Company’s expected term represents the period that stock-based awards are expected to be outstanding and is determined based on historical experience of similar awards, giving consideration to the contractual terms of the stock-based awards, vesting schedules and expectations of future employee behavior as influenced by changes to the terms of its stock-based awards. The expected stock price volatility is based on the Company’s historical stock prices.

Use of Estimates – The preparation of our consolidated financial statements in accordance with Generally Accepted Accounting Principles (“GAAP”) requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosures of contingent assets and liabilities at the date of the financial statements and reported amounts of revenues and expenses during the reporting period. Actual results could differ materially from those estimates. Our significant estimates include the estimated life of long-lived assets, asset retirement obligation liabilities, accruals for various liabilities and the market value of securities.

Asset Retirement Obligation – Asset retirement obligations associated with tangible long-lived assets are accounted for in accordance with FASB ASC 410, “Accounting for Asset Retirement Obligations.” The estimated fair value of the future costs associated with dismantlement, abandonment and restoration of oil and gas properties is recorded generally upon acquisition or completion of a well. The net estimated costs are discounted to present values using a risk adjusted rate over the estimated economic life of the oil and gas properties. Such costs are capitalized as part of the related asset. The liability is periodically adjusted to reflect (1) new liabilities incurred, (2) liabilities settled during the period, (3) accretion expense, and (4) revisions to estimated future cash flow requirements. Accretion expense is

recorded as a component of depreciation, depletion, amortization and accretion expense.

Recently Issued Accounting Pronouncements

In June 2011, the FASB issued Accounting Standards Update 2011-05, Presentation of Comprehensive Income. This update provides the option to present the total of comprehensive income, the components of net income and the

components of other comprehensive income either in a single continuous statement of comprehensive income or in two separate but consecutive statements. The Company does not believe that this will materially impact the presentation of its financial statements.

In May 2011, the FASB issued Accounting Standards Update 2011-04, Amendments to Achieve Common Fair Value Measurement and Disclosure Requirements in U.S. GAAP and IFRS . This update does not require additional fair value measurements and is not intended to establish valuation standards or affect valuation practices outside of financial reporting. This update may require certain additional disclosures related to fair value measurements. We do not expect the adoption of this update will materially impact our financial statement disclosures.

Other accounting standards that have been issued or proposed by the FASB, or other standards-setting bodies, that do not require adoption until a future date are not expected to have a material impact on the financial statements upon adoption.

#### Note 3 - Restricted Cash and Marketable Securities

As of September 30, 2011, long term restricted cash consists of \$85,000 in certificates of deposit and letters of credit for exploration permits and state and local bonds.

As of September 30, 2011, we have recorded \$650,000 in marketable securities on our Consolidated Balance Sheet, representing the 5,000,000 shares of Falcon common stock that we held on this date. As of September 30, 2011, 5,000,000 shares were restricted through various agreements wherein they had been pledged as collateral. As described in Note 2, we have accounted for these securities in accordance with FASB ASC 320, "Accounting for Certain Investments in Debt and Equity Securities."

#### Note 4- Fair Value Measurement and Disclosure

The following table summarizes financial assets measured at fair value on a recurring basis as of September 30, 2011 and 2010, segregated by the level of the valuation inputs within the fair value hierarchy utilized to measure fair value:

September 30:

	Quoted Prices In an Active Market for Identical Assets (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)	Total
Marketable equity securities - Falcon	\$ 1,015,241	\$ -	\$ -	\$ 1,015,241
Restricted certificates of deposit and letters of credit	130,600	-	-	130,600
Oil and gas properties	-	-	-	-
Total as of September 30, 2010	\$ 1,145,841	\$ -	\$ -	\$ 1,145,841
Sales and change in market value- marketable securities	\$ (365,241 )	\$ -	\$ -	\$ (365,241 )
Marketable equity securities - Falcon	650,000	-	-	650,000
Transfers – certificates of deposit	(45,600 )	-	-	(45,600 )
Restricted certificates of deposit	85,000	-	-	85,000

and letters of credit

Oil and gas properties	-	-	-	-
Total as of September 30, 2011	\$ 735,000	\$ -	\$ -	\$ 735,000

