

PetroHunter Energy Corp
Form 10-Q/A
January 23, 2009

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

Form 10- Q/A
Amendment No. 1

(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, 2008

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 2000, Denver, Colorado
(Address of principal executive
offices)

80202
(Zip Code)

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

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,

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or a smaller reporting company. See definition of “accelerated filer,” “large accelerated filer”, and “smaller reporting company” in Rule 12b-2 of the Exchange Act.

Large accelerated filer ☐ Accelerated filer ☐ Non-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, 2008, the registrant had 318,748,841 shares of common stock outstanding.

Unless otherwise noted in this report, any description of “us” or “we” refers to PetroHunter Energy Corporation and our subsidiaries. All amounts expressed herein are in U.S. dollars unless otherwise indicated.

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. All forward-looking statements herein as well as all subsequent written and oral forward-looking statements attributable to us, or persons acting on our behalf, are expressly qualified in their entirety by cautionary statements set forth in Item 1A “Risk Factors” appearing in our Annual Report on Form 10-K for the fiscal year ended September 30, 2007. We assume no duty to update or revise our forward-looking statements based on changes in internal estimates or expectations or otherwise. We advise you to carefully review the reports and documents we file from time to time with the Securities and Exchange Commission (the “SEC”).

EXPLANATORY NOTE REGARDING RESTATEMENTS

This Quarterly Report on Form 10-Q/A for the three- and six-month periods ended March 31, 2008 includes restatements of the previously filed condensed consolidated financial statements and data (and related disclosures) for the period ended March 31, 2008. A summary of these restatements and corrections are discussed in Note 2, Restatement of Previously Issued Financial Statements, included in the accompanying consolidated financial statements for the period ended March 31, 2008. These corrections are also discussed in Item 2. Management’s Discussion and Analysis of Financial Condition and Results of Operations. We previously announced, in a Form 8-K filed with the SEC on November 20, 2008, that we would restate our previously reported financial statements as originally filed with the SEC on May 15, 2008, as a result of the discovery of several significant errors by management during its year-end review, and in conjunction with the annual audit. The information contained in this Quarterly Report on Form 10-Q/A amends only Items 1, 2 and 4 of Part I to the originally filed Quarterly Report on Form 10-Q filed with the SEC on May 15, 2008 (the “Original Report”).

This Quarterly Report on Form 10-Q/A does not reflect all events occurring after the original filing of the Original Report or modify or update all the disclosures affected by subsequent events. Information not modified or updated herein reflects the disclosures made at the time of the filing of the Original Report on May 15, 2008. Accordingly, this Form 10-Q/A should be read in conjunction with all of our periodic filings, including our amended filings on Form 10-Q/A in relation to the three-month period ended December 31, 2007, and in relation to the three- and nine-month period ended June 30, 2008, filed with the SEC in conjunction with the filing of this report.

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.

GLOSSARY

Unless otherwise indicated in this document, oil equivalents are determined using the ratio of six Mcf of natural gas to one barrel of crude