

PetroHunter Energy Corp
Form 10-Q
May 12, 2010

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

Form 10-Q

(Mark One)

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

For the quarterly period ended March 31, 2010

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 450, Denver, Colorado
(Address of principal executive
offices)

80202
(Zip Code)

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

Indicate by check mark whether the registrant (1) has filed all reports required to be filed by Section 13 or 15(d) of the Securities Exchange Act of 1934 during the preceding 12 months (or for such shorter period that the registrant was required to file such reports), and (2) has been subject to such filing requirements for the past 90 days. Yes No

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

Edgar Filing: PetroHunter Energy Corp - Form 10-Q

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 Exchange Act). Yes No

As of April 30, 2010 the registrant had 437,093,842 shares of common stock outstanding.

FORWARD-LOOKING STATEMENTS

Certain statements contained in this Quarterly 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 Operations” and elsewhere in this Quarterly 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”).

CURRENCIES

All amounts expressed herein are in U.S. dollars unless otherwise indicated.

PETROHUNTER ENERGY CORPORATION

FORM 10-Q

FOR THE THREE-MONTH AND SIX MONTH PERIODS ENDED
MARCH 31, 2010

INDEX

| | Page |
|--|------|
| PART I — FINANCIAL INFORMATION | |
| Item 1. | 4 |
| Financial Statements | |
| Management's Discussion and Analysis of Financial Condition and Results of Operations | 14 |
| Item 2. | 18 |
| Quantitative and Qualitative Disclosures About Market Risk | |
| Item 3. | 19 |
| Controls and Procedures | |
| Item 4. | |
| PART II — OTHER INFORMATION | |
| Item 1. | 20 |
| Legal Proceedings | |
| Item 1A. | 20 |
| Risk Factors | |
| Item 2. | 20 |
| Unregistered Sales of Equity Securities and Use of Proceeds | |
| Item 3. | 20 |
| Defaults Upon Senior Securities | |
| Item 4. | 20 |
| Submission of Matters to a Vote of Security Holders | |
| Item 5. | 20 |
| Other Information | |
| Item 6. | 20 |
| Exhibits | |
| SIGNATURES | |

PETROHUNTER ENERGY CORPORATION
CONDENSED CONSOLIDATED BALANCE SHEETS

March 31,
2010

September 30,
2009

(unaudited)

(\$ in thousands)

ASSETS

Current Assets

| | | |
|---|--------------|--------------|
| Cash and cash equivalents | \$ 51 | \$ 235 |
| Marketable securities, available for sale | 530 | 455 |
| Restricted marketable securities | 3,048 | 2,925 |
| Prepaid expenses and other assets | 72 | 222 |
| TOTAL CURRENT ASSETS | 3,701 | 3,837 |

Property and Equipment, at cost

| | | |
|--|-------|-------|
| Oil and gas properties under full cost method, net | 1,987 | 1,427 |
| Furniture and equipment, net | 92 | 122 |
| | 2,079 | 1,549 |

Other Assets

| | | |
|---------------------------|-----------------|-----------------|
| Restricted cash | 101 | 101 |
| Deposits and other assets | 25 | 50 |
| TOTAL ASSETS | \$ 5,906 | \$ 5,537 |

LIABILITIES AND STOCKHOLDERS' DEFICIT

Current Liabilities

| | | |
|---|---------------|---------------|
| Accounts payable and accrued expenses | \$ 4,909 | \$ 4,104 |
| Notes payable — short term | 81 | 81 |
| Notes payable — related party — short term | 2,722 | 43,479 |
| Convertible notes payable | 2,956 | 6,956 |
| Accrued interest payable | 1 | 457 |
| Accrued interest and fees payable — related parties | 351 | 5,409 |
| Other accrued liabilities | 7,273 | 7,273 |
| Asset retirement obligation | 1,057 | 1,012 |
| TOTAL CURRENT LIABILITIES | 19,350 | 68,771 |

Long-Term Liabilities

| | | |
|---|---------------|---------------|
| Convertible notes payable | 4,000 | — |
| Notes payable — related party | 40,756 | — |
| Accrued interest and fees payable related party | 1,022 | — |
| Accrued interest | 389 | — |
| Other long-term liabilities | 23 | 29 |
| TOTAL LIABILITIES | 65,540 | 68,800 |

Stockholders' Deficit

| | | |
|--|---|---|
| | — | — |
|--|---|---|

Edgar Filing: PetroHunter Energy Corp - Form 10-Q

| | | |
|---|------------|------------|
| 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; and 437,093,842 and 380,468,544 shares issued and outstanding respectively | 437 | 380 |
| Additional paid-in-capital | 222,548 | 215,576 |
| Other comprehensive income | 635 | — |
| Accumulated deficit | (283,254) | (279,219) |
| TOTAL STOCKHOLDERS' DEFICIT | (59,634) | (63,263) |
| TOTAL LIABILITIES AND STOCKHOLDERS DEFICIT | \$ 5,906 | \$ 5,537 |

See accompanying notes to these unaudited condensed consolidated financial statements.

PETROHUNTER ENERGY CORPORATION
CONDENSED CONSOLIDATED STATEMENTS OF OPERATIONS
(unaudited)

| | Three Months Ended March 31, 2010 | Three Months Ended March 31, 2009 |
|---|---|--|
| | (\$ in thousands except per share and share data) | |
| Revenue | | |
| Oil and gas revenue | \$ — | \$ — |
| Other revenue | — | — |
| Total Revenue | — | — |
| Costs and Expenses | | |
| Lease operating expenses | — | 188 |
| General and administrative | 505 | 3,370 |
| Impairment of oil and gas properties | — | 83,094 |
| Depreciation, depletion, amortization and accretion | 29 | 63 |
| Impairment of intangible asset | — | 6,092 |
| Total Operating Expenses | 534 | 92,807 |
| (Loss) From Operations | (534) | (92,807) |
| Other Income (Expense) | | |
| Gains on sale of marketable securities | 17 | — |
| Gains recognized in connection with debt restructure and debt forgiveness | 307 | — |
| Interest income | — | 5 |
| Interest expense | (1,999) | (2,355) |
| Other income | 88 | — |
| Total Other Income (Expense) | (1,587) | (2,350) |
| Net (Loss) | \$ (2,121) | \$ (95,157) |
| Net (loss) per common share — basic and diluted | \$ (0.0) | \$ (0.25) |
| Weighted average number of common shares outstanding — basic and diluted | 396,826,963 | 375,446,322 |

See accompanying notes to these unaudited condensed consolidated financial statements.