#### Note 5 - Equity Investment

In April 2010, we and Sweetpea, as bound by an agreement executed in December 2009, and Falcon and its wholly owned subsidiary, Falcon Oil & Gas Australia Pty Ltd (“Falcon Australia”), closed a transaction wherein Sweetpea received an initial 25% equity interest in Falcon Australia in exchange for its remaining undivided 25% interest in four exploration permits in the Beetaloo Basin, in the Northern Territory, Australia. The result of this transaction is the re-consolidation of the interests in the exploration permits into one entity and the creation of a vehicle for fundraising and exploration and development activities in the Beetaloo Basin. The ownership of Falcon Australia immediately following the closing of the transaction was 75% by Falcon and 25% by Sweetpea.

We have accounted for our investment in Falcon Australia in accordance with FASB ASC Topic 323, “Investments-Equity Method & Joint Ventures.” Our basis in the 50,000,000 shares of Falcon Australia we received has been recorded at the historical cost of the identifiable assets given in consideration valued at \$1,987,244 related to costs incurred in connection with the Shenandoah#1A well in the Beetaloo Basin Australia, net of related liabilities relieved and net of related accrued GST taxes of \$1,838,091, resulting in the recording of a net equity investment of \$149,153 as of the date of the transaction.

In June 2010, Falcon Australia raised \$4,900,000 in accordance with the terms of a private placement memorandum. As a result of this financing transaction, our ownership interest was diluted to 24%.

As of September 30, 2011, our equity method investment in Falcon Australia consisted of 50,000,000 shares of common stock in the investee. We have recorded losses on the equity investment of \$149,153 for the year ended September 30, 2010. As of a result of the losses incurred in connection with the investment we have reduced our basis in the investment to \$nil as of September 30, 2011 and 2010, respectively.

#### Note 6 — Oil and Gas Properties

Summary – We have recorded no value related to oil and gas properties at September 30, 2011 and 2010.

##### Australia

During fiscal 2007 we drilled the Shenandoah #1 well located in the Beetaloo Basin in the Northern Territory of Australia. At this time we owned 100% of the working interest in this well and related leasehold interest. This well is located on oil and gas leasehold interest we held through four exploration permits that included 7,000,000 acres. In periods subsequent, we sold 75% of our 100% working interest in this well and the related acreage to Falcon Australia, who now operates the project. During fiscal 2009, we participated in the deepening of this well, the Shenandoah #1A, which is shut-in awaiting additional expenditure. In fiscal 2010, we conveyed our remaining 25% interest in the prospect to Falcon Australia, in exchange for 50,000,000 shares in that entity (Note 5).

We have also applied for three additional exploration permits in the Northern Territory in Australia covering an additional 1.8 million acres that are adjacent to our Beetaloo Basin Project acreage. Subsequent to September 30, 2011 we have substantially advanced the negotiations on two of the three permits. We have granted an option acquire a 50% interest in two of these three exploration permits to a related party. As partial consideration for this option we received \$150,000 in cash. This amount has been included in accounts payable and accrued liabilities on our consolidated balance sheet as of September 30, 2011. (Note 14)

##### US Projects – Piceance Basin

Buckskin Mesa Project – The Buckskin Mesa Project area was purchased on September 17, 2005 from MAB Resources, subject to certain agreements with Daniels Petroleum Company ("DPC"). The property is located in the northern part of the Piceance Basin in Rio Blanco County, Colorado. The acquisition included 20,000 net acres and five previously drilled that were shut-in. We drilled five wells on this acreage and attempted to complete three of these wells in the first quarter of 2009. All ten wells are currently shut-in.

Per the agreement with DPC we were required to drill 5 additional wells by July 31, 2009, or pay DPC \$2,000,000 or return these leases to DPC. We did not drill these additional five wells.



In June 2010, we executed a letter of intent to transfer a significant portion of our interests in our Piceance properties into the Buckskin Mesa, LLC, a vehicle formed to fund exploration of these interests. We were unsuccessful in finding partners for this project and returned the leases to DPC during fiscal 2011.

During the year ended September 30, 2009, we impaired the remaining value of our U.S. full cost pool as we did not have the financial capacity to continue exploring for oil and gas on this acreage.

The following is a summary of depreciation, depletion, amortization and accretion, as reflected in the consolidated statements of operations (including depreciation, depletion and amortization of oil and gas properties per thousand cubic feet of natural gas equivalent) for the years ended September 30:

	2011	2010	2009
Depletion of oil and gas properties	\$ -	\$ -	\$ 8,001
Depreciation of furniture and equipment	1,472	31,000	215,005
Accretion of asset retirement obligation	-	59,086	21,101
Total	\$ 1,472	\$ 90,086	\$ 244,107
Depletion per thousand cubic feet of natural gas equivalent	\$ -	\$ -	\$ 2.5

#### Note 7 — Furniture and Equipment

Furniture and equipment at September 30, 2011 and 2010 is reported at cost, net of accumulated depreciation and consisted of the following:

	2011	2010
Furniture and equipment	\$ 8,196	\$ 8,196
Less accumulated depreciation	(6,388)	(4,916)
Total	\$ 1,808	\$ 3,280

Depreciation expense associated with office furniture and equipment was \$1,472 and \$31,000 for the years ended September 30, 2011 and 2010, respectively.

#### Note 8 — Other Accrued Liabilities

Other accrued liabilities as of September 30, 2011 and 2010 are summarized and described below:

	2011	2010
Other accrued liabilities	\$ 8,605,147	\$ 7,273,331

On April 11, 2008, we closed the sale of certain natural gas gathering assets in our Buckskin Mesa project for \$700,000 in cash consideration, and simultaneously entered into a gas gathering agreement with Clear Creek Energy Services (“CCES”) relating to the initial phase of a gas gathering system at Buckskin Mesa. These agreements formalized and expanded upon a letter of understanding between the parties which contemplated a dedicated relationship with CCES in the development of a gas gathering system and the provision of gas gathering services within our Buckskin Mesa Project area (the “CCES Agreements”). In addition to customary terms and conditions, the CCES Agreements included a guarantee (the “Guarantee”) from us to CCES regarding its increasing financial commitments as they were incurred in relation to the development of the gas gathering system, including our contingent repurchase of the gas gathering assets we sold to CCES. The triggering event for the Guarantee was contingent upon our mutual failure to execute a formal agreement for long-term gas gathering services in the future. The resolution of this contingency was dependent upon, among other things, gas production levels from the

initial phase gas gathering system for our Buckskin Mesa Project. Per the agreement if we failed to execute a mutually agreeable long-term contract, CCES had the right to invoice us for its incurred costs and demand repayment within 20 days of our receipt of the demand invoice. To secure our Guarantee, we executed a promissory

note for an amount up to \$11,500,000, secured by second deeds of trust on our Colorado properties. The amount of the Guarantee was variable, based upon the underlying incurred costs by CCES as defined in the CCES Agreements.

During the year ended September 30, 2009, we deemed that the completion of this gathering system was economically unfeasible for us and we ceased pursuing its completion. As per our initial agreement with CCES, all amounts payable came due within 20 days of demand. In May 2009, we received a demand notice from CCES. We held discussions with CCES management between September 2009 and November 2011 to develop a mutually agreeable settlement. In November 2011 we reached an agreement with CCES related to additional costs incurred by CCES to remediate the gathering system and additional charges incurred by CCES in connection therewith. In connection with this agreement we have recorded an additional \$1,331,816 in accrued liabilities. We have recorded finance charges in the same amount in our consolidated statement of operations for the period and this amount has been included as a component of interest expense. CCES has a lien on the Buckskin Mesa acreage and well bores.