PETROHUNTER ENERGY CORPORATION
CONDENSED CONSOLIDATED STATEMENTS OF OPERATIONS
(unaudited)

| | Six Months Ended March 31, 2010 | Six Months Ended March 31, 2009 |
|---|---|--|
| | (\$ in thousands except per share and share data) | |
| Revenue | | |
| Oil and gas revenue | \$ — | \$ 120 |
| Other revenue | — | 1 |
| Total Revenue | — | 121 |
| Costs and Expenses | | |
| Lease operating expenses | — | 586 |
| General and administrative | 1,322 | 5,488 |
| Impairment of oil and gas properties | — | 93,362 |
| Depreciation, depletion, amortization and accretion | 70 | 130 |
| Impairment of intangible asset | — | 6,092 |
| Total operating expenses | 1,392 | 105,658 |
| (Loss) From Operations | (1,392) | (105,537) |
| Other Income (Expense) | | |
| Loss on conveyance of property | — | (181) |
| Interest income | — | 11 |
| Gains on sale of marketable securities | 164 | — |
| Gains recognized in connection with debt restructure and debt forgiveness | 321 | — |
| Interest expense | (3,250) | (4,839) |
| Other income (expense) | 121 | (122) |
| Total Other Income (Expense) | (2,644) | (5,131) |
| Net (Loss) | \$ (4,036) | \$ (110,668) |
| Net (loss) per common share — basic and diluted | \$ (.01) | \$ (0.30) |
| Weighted average number of common shares outstanding — basic and diluted | 388,504,568 | 375,011,813 |

See accompanying notes to these unaudited condensed consolidated financial statements.

PETROHUNTER ENERGY CORPORATION
CONDENSED CONSOLIDATED STATEMENTS OF CASH FLOWS
(unaudited)

| | Six Months Ended March 31, 2010 | Six Months Ended March 31, 2009 |
|---|--|--|
| | (\$ in thousands) | |
| Cash flows from operating activities | | |
| Net (loss) | \$ (4,036) | \$ (110,668) |
| Adjustments used to reconcile net(loss) to net cash (used in) operating activities: | | |
| Stock based compensation | 100 | 2,105 |
| Depreciation, depletion, amortization and accretion | 70 | 130 |
| Impairment of oil and gas properties | — | 93,362 |
| Impairment of contingent asset | — | 6,092 |
| Amortization of deferred financing costs | — | 612 |
| Amortization of debt discount and beneficial conversion feature | — | 1,377 |
| Loss on conveyance of property | — | 181 |
| Gain on sale of marketable securities | (164) | — |
| Non cash interest expense incurred in connection with debt restructure and debt forgiveness | 779 | 37 |
| Gains on debt forgiveness | (321) | |
| Changes in assets and liabilities: | | |
| Receivables | 17 | 469 |
| Prepaid expenses and other assets | 174 | (226) |
| Accounts payable and accrued expenses | 2,597 | (150) |
| Due from related party | — | 410 |
| Net cash (used in) operating activities | (784) | (6,269) |
| Cash flows from investing activities | | |
| Additions to oil and gas properties | — | (1,628) |
| Proceeds from sale of oil and gas properties | — | 2,320 |
| Proceeds from sale of marketable securities | 600 | 683 |
| Additions to furniture and equipment | — | (6) |
| Net cash provided by investing activities | 600 | 1,369 |
| Cash flows from financing activities | | |
| Payments on short term notes payable | — | (93) |
| Proceeds from related party borrowings | — | 5,210 |
| Payments on related party borrowing | — | (310) |
| Net cash provided by financing activities | — | 4,807 |
| Net (decrease) in cash and cash equivalents | (184) | (93) |
| Cash and cash equivalents, beginning of period | 235 | 967 |
| Cash and cash equivalents, end of period | \$ 51 | \$ 874 |

Edgar Filing: PetroHunter Energy Corp - Form 10-Q

Supplemental schedule of cash flow information

| | | | | |
|------------------------|----|---|----|-----|
| Cash paid for interest | \$ | — | \$ | 422 |
|------------------------|----|---|----|-----|

See accompanying notes to these unaudited condensed consolidated financial statements.

PETROHUNTER ENERGY CORPORATION
NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS
(unaudited)

Note 1 - Organization and Basis of Presentation

The interim condensed consolidated financial statements of PetroHunter Energy Corporation (“we,” “us,” “our,” or the “Company”) are unaudited and contain all adjustments necessary for a fair statement of the results for the interim period presented. Results for interim period are not necessarily indicative of results to be expected for a full year or for previously reported periods due in part, but not limited to, the volatility in crude oil and natural gas commodity prices, interest rates, estimates of reserves, drilling risks, geological risks, transportation restrictions, the timing of acquisitions, product demand, market competition, and our ability to obtain additional capital to sustain operations. You should read these consolidated interim financial statements in conjunction with the audited consolidated financial statements and notes thereto included in our Annual Report on Form 10-K for the year ended September 30, 2009.

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 our financial statements for the year ended September 30, 2009 includes an explanatory paragraph relating to substantial doubt or uncertainty of our ability to continue as a going concern. As shown in the accompanying statements of operations, we have an accumulated deficit of \$283.3 million and a working capital deficit of \$15.6 million as of March 31, 2010.

Comprehensive Income – Comprehensive income consists of net losses on foreign currency translation adjustments and unrealized gains on restricted and unrestricted marketable securities held by us.