#### Note 9 — Asset Retirement Obligation

We recognize an estimated liability for future costs associated with the abandonment of our oil and gas properties. A liability for the fair value of an asset retirement obligation and a corresponding increase to the carrying value of the related long-lived asset are recorded at the time a well is completed or acquired. The Company recognizes accretion expense in connection with the discounted liability over the remaining estimated economic lives of the respective oil and gas properties.

Our estimated asset retirement obligation liability is based on estimated economic lives, estimates as to the cost to abandon the wells in the future, and federal and state regulatory requirements. The liability is discounted using a credit-adjusted risk-free rate estimated at the time the liability is incurred or revised. Revisions to the liability are due to increases in estimated abandonment, changes in well economic lives, and changes to federal or state regulations regarding the abandonment of wells. We have recorded certain components of our asset retirement obligation as a current liability in 2011, as we believe that the likelihood of the remediation of the associated properties in the near term is probable.

Our asset retirement obligation liability as of September 30, 2011 and 2010 is summarized below:

	2011	2010
Beginning asset retirement obligation	\$ 769,478	\$ 1,010,830
Liabilities incurred	—	—
Liabilities settled	(30,256)	(32,001)
Revisions to estimates	—	(268,436)
Accretion expense	—	59,085
Ending asset retirement obligation	\$ 739,222	\$ 769,478

#### Note 10 — Notes Payable

Notes payable as of September 30, 2011 and 2010 are summarized below:

	2011	2010
Convertible notes payable	\$ 717,873	\$ 717,873
Convertible notes payable	\$ 717,873	\$ 717,873
Notes payable – related party – short-term		
Bruner Family Trust	\$ 2,722,060	\$ 2,722,060
Notes payable – related party, short term	\$ 2,722,060	\$ 2,722,060

Long-Term Notes Payable

Convertible notes payable	\$	6,238,419	\$	6,238,419
Convertible notes payable	\$	6,238,419	\$	6,238,419

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	2011	2010
Long-term notes payable – related party		
Global Project Finance AG	\$ 40,650,000	\$ 40,650,000
Bruner Family Trust	109,000	109,000
Long-term notes payable – related party	\$ 40,759,000	\$ 40,759,000

A description of our notes payable as of September 30, 2011 and 2010 is as follows:

Bruner Family Trust – At various times during 2008, we entered into five promissory notes with the Bruner Family Trust. Each note accrues interest at LIBOR plus 3% per annum and was originally due 12 months from each note’s respective date of issuance. A note for \$2,408,060 was originally due on November 13, 2008, but was extended by the lender. The remaining four notes were originally due in February, March (2) and August 2009. We continue to receive waivers from the lender on a periodic basis related to our covenant violations and in relation to our default and failure to make scheduled principal and interest payments. The possibility exists that lender will call all amounts due at the end of each waiver period. As of September 30, 2011, accrued interest relating to these notes was \$423,877, and the total note balance was \$2,828,060 of which \$2,722,060 is classified as a short term liability.

Convertible notes payable

Convertible notes payable as of September 30, are summarized below:

	2011	2010
Convertible debentures – face value at issuance	\$6,956,292	\$6,956,292
Relative fair value assigned to warrants	(3,532,000)	(3,532,000)
Relative fair value of beneficial conversion feature	(3,424,292)	(3,424,292)
Net book value of convertible debentures at issuance	—	—
Accumulated accretion	6,956,292	6,956,292
Net book value	\$6,956,292	\$6,956,292