Estimates – We have used certain estimates and assumptions in preparing the accompanying condensed consolidated financial statements. Those estimates and assumptions may affect the reported amounts of assets and liabilities, the disclosures of contingent assets and liabilities, and reported revenues and expenses. Significant estimates used in preparing these condensed consolidated financial statements include those assumed in computing the asset retirement obligation, share based compensation, and in accruing for certain liabilities.

Loss Per Common Share – Basic loss per common share is based on the weighted average number of common shares outstanding during the period. Diluted loss per share reflects the potential dilution that could occur if securities or other contracts to issue common stock were exercised or converted into common stock. Convertible equity instruments such as stock options and convertible debentures are excluded from the computation of diluted loss per share, as the effect of the assumed exercises would be anti-dilutive. The diluted weighted-average number of common shares outstanding excluded potential common shares from stock options and warrants of approximately 216 million shares and 180 million shares for the three months ended March 31, 2010 and 2009, respectively. Diluted weighted-average common shares outstanding for the six months ended March 31, 2010 and 2009 amounted to 141 million and 180 million respectively.

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.

Reclassifications – Certain prior period amounts have been reclassified in the condensed consolidated financial statements to conform with current period presentation. Such reclassifications have had no effect on the net loss.

Recently Issued Accounting Pronouncements

In October 2009, we adopted certain accounting principles within FASB ASC 470, “Debt with Conversion and Other Options,” that requires the proceeds from the issuance of certain convertible debt instruments to be allocated between a liability component (issued at a discount) and an equity component. The resulting debt discount is amortized over the period the convertible debt is expected to be outstanding as additional non-cash interest expense. The change in accounting treatment is effective for us in fiscal 2010, and it is required to be applied retrospectively to prior periods. The adoption of ASC 470 has not had material financial statements as we have previously expensed debt discounts associated our outstanding debt instruments.

In October 2009, we adopted certain accounting principles within FASB ASC 805, “Business Combinations,” which requires an acquirer to recognize the assets acquired, the liabilities assumed, including those arising from contractual contingencies, any contingent consideration, and any noncontrolling interest in the acquiree at the acquisition date, measured at their fair values as of that date, with limited exceptions specified in the statement. It also requires the acquirer in a business combination achieved in stages (sometimes referred to as a step acquisition) to recognize the identifiable assets and liabilities, as well as the noncontrolling interest in the acquiree, at the full amounts of their fair values (or other amounts determined in accordance with this accounting principle). In addition, the accounting principle’s requirement to measure the noncontrolling interest in the acquiree at fair value will result in recognizing the goodwill attributable to the noncontrolling interest in addition to that attributable to the acquirer. ASC 805 also requires the acquirer to recognize changes in the amount of its deferred tax benefits that are recognizable because of a business combination either in income from continuing operations in the period of the combination or directly in contributed capital, depending on the circumstances. It also provides guidance on the impairment testing of acquired research and development intangible assets and assets that the acquirer intends not to use. ASC 805 applies prospectively to business combinations for which the acquisition date is on or after October 1, 2009. The adoption of ASC 805 did not have any impact on our financial statements.

In October 2009, we adopted certain accounting principles within FASB ASC 810, “Consolidation,” which establishes accounting and reporting standards for the noncontrolling interest in a subsidiary and for the deconsolidation of a subsidiary. It also clarifies that a noncontrolling interest in a subsidiary is an ownership interest in the consolidated entity that should be reported as equity in the consolidated financial statements. ASC 810 also changes the way the consolidated income statement is presented by requiring consolidated net income to be reported at amounts that include the amounts attributable to both the parent and the noncontrolling interest. It also requires disclosure, on the face of the consolidated statement of income, of the amounts of consolidated net income attributable to the parent and to the noncontrolling interest. ASC 810 requires that a parent recognize a gain or loss in net income when a subsidiary is deconsolidated and requires expanded disclosures in the consolidated financial statements that clearly identify and distinguish between the interests of the parent owners and the interests of the noncontrolling owners of a subsidiary. The adoption of ASC 810 did not have any impact on our financial statements.

In January 2010, the FASB issued Accounting Standards Update (ASU) No. 2010-03 “Oil and Gas Reserve Estimation and Disclosures.” The ASU aligns the current oil and gas reserve estimation and disclosure requirements of FASB Accounting Standards Codification Topic 932, Extractive Activities — Oil and Gas, with those in SEC Final Rule Release No. 33-8995, Modernization of Oil and Gas Reporting. The ASU will be effective for reporting periods ending on or after December 31, 2009. The adoption of ASC 810 did not have any impact on our financial statements.

In December 2008, the SEC issued revised reporting requirements for oil and natural gas reserves that a company holds. Included in the new rule entitled “Modernization of Oil and Gas Reporting Requirements”, are the following changes: 1) permitting use of new technologies to determine proved reserves, if those technologies have been

demonstrated empirically to lead to reliable conclusions about reserve volumes; 2) enabling companies to additionally disclose their probable and possible reserves to investors, in addition to their proved reserves; 3) allowing previously excluded resources, such as oil sands, to be classified as oil and natural gas reserves rather than mining reserves; 4) requiring companies to report the independence and qualifications of a preparer or auditor, based

on current Society of Petroleum Engineers criteria; 5) requiring the filing of reports for companies that rely on a third party to prepare reserve estimates or conduct a reserve audit; and 6) requiring companies to report oil and natural gas reserves using an average price based upon the prior 12-month period, rather than year-end prices. The new requirements are effective for registration statements filed on or after January 1, 2010, and for annual reports on Form 10K for fiscal years ending on or after December 31, 2009. Early adoption is not permitted. We are currently assessing the impact that adoption of this rule will have on our financial disclosures.

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.

Supplemental Cash Flow Information. Supplemental cash flow information for the six months ended March 31, 2010 and 2009, respectively is as follows:

| | Six Months Ended March 31, 2010 | Six Months Ended March 31, 2009 |
|--|---------------------------------------|---------------------------------------|
| | (in thousands) | |
| Supplemental disclosures of non-cash investing and financing activities | | |
| Common shares issued in connection with debt forgiveness | \$ 57 | \$ — |
| Warrant value associated with re-pricing of stock purchase warrants issued in connection with the amendments to debt instruments | \$ 628 | \$ — |
| Common shares issued in connection with investor relations | \$ — | \$ 22 |

Note 3 – Marketable Securities

As of March 31, 2010, we have recorded \$0.5 million in available for sale marketable securities and \$3.0 million in restricted marketable securities on our condensed consolidated balance sheet. These amounts are comprised of 20.1 million shares of the common stock of Falcon Oil & Gas Ltd. (“Falcon”), a related party.

As of September 30, 2009, we had recorded \$0.5 million in available for sale marketable securities, and \$3.0 in restricted marketable securities on our condensed consolidated balance sheet related to 23.1 million shares of Falcon common stock.

Note 4 — Oil and Gas Properties

As of March 31, 2010, our oil and gas properties consisted of \$2.0 million in unevaluated properties. This amount relates to our 25% ownership interest in the Shenandoah # 1A well located in the Beetaloo Basin in Australia.

As of September 30, 2009, our oil and gas properties consisted of \$1.4 million in unevaluated properties located in Australia.

There are no significant changes to our asset retirement obligation from those amounts as disclosed in the audited annual consolidated financial statements for the year ended September 30, 2009.

Note 5 — Stockholders Equity

Edgar Filing: PetroHunter Energy Corp - Form 10-Q

We have authorized 1 billion shares of common stock and 100 million shares of preferred stock. As of March 31, 2010, 437,093,842 shares of common stock and no shares of preferred stock were outstanding.

In March 2010, we issued 5.0 million shares of common stock to a related party in connection with the execution of an amendment to an existing \$0.9 million promissory note and our outstanding \$39.8 million credit facility. In connection with the execution of the amendment the maturity date of the note and credit facility were extended through December 31, 2014. (Note 6)

In March 2010, we issued 48.4 million shares of common stock to a related party in consideration for the forgiveness of \$6 million of accrued interest related to a \$0.9 million promissory note and our outstanding \$39.8 million credit facility. (Note 6)

In March 2010, we issued 3.2 million shares of common stock to the holders of \$4.0 million of our 8.5% convertible notes payable in exchange for forgiveness of \$0.4 million in accrued interest. In connection with the execution of the amendment the maturity date of the underlying notes were extended through December 31, 2014. (Note 6)

Note 6 – Notes Payable

In March 2010, in exchange for 5.0 million shares of our common stock, Global Project Finance (“Global”), a related party, executed an amendment to an existing \$0.9 million note payable bearing interest at 15%. The amendment granted us a relief of \$0.3 million 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 have recorded a \$0.2 million charge to interest expense related to the issuance of common stock in connection with this amendment.

In March 2010, in exchange for 48.4 million shares of our common stock, Global executed an amendment to an existing \$39.8 million credit facility bearing interest at the prime rate plus 6.75%. The amendment granted us a relief of \$5.7 million in accrued interest related to the underlying credit facility. In addition all other defaults under the terms of the initial credit agreement dated January 7, 2007 and May 21, 2007 were waived through December 31, 2014. The maturity date of the facility, and all scheduled interest payments were extended through December 31, 2014. We will continue to accrue interest on the credit facility at 8.5% per annum. We have recorded a \$6.0 million charge to additional paid in capital related to the issuance of common stock in connection with the relief of accrued interest, including \$0.3 million allocable to the \$0.9 million promissory note as discussed above and \$5.7 million related to the credit facility. In accordance with ASC 470-50 “Debt Modifications and Extinguishments” 40-2 no gain has been recognized.

The terms of the amendment agreement allow for conversion of \$6.5 million 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.

In connection with the execution of this amendment we re-priced 1.3 million stock purchase warrants held by Global (Note 8).

In March 2010, the holders of \$4.0 million of our 8.5% convertible notes payable executed a waiver and amendment agreement in exchange for 3.2 million shares of our common stock and the re-pricing of 28.8 million stock purchase warrants (Note 8) originally issued in connection with the underlying notes. The terms of the waiver and amendment agreement provide for the relief of \$0.4 million 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 \$0.6 million to interest expense, related to the re-pricing of the stock purchase warrants and recognized a gain of \$0.3 million in connection with the common stock issued in connection with the amendment of terms of the note and relief of accrued interest

The terms of the amendment agreement allow for conversion of the \$4.0 million 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 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.

Note 7 — Share-Based Compensation

Compensation Expense - Stock-based employee and non-employee compensation expense of \$0.03 million and \$0.1 million was charged to operations during the three and six months ended March 31, 2010. Stock-based compensation expense of \$1.6 million and \$2.1 million was recognized during the three and six months ended March 31, 2009. Stock-based compensation has been included in general and administrative expense in the consolidated unaudited statements of operations.

Note 8 — Common Stock Warrants

The following stock purchase warrants were outstanding at March 31, 2010 and September 30, 2009 (warrants in thousands):

| | March 31, 2010 | September 30, 2009 |
|--------------------|-------------------|--------------------------|
| Number of warrants | 106,536 | 139,136 |
| Exercise price | \$0.12-\$2.10 | \$0.12 - \$2.10 |
| Expiration date | 2010-2014 | 2010 - 2012 |

In December 2009, 32.0 million warrants to purchase our common stock at \$0.50 per share held by a related party expired. During this same period 0.5 million warrants to purchase our common stock at \$0.15 per share held by various parties expired.

In January 2010, 0.1 million warrants to purchase our common stock at \$0.15 per share expired.

In March 2010, 1.3 million stock purchase warrants were re-priced in connection with the execution of a waiver and amendment agreement executed by a related party (Note 6). The warrants had originally been issued with an exercise price of \$2.10 per share. The re-pricing of these warrants allows for an exercise price of \$0.175 per share through December 31, 2011 and \$0.12 from January 1, 2012 through December 31, 2014. The total value associated with the re-pricing of these warrants, based on valuation under the Black-Scholes method, was \$0.03 million and has been charged to interest expense.