In November 2007, we issued \$6,956,292 in convertible debentures (the “Debentures”) to several accredited investors. The debentures were initially due November 2012 and are collateralized by shares in our Australian subsidiary. Debenture holders also received five-year warrants allowing them to purchase a total of 46,400,000 shares of common stock at prices ranging from \$0.24 to \$0.28 per share. We determined that the relative fair value of the warrants was approximately \$3,532,000 at issuance, under the Black-Scholes model. In connection with the placement of the debentures, we paid a placement fee of \$300,000 and issued placement agent warrants entitling the holders to purchase an aggregate of 200,000 shares at \$0.25 to \$0.28 per share for a period of five years. Interest payments related to the debentures accrues at an annual rate of 8.5% and is payable in cash or in shares of our common stock (at our option) quarterly, beginning upon our successful registration of the warrant shares, as noted below. All overdue unpaid interest accrues a late fee of 18% per annum, calculated based on the entire unpaid interest balance.

We originally agreed to file a registration statement with the Securities and Exchange Commission in order to register the shares issuable upon conversion of the debentures and the shares issuable upon exercise of the warrants. According to the Registration Rights Agreement, the registration statement was to be filed by March 4, 2008 and declared effective by July 2, 2008. The following penalties were to apply if filing deadlines were not met in compliance with the stated rules: (i) we agreed to pay 1% of the purchase price in cash as partial liquidated damages, subject to maximum aggregate liquidated damages of 18% of the aggregate subscription amount paid by the holder; (ii) if we were to fail to pay liquidated damages in full within seven days of the date payable, we agreed to pay interest

of 18% per annum, accruing daily from the original due date subject to proration related to any portion of a month prior to the cure event; and (iii) all fees and expenses associated with compliance to the agreement would be borne by the Company.

A waiver was executed in relation to the payment of a scheduled interest installment due July 1, 2008 by September 30, 2008, together with late fees of 18% per annum. In addition, warrants to purchase our common stock were issued in an amount equal to 2% of the shares each purchaser received with the original agreement. On September 30, 2008, we paid all past due interest in accordance with these waiver agreements.

A January 2009 waiver and amendment agreement with the purchasers extended the effective date of the registration statement to February 28, 2009, waived the penalties for not having the registration effective by the amended deadline of December 31, 2008, and waived as events of default under the debentures (i) the failure to pay the January 1, 2009 interest installment, (ii) our sale of an interest in our properties to Falcon, (iii) recent loans, and (iv) the placing of liens on our Buckskin Mesa wells and properties and pledge of our shares of Falcon stock. We agreed to pay the interest installment due January 1, 2009 by April 1, 2009, together with late fees of 18% per annum, and to issue warrants to purchase our common stock in an amount equal to 2% of the shares each purchaser received with the original agreement. A waiver and amendment agreement relating to the above Registration Rights Agreement was signed by all investors in May 2009 and the holders agreed that PetroHunter would not have to register the shares underlying the warrants until the warrants were "in the money". The waiver indicated that the trading price of the stock must exceed the warrant exercise price for at least 20 consecutive trading days before the registration commitment is triggered. Once the warrants are "in the money", we have 120 days to get a registration statement effective.

In May 2009, we received multiple waivers and releases of covenant violations and default and failure to make interest payments from the holders of our 8.5% convertible debentures. In connection with the receipt of these waivers we issued a total of 2.77 million warrants to purchase our common stock at prices ranging from \$0.12 to \$0.28.

The debentures initially had a maturity date of November 2012 and are convertible at any time by the holders into shares of our common stock at a price of \$0.15 per share, which was determined to be beneficial to the holders on the date of issuance. We determined that the relative fair value of this beneficial conversion feature was \$3,424,292 at issuance, under the Black-Scholes model. Accordingly, we recorded discounts to the debentures equal to their full cash value at issuance, which we had been accreting to interest expense over the term of the notes, using the effective interest method.