In March 2010, 28.8 million stock purchase warrants were re-priced in connection with the execution of a waiver and amendment agreement executed by the holders of \$4.0 million of our 8.5% convertible notes payable (Note 6). The warrants had originally been issued with an exercise price of \$0.25 per share, the re-pricing of these warrants allows for an exercise price of \$0.175 through December 31, 2011 and \$0.12 per share from January 1, 2012 through December 31, 2014. The total value associated with the re-pricing of these warrants, based on valuation under the Black-Scholes method, was \$0.6 million and has been charged to interest expense.

Note 9 — Related Party Transactions

Accounts Payable - As of March 31, 2010, included in accounts payable is \$1.9 million due to Falcon related to our share of expenses and GST taxes incurred in drilling the Shenandoah #1A well in the Beetaloo Basin, in Australia.

Marketable Securities - As of March 31, 2010, we have recorded both restricted and unrestricted marketable securities totaling \$3.5 million in aggregate. These securities were received from a related party, Falcon, pursuant to the sale of a 50% interest in four exploration permits in Australia during fiscal year ended September 30, 2008.

Bruner Family Trust – As of March 31, 2010, we owe \$2.9 million in principal and \$0.3 million in accrued interest to the Bruner Family Trust related to seven outstanding notes payable. We have recorded interest expense in the amount of \$0.1 million and \$0.1 million during the three and six months ended March 31, 2010 related to these notes. As of March 31, 2010 we are in default on all seven notes related to failure to make principal and interest payments, as well various debt covenant violations.

Global Finance – As of March 31, 2010, we owe \$40.7 million in principal and \$1.1 million in accrued interest and fees payable to Global Finance AG. These amounts relate to an outstanding line of credit, notes payable, and advance fees due. During the three months and six months ended March 31, 2010 we recorded interest expense exclusive of restructuring charges as discussed in (Note 6) above in the amount of \$1.0 and \$2.0 million respectively related to the various instruments.

Note 10 — Commitments and Contingencies

There are no material changes to our commitments and contingencies from those disclosed in the audited annual consolidated financial statements for the year ended September 30, 2009.

Note 11 — Subsequent Events

We have evaluated all activity of the Company and concluded that no subsequent events have occurred that would require recognition in the consolidated financial statements or disclosure in the notes to the consolidated financial statements, except as disclosed below.

In April 2010, we and our wholly owned subsidiary, Sweetpea Petroleum Pty Ltd (“Sweetpea”), as bound by a letter of intent 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.

In May 2010, in a continuing effort to reduce costs and overhead, we terminated our Chief Financial Officer and Secretary as well as one of the members of our Board of Directors.

In May 2010, several holders of our 8.5 % convertible notes agreed to enter into waiver and amendment agreements accepting terms comparable to those described in (Note 6) above.

ITEM 2. MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS

The following discussion and analysis should be read in conjunction with the accompanying financial statements and related notes included elsewhere in this report. It contains forward looking statements that reflect our future plans, estimates, beliefs and expected performance. The forward looking statements are dependent upon events, risks and uncertainties that may be outside our control. Our actual results could differ materially from those discussed in these forward looking statements.

Factors that could cause or contribute to such differences include, but are not limited to, market prices for natural gas and oil, economic and competitive conditions, regulatory changes, estimates of proved reserves, potential failure to achieve production from development drilling projects, capital expenditures and other uncertainties, as well as those factors discussed below, all of which are difficult to predict and which expressly qualify all subsequent oral and written forward-looking statements attributable to us or persons acting on our behalf. In light of these risks, uncertainties and assumptions, the forward looking events discussed may not occur. We do not have any intention or obligation to update forward-looking statements included in this report after the date of this report, except as required by law.

Executive Summary

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

Results of Operations

The financial information with respect to the three and six months ended March 31, 2010 and 2009 that is discussed below is unaudited. In the opinion of management, such information contains all adjustments, consisting only of normal recurring accruals, necessary for a fair presentation of the results for such periods. The results of operations for interim periods are not necessarily indicative of the results of operations for the full fiscal years.

Industry Overview for the three months ended March 31, 2010

The three months ended March 31, 2010 saw weaker natural gas prices. Natural gas prices have been very volatile during 2010 and 2009 due to supply concerns earlier in 2009, and more recently due to recession concerns arising from the current global financial crisis and a resultant decline in demand for natural gas.

Company Overview for the three and six months ended March 31, 2010

Our net losses for the three and six months ended March 31, 2010 were \$2.1 million and \$4.0 million respectively. We had no revenues and continue to incur general and administrative and interest expense.

We are continuing our efforts to reduce our overhead and negotiate with creditors to compromise and/or extend the maturity date of our debt. Based on our current financial position for the remainder of the fiscal year, we may need to raise additional equity, enter into new borrowing arrangements or liquidate more of our marketable securities to finance our limited business activities.

Comparison of the results of operations for the three and six months ended March 31, 2010 and March 31, 2009

Oil and Gas Revenue. We generated no revenue for the three-month periods ended March 31, 2010 and 2009, respectively.

For the six months ended March 31, 2010, revenue was nil as compared to \$0.1 million for the corresponding 2009 period. The decrease in revenue relates to the fact that we sold our only means of production in December 2008.

Costs and Expenses

Lease Operating Expenses. For the three and six months ended March 31, 2010, we had no lease operating expenses as compared to \$0.2 million and \$0.6 million, respectively, in the corresponding 2009 periods. These decreases are primarily attributable to cessation of compressor lease charges in the Buckskin Mesa that had been incurred in the corresponding 2009 period.

General and Administrative. During the three and six months ended March 31, 2010, general and administrative expenses amounted to \$0.5 million and \$1.3 million, respectively, as compared to \$3.4 million and \$5.5 million, respectively, in the corresponding 2009 periods. The decreases in general and administrative expenses in 2010 result from decreases in salaries, rent expense, share based compensation, legal expense and professional services.

Impairment of Oil and Gas Properties. During the three and six months ended March 31, 2010, we recognized no impairment charges as compared to \$83.1 million and \$93.4 million, respectively, during the corresponding 2009 periods. Impairment charges recorded in 2009 resulted from our lack of working capital and our inability to extract minerals associated with the assets in the US full cost pool.

Depreciation, Depletion, Amortization and Accretion. Depreciation, depletion, amortization and accretion expense (“DD&A”) was \$0.0 million and \$0.1 million, respectively, for the three and six months ended March 31, 2010 as compared to \$0.1 million and \$0.1 million, respectively, in the corresponding 2009 periods. The overall decrease in DD&A results from significant decreases in property and equipment balances incurred late in fiscal 2009.

Interest Expense. During the three and six months ended March 31, 2010, interest expense was \$2.0 million and \$3.3 million, respectively, as compared to \$2.4 million and \$4.8 million, respectively, in the corresponding 2009 periods. The decreases in interest expense can be attributable to the fact that the interest rates on the majority of our debt portfolio are linked to indices that continue to incur lower interest rates as a result of the global credit crisis. In addition, issuances of our stock purchase warrants and re-pricing of these instruments in connection with penalties and defaults will continue to yield lower interest expense as the value of our stock has continued to drop.

Net Loss. During the three and six months ended March 31, 2010, we incurred net losses of \$2.1 million and \$4.0 million, respectively, as compared to net losses of \$95.2 million and \$110.7 million, respectively, during the corresponding 2009 periods.

Going Concern

The report of our independent registered public accounting firm on the financial statements for the year ended September 30, 2009, includes an explanatory paragraph relating to the significant doubts about our ability to continue as a going concern. We have an accumulated deficit of \$283.3 million and have a working capital deficit of approximately \$15.6 million as of March 31, 2010. Although we have restructured a significant amount of our outstanding debt portfolio, we remain in default with the covenants of several loan agreements. We require significant additional funding to sustain our operations. We are in default on certain other obligations. Our ability to establish the Company as a going concern is dependent upon our ability to obtain additional funding in order to finance our planned operations.

Plan of Operation

For the remainder of fiscal 2010, we will focus on attempting to preserve remaining capital assets, while awaiting the outcome of the well in progress in the Beetaloo Basin project in Australia, as well as to pursue opportunities to further explore our Buckskin Mesa acreage. We will continue to reduce operating costs and attempt to reduce and or

renegotiate our debt, accounts payable and other liabilities.

Liquidity and Capital Resources

During our most recent quarter ended March 31, 2010, our cash flows from operations were not sufficient for us to meet our operating commitments. Our cash flows from operations continue to be, and are expected to continue to be, insufficient to meet our operating commitments throughout the remainder of the fiscal year ending September 30, 2010.

Working Capital. As of March 31, 2010, we had a working capital deficit of \$15.6 million and unrestricted cash of \$0.1 million, while at September 30, 2009, we had a working capital deficit of \$64.0 million and cash of \$0.2 million. The decrease in our working capital deficit relates to the restructure of a significant portion of our debt portfolio which allowed for approximately \$44.7 million in debt and related accrued interest to be reclassified as long term. We have no revenue from operations and continue to incur expenses related to administration as well as drilling and exploration. We continue to experience difficulty in raising capital. We do not expect our working capital deficit to decrease or cash balance to increase in the near future.

Cash Flow. Net cash used in or provided by operating, investing and financing activities for the six months ended March 31, 2010 and 2009 were as follows (\$ in thousands):

| | Six Months Ended March 31, | |
|---|-------------------------------|-------------|
| | 2010 | 2009 |
| Net cash (used in) operating activities | \$ (784) | \$ (6,269) |
| Net cash provided by investing activities | \$ 600 | \$ 1,369 |
| Net cash provided by financing activities | \$ — | \$ 4,807 |

Net Cash Used in Operating Activities. The changes in net cash used in operating activities 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 by Investing Activities. Net cash provided by investing activities for the six months ended March 31, 2010 was related to net proceeds related to the sale of marketable securities, as compared to proceeds received from the sale of our only revenue producing assets in the corresponding 2009 period.

Net Cash Provided by Financing Activities. We received no cash from financing activities for the six months ended March 31, 2010 as compared to the proceeds received from issuance of notes payable in the corresponding 2009 period.

Financing

During the six months ended quarter ended March 31, 2010, we entered into the following financing arrangements:

In March 2010, in exchange for 5.0 million shares of our common stock, Global a related party, executed an amendment to an existing \$0.9 million note payable bearing interest at 15%. The amendment granted us a relief of \$0.3 million 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.

In March 2010, in exchange for 48.4 million shares of our common stock, Global executed an amendment to an existing \$39.8 million credit facility bearing interest at the prime rate plus 6.75%. The amendment granted us a relief of \$5.7 million in accrued interest related to the underlying credit facility. In addition all other defaults under the terms of the initial credit agreement dated January 7, 2007 and May 21, 2007 were waived through December 31, 2014. The maturity date of the facility, and all scheduled interest payments were extended through December 31, 2014.

In March 2010, the holders of \$4.0 million of our 8.5% convertible notes payable executed a waiver and amendment agreement in exchange for 3.2 million shares of our common stock and the re-pricing of 28.8 million stock purchase warrants originally issued in connection with the underlying notes. The terms of the waiver and amendment agreement provide for the relief of \$0.4 million in accrued interest and an extension of the maturity date of the underlying notes and scheduled interest payments through December 31, 2014.

During the six months ended quarter ended March 31, 2009, we entered into the following financing arrangements:

In October 2008, we entered into a secured loan agreement with Falcon, whereby Falcon agreed to advance to us up to \$5.0 million. During October and November 2008, we received advances aggregating \$5.0 million. The loan was secured by 14.5 million shares of Falcon common stock we received in consideration for our sale of a 50% working interest in four exploration permits in Australia. These shares were pledged to Falcon under a pledge and security agreement. The loan carried interest at 10% payable in monthly installments and was due in full on April 30, 2009. Funds were used to satisfy various vendor obligations.