In March 2010, the holders of \$4,000,000 of the 8.5% convertible notes payable executed a waiver and amendment agreement in exchange for 3,233,778 shares of our common stock and the re-pricing of 28,800,000 stock purchase warrants (Note 13) originally issued in connection with the underlying notes. The terms of the waiver and amendment agreement provided for the relief of \$404,302 in accrued interest and an extension of the maturity date of the underlying notes and scheduled interest payments through December 31, 2014. We will continue to accrue interest as per the original provisions in the underlying notes. We have recorded charges of \$597,966 to interest expense, related to the re-pricing of the stock purchase warrants and recognized a gain of \$307,209 in connection with the common stock issued in connection with the amendment of terms of the note and relief of accrued interest.

In April 2010, the holders of \$2,238,419 of our 8.5% convertible notes payable executed a waiver and amendment agreement in exchange for approximately 1,985,000 shares of our common stock and the re-pricing of 16,117,297 stock purchase warrants (Note 13) originally issued in connection with the underlying notes. The terms of the waiver and amendment agreement provide for the relief of approximately \$267,682 in accrued interest and an extension of the maturity date of the underlying notes and scheduled interest payments through December 31, 2014. We have recorded charges of \$433,833 related to the re-pricing of the stock purchase warrants and recognized gains of \$186,300 related to the issuance of common stock in connection with the relief of the accrued interest.

The terms of the amendment agreement allow for conversion of the \$6,238,419 in principal owed to be converted into shares of our common stock at \$0.125 per share through December 31, 2011. From January 1, 2012 through December 31, 2014, this conversion price will decrease to \$0.10 per share. We have considered FASB ASC-470-20

“Accounting for Convertible Debt Instruments That May Be Settled in Cash Upon Conversion,” in connection with this conversion feature, and have not recorded any impact to our financial statements as of the date of issuance.

As of September 30, 2011, we have classified \$6,238,419 related to the portion of the convertible notes wherein we have received waivers and amendments as long term liabilities, and \$717,873 related to the un-amended portion of



these notes as short term liabilities on our balance sheet. We have accrued \$204,517 in interest related to the short term portion of these notes and \$840,850 related to the long term portion of the notes as of September 30, 2011.

Global Project Finance AG – On October 10, 2007, we entered into a promissory note with Global Project Finance, AG (“Global”). The entire balance on the notes was due and payable on December 31, 2008, along with the accrued interest. We received a waiver that extended the due date on this note through July 2009. The note is unsecured and the note balance at September 30, 2011 was \$850,000. Accrued interest recorded in connection with this note as of September 30, 2011 was \$102,119.

On January 9, 2007, we entered into a Credit and Security Agreement (the “January 2007 Credit Facility”) with Global in the amount of \$15,000,000. As of September 30, 2011 and September 30, 2010, amounts drawn against this facility were \$15,000,000.

On May 21, 2007, we entered into a second Credit and Security Agreement with Global (the “May 2007 Credit Facility”) and we extended all the economic terms from the May 2007 Credit Facility retroactively to the January 2007 Credit Facility. Under the May 2007 Credit Facility, Global agreed to use its best efforts to advance up to \$60,000,000 to us over the following 18 months. As of September 30, 2011 and 2010 amounts drawn against this facility were \$24,800,000.

In connection with the May 2007 Credit Facility, Global received warrants to purchase 2,000,000 of our common shares at the date of execution and was to receive 400,000 warrants for each \$1,000,000 advanced under the Facility. We agreed to pay an advance fee of 2% on all amounts drawn under the May 2007 Credit Facility. Payments were to have been made in such amounts as may be agreed upon by us and Global on the then outstanding principal balance in order to repay the principal balance by the maturity date, November 21, 2009. The loans are collateralized by a first perfected security interest on certain oil and gas properties and other of our assets. In the event that we sell any interest in the oil and gas properties that comprise the collateral, a mandatory payment is due in the amount equal to such sales proceeds.

As of September 30, 2011 and 2010, the remaining cash portion of the advance fees payable incurred in connection with the two lines of credit in the amount of \$716,045, incurred proportionately at 2% of each respective draw, has been accrued. Subsequent to September 30, 2011, we transferred 800,000 shares of our Falcon stock to Global Project Finance in satisfaction of certain amounts accrued as advance fees as of September 30, 2011 (Note 16).

In March 2010, in exchange in exchange for 5,000,000 shares of our common stock, Global executed an amendment to an existing \$850,000 note payable bearing interest at 15%. The amendment granted us a relief of \$286,664 in accrued interest related to the underlying note. In addition all other defaults under the terms of the initial note dated October 10, 2007 were waived through December 31, 2014. The due date of the note, and all scheduled interest payments were extended through December 31, 2014. We will continue to accrue interest on the note at 8.5% per annum. We recorded a \$150,000 charge to interest expense related to the issuance of common stock in connection with this amendment.

In March 2010, in exchange for 48,391,420 shares of our common stock, Global executed an amendment to the existing \$39,800,000 credit facilities bearing interest at the prime rate plus 6.75%. The amendment granted us a relief of \$5,731,884 in accrued interest related to the underlying credit facilities. In addition all other defaults under the terms of the January 2007 Credit Facility and May 2007 Credit Facility were waived through December 31, 2014. The maturity date of the facilities, and all scheduled interest payments were extended through December 31, 2014. We will continue to accrue interest on the credit facilities at 8.5% per annum. We have recorded a \$6,145,548 charge to additional paid in capital related to the issuance of common stock in connection with the relief of accrued interest, including \$145,000 allocable to the \$850,000 promissory note as discussed above. In accordance with FASB ASC

470-50-40-2 “Debt Modifications and Extinguishments,” no gain has been recognized due to the related party nature of the transaction.

The terms of the amendment agreement allow for conversion of \$6,500,000 of principal amounts owed under the existing credit facility into shares of our common stock at \$0.125 per share through December 31, 2011. From January 1, 2012 through December 31, 2014, this conversion price will decrease to \$0.10 per share. We have considered FASB ASC-470-20 “Accounting for Convertible Debt Instruments That May Be Settled in Cash Upon

Conversion,” in connection with this conversion feature, and have not recorded any impact to our financial statements as of the date of issuance.

As of September 30, 2011, we have accrued \$5,329,384 in interest related to the lines of credit.

#### Note 11 — Stockholders’ Equity

**Common Stock** –We have authorized 1 billion shares of common stock and 100 million shares of preferred stock. As of September 30, 2011 and 2010, 439,078,759 and 439,078,759 shares of our common stock were issued and outstanding, respectively, and no shares of preferred stock were outstanding for either period.

**Fiscal 2011 Transactions** – During the year ended September 30, 2011, we did not issue any shares of our common stock.

**Fiscal 2010 Transactions** – During the year ended September 30, 2010, we issued 58,610,215 shares of our common stock.

In March 2010, we issued 5,000,000 shares of common stock to a related party in connection with the execution of an amendment to an existing \$850,000 promissory note and our outstanding \$39,800,000 credit facilities. In connection with the execution of the amendment the maturity date of the note and credit facilities was extended through December 31, 2014. (Note 10)

In March 2010, we issued 48,391,420 shares of common stock to a related party in consideration for the forgiveness of \$6,048,940 of accrued interest related to a \$850,000 promissory note and our outstanding \$39,800,000 credit facilities. (Note 10)

In March 2010, we issued 3,233,778 shares of common stock to the holders of \$4,000,000 of our 8.5% convertible notes payable in exchange for forgiveness of \$404,302 in accrued interest. In connection with the execution of the amendment the maturity date of the underlying notes was extended through December 31, 2014. (Note 10)

In June 2010, we issued 1,985,000 shares of common stock to the holders of \$2,238,419 of our 8.5% convertible notes payable in exchange for the forgiveness of \$267,682 in accrued interest. In connection with the execution of the amendment the maturity date of the underlying notes was extended through December 31, 2014. (Note 10)