In December 2008, we issued \$0.2 million in convertible debentures to three related parties. The debentures bore interest at 15%. The debenture holders were issued 0.5 million warrants to purchase our common stock. Funds borrowed were used to fund the operations.

In December 2008, we borrowed \$0.1 million from Global, a related party, under short term promissory notes which were unsecured and bore interest at 15%. Funds borrowed were used to fund the operations.

Off-Balance Sheet Arrangements

We do not have off-balance sheet arrangements.

Critical Accounting Policies and Estimates

Our consolidated financial statements have been prepared by management in accordance with U.S. GAAP. We refer you to the corresponding section in Part II Item 7 and the notes to the consolidated financial statements of our Annual Report on Form 10K for the year ended September 30, 2009 for the description of critical accounting policies and estimates.

Recently Issued Accounting Pronouncements

In October 2009, we adopted certain accounting principles within FASB ASC 470, "Debt with Conversion and Other Options," that requires the proceeds from the issuance of certain convertible debt instruments to be allocated between a liability component (issued at a discount) and an equity component. The resulting debt discount is amortized over the period the convertible debt is expected to be outstanding as additional non-cash interest expense. The change in accounting treatment is effective for us in fiscal 2010, and it is required to be applied retrospectively to prior periods. The adoption of ASC 470 has not had material financial statements as we have previously expensed debt discounts associated our outstanding debt instruments.

In October 2009, we adopted certain accounting principles within FASB ASC 805, "Business Combinations," which requires an acquirer to recognize the assets acquired, the liabilities assumed, including those arising from contractual contingencies, any contingent consideration, and any noncontrolling interest in the acquiree at the acquisition date, measured at their fair values as of that date, with limited exceptions specified in the statement. It also requires the acquirer in a business combination achieved in stages (sometimes referred to as a step acquisition) to recognize the identifiable assets and liabilities, as well as the noncontrolling interest in the acquiree, at the full amounts of their fair

values (or other amounts determined in accordance with this accounting principle). In addition, the accounting principle's requirement to measure the noncontrolling interest in the acquiree at fair value will result in recognizing the goodwill attributable to the noncontrolling interest in addition to that attributable to the acquirer. ASC 805 also requires the acquirer to recognize changes in the amount of its deferred tax benefits that are recognizable because of a business combination either in income from continuing operations in the period of the combination or directly in contributed capital, depending on the circumstances. It also provides guidance on the impairment testing of acquired research and development intangible assets and assets that the acquirer intends not to use. ASC 805 applies

prospectively to business combinations for which the acquisition date is on or after October 1, 2009., The adoption of ASC 805 did not have any impact on our financial statements.

In October 2009, we adopted certain accounting principles within FASB ASC 810, "Consolidation," which establishes accounting and reporting standards for the noncontrolling interest in a subsidiary and for the deconsolidation of a subsidiary. It also clarifies that a noncontrolling interest in a subsidiary is an ownership interest in the consolidated entity that should be reported as equity in the consolidated financial statements. ASC 810 also changes the way the consolidated income statement is presented by requiring consolidated net income to be reported at amounts that include the amounts attributable to both the parent and the noncontrolling interest. It also requires disclosure, on the face of the consolidated statement of income, of the amounts of consolidated net income attributable to the parent and to the noncontrolling interest. ASC 810 requires that a parent recognize a gain or loss in net income when a subsidiary is deconsolidated and requires expanded disclosures in the consolidated financial statements that clearly identify and distinguish between the interests of the parent owners and the interests of the noncontrolling owners of a subsidiary. The adoption of ASC 810 did not have any impact on our financial statements.

In January 2010, the FASB issued Accounting Standards Update (ASU) No. 2010-03 "Oil and Gas Reserve Estimation and Disclosures." The ASU aligns the current oil and gas reserve estimation and disclosure requirements of FASB Accounting Standards Codification Topic 932, Extractive Activities — Oil and Gas, with those in SEC Final Rule Release No. 33-8995, Modernization of Oil and Gas Reporting. The ASU will be effective for reporting periods ending on or after December 31, 2009. The adoption of ASC 810 did not have any impact on our financial statements.

In December 2008, the SEC issued revised reporting requirements for oil and natural gas reserves that a company holds. Included in the new rule entitled "Modernization of Oil and Gas Reporting Requirements", are the following changes: 1) permitting use of new technologies to determine proved reserves, if those technologies have been demonstrated empirically to lead to reliable conclusions about reserve volumes; 2) enabling companies to additionally disclose their probable and possible reserves to investors, in addition to their proved reserves; 3) allowing previously excluded resources, such as oil sands, to be classified as oil and natural gas reserves rather than mining reserves; 4) requiring companies to report the independence and qualifications of a preparer or auditor, based on current Society of Petroleum Engineers criteria; 5) requiring the filing of reports for companies that rely on a third party to prepare reserve estimates or conduct a reserve audit; and 6) requiring companies to report oil and natural gas reserves using an average price based upon the prior 12-month period, rather than year-end prices. The new requirements are effective for registration statements filed on or after January 1, 2010, and for annual reports on Form 10K for fiscal years ending on or after December 31, 2009. Early adoption is not permitted. We are currently assessing the impact that adoption of this rule will have on our financial statements.

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 3. QUANTITATIVE AND QUALITATIVE DISCLOSURES ABOUT MARKET RISK

Commodity Price Risk

Because of our lack of oil and gas production, we are not exposed to a great degree of market risk relating to the pricing applicable to our oil and natural gas production. However, our ability to raise additional capital at attractive pricing, our generate future revenues from oil and gas operations, our future profitability and future rate of growth all depend substantially upon the market prices of oil and natural gas, which fluctuate considerably. We expect commodity price volatility to continue. We do not currently utilize hedging contracts to protect against commodity price risk. As our oil and gas production grows, we may manage our exposure to oil and natural gas price declines by

entering into oil and natural gas price hedging arrangements to secure a price for a portion of our expected future oil and natural gas production.