#### Note 12 — Stock-Based Compensation

**Stock Option Plan**– On August 10, 2005, the Company adopted the 2005 Stock Option Plan (the “Plan”), as amended. Stock options under the Plan may be granted to key employees, non-employee directors and other key individuals. Options may be granted at an exercise price not less than the fair market value of the Company’s common stock at the date of grant. Most options have a five-year life but may have a life up to 10 years as designated by the compensation committee of the Board of Directors (the “Compensation Committee”). Options granted prior to 2009 vest 20% on grant date and 20% each year on the anniversary of the grant date but each vesting schedule is also determined by the Compensation Committee. Most grants after 2009 vest 50% on grant date and 50% on the one-year anniversary of the initial grant date. The Company has reserved 40,000,000 shares of common stock for the Plan. At September 30, 2011 and 2010, 21,505,000 and 25,055,000 shares, respectively, remained available for grant pursuant to the Plan.

During the years ended September 30, 2011 and 2010, our board of directors approved the grants of 8,000,000 and 7,250,000 options under the terms of the Plan, respectively.



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A summary of the activity under the Plan as of and for the years ended September 30, 2011 and 2010, are as follows (shares in thousands):

	Number of Shares	Weighted- Average Exercise Price
Options outstanding — September 30, 2009	29,420	\$ 0.76
Options exercisable — September 30, 2009	21,773	\$ 0.85
Granted	7,250	\$ 0.15
Forfeited	(14,725 )	\$ 0.63
Expired	(7,000 )	\$ 0.50
Options outstanding — September 30, 2010	14,945	\$ 0.71
Options exercisable — September 30, 2010	10,747	\$ 0.93
Granted	8,000	\$ 0.15
Forfeited	(650 )	\$ 0.50
Expired	(3,800 )	\$ 2.10
Options outstanding – September 30, 2011	18,495	\$ 0.19
Options exercisable – September 30,2011	14,256	\$ 0.20

There have been no options exercised under the terms of the Plan since inception.

A summary of the activity and status of non-vested awards under the Plan as of and for the years ended September 30, 2011 and 2010, are as follows (shares in thousands):

	Number of Shares	Weighted Average Fair Value
Non-vested — September 30, 2009	7,597	\$ 0.30
Granted	7,250	\$ 0.01
Vested	(5,751)	\$ 0.16
Forfeited	(4,898)	\$ 0.26
Expired	—	\$ —
Non-vested — September 30, 2010	4,198	\$ 0.04
Granted	8,000	\$ 0.01
Vested	(7,739)	\$ 0.01
Forfeited	(220)	\$ 0.10
Expired	—	\$ —
Non-vested – September 30,2011	4,239	\$ 0.01

As of September 30, 2011, there was \$127,213 of total deferred compensation cost related to non-vested share-based compensation arrangements. We anticipate that this expense will be recognized in the fiscal year 2012. The total fair value of shares vested during the years ended September 30, 2011 and 2010 was \$211,888 and \$319,508, respectively.

The fair value of each share-based award under all plans is estimated on the date of grant using a Black-Scholes pricing model that incorporates the assumptions noted in the following table for the years and for the period ended September 30:

	2011	2010
Expected option term — years	1-5	1-5
Weighted-average risk-free interest rate	0.3%-1.4%	0.6%-1.8%
Expected dividend yield	0	0
Weighted-average volatility	121%-136%	121%-128%



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We have from time to time issued stock options to employees and non-employee consultants outside the Plan. During the year ended September 30, 2011, our Board of Directors approved the grant of 9,000,000 options outside the Plan. There were no grants outside the Plan during the year ended September 30, 2010.

A summary of the activity as of and for the years ended September 30, 2011 and 2010, is presented below (shares in thousands):

	Number of Shares	Weighted- Average Exercise Price
Options outstanding – September 30, 2009	3,760	\$ 0.50
Options exercisable – September 30, 2009	3,760	\$ 0.50
Granted	8,750	\$ 0.15
Forfeited	(1,760)	