Foreign Currency Exchange Rate Risk

We conduct business in Australia and are subject to exchange rate risk on cash flows related to sales, expenses, financing and investment transactions. We do not currently utilize hedging contracts to protect against exchange rate risk. As our foreign oil and gas operation grows, we may utilize currency exchange contracts, commodity forwards, swaps or futures contracts to manage our exposure to foreign currency exchange rate risks.

Interest Rate Risk

Interest rates on future credit facility draws and debt offerings could be higher than current levels, causing our financing costs to increase accordingly. This could limit our ability to raise funds in debt capital markets.

ITEM 4. CONTROLS AND PROCEDURES

Evaluation of Disclosure Controls and Procedures

Based on his evaluation as of the end of the second quarter ended March 31, 2010, our Chief Executive Officer has concluded that our disclosure controls and procedures (as defined in Rules 13a-15(e) and 15d-15(e) under the Exchange Act) are effective to ensure that information required to be disclosed in reports that we file or submit under the Exchange Act are recorded, processed, summarized and reported within the time periods specified in the SEC's rules and forms and in providing reasonable assurance that information required to be disclosed by the Company in such reports is accumulated and communicated to the Company's management, including its Chief Executive Officer, as appropriate to allow timely decisions regarding required disclosures.

Remediation of Material Weaknesses in Internal Control Over Financial Reporting

As previously disclosed in our past filings with the SEC, management identified material weaknesses in our internal control over financial reporting for the years ended September 30, 2009, 2008 and 2007. The weaknesses that the Company previously disclosed related to (a) our lack of adequate processes for monitoring our financial reporting and accounting processes and our failure to conduct a comprehensive review of our account balances and transactions; (b) our lack of appropriate processes and procedures, including inadequate segregation of duties; and (c) our lack of appropriate processes and procedures in relation to the timely review of material documents and transactions for accounting and disclosure purposes. The Company has designed and implemented improved processes and controls to ensure that (a) all material transactions are properly recorded, reviewed and approved; (b) all significant accounts are reconciled on a timely basis; (c) duties are properly segregated; and, (d) complex accounting issues are properly evaluated and accounted for in accordance with GAAP.

Management believes we have sufficient individuals that collectively possess a strong background, experience and expertise related to accounting, SEC reporting and other finance functions. We believe that the remediation steps taken in previous periods and through the quarter ended March 31, 2010, permitted observation over an appropriate period of time for us to conclude that our disclosure controls and procedures were effective as of March 31, 2010 to assure that the information required to be disclosed by us in the reports that we file or submit under the Exchange Act is appropriately recorded, processed, summarized and reported within the periods specified in the SEC's rules.

Notwithstanding the existence of these past material weaknesses in internal control, we believe that the consolidated financial statements fairly present, in all material respects, our condensed consolidated balance sheets as of March 31, 2010 and September 30, 2009 and the related condensed consolidated statements of operations, and cash flows for the three months and six months ended March 31, 2010 and 2009 are in conformity with US GAAP.

Changes in Internal Control over Financial Reporting

Other than as described above, there have been no significant changes in our internal control over financial reporting during the quarter ended March 31, 2010 that have materially affected, or is reasonably likely to materially affect our internal control over financial reporting.

PART II. OTHER INFORMATION

ITEM 1. LEGAL PROCEEDINGS

As of March 31, 2010, the Company is not a party to any legal or administrative actions or proceedings.

ITEM 1A. RISK FACTORS

Our viability will depend upon our ability to negotiate satisfactory arrangements with our creditors and vendors.

As of March 31, 2010, we have no revenue-producing assets and a working capital deficit of approximately \$15.6 million. We are in default on all of our material debt instruments related to failure to make principal and interest payments as well as debt covenant violations. We will need to negotiate with other lenders and with vendors for extended and/or reduced payment terms in order to survive our existing cash shortage. We cannot assure you that we will be able to do so. If we are unsuccessful in these negotiation efforts, we may be unable to continue in existence.

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

During the three months ended March 31, 2010, we issued 56,625,298 shares of common stock as payment of interest on our outstanding debt and in consideration for an amendment to our existing credit facility and note obligation to six accredited investors. No underwriters were used in the above stock transactions. We relied upon the exemption from registration contained in section 4(2) of the Securities Act of 1933 as to these transactions, as the investors were either deemed to be sophisticated with respect to the investment in the securities due to their financial condition and involvement in the Company's business or accredited investors. Restrictive legends were placed on the certificates evidencing the securities issued in these transactions.

ITEM 3. DEFAULTS UPON SENIOR SECURITIES

None.

ITEM 4. SUBMISSION OF MATTERS TO A VOTE OF SECURITY HOLDERS

None.

ITEM 5. OTHER INFORMATION

None.

ITEM 6. EXHIBITS

See Exhibit Index

SIGNATURES

Pursuant to the requirements of the Securities Exchange Act of 1934, the registrant has duly caused this report to be signed on its behalf by the undersigned, thereunto duly authorized.

PETROHUNTER ENERGY CORPORATION

By: /s/ Martin B. Oring
Martin B. Oring
Chief Executive Officer and Chief Financial Officer

Date: May 12, 2010

By: /s/ Paul D. Maniscalco
Paul D. Maniscalco
Principal Accounting Officer

Date: May 12, 2010

EXHIBIT INDEX

| Regulation S-K Number | Exhibit |
|--------------------------|---|
| 10.1 | Amendment to Credit and Security Agreements and Promissory Note dated March 5, 2010 |
| 10.2 | Form of Waiver and Amendment Agreement dated March 8, 2010 |
| 31.1 | Rule 13a-14(a) Certification of Martin B. Oring |
| 32.1 | Certification of Martin B. Oring Pursuant to 18 U.S.C. Section 1350, as Adopted Pursuant to Section 906 of the Sarbanes-Oxley Act Of 2002 |

* Incorporated by reference to the exhibits to the registrant's current report on Form 8-K filed March 10, 2010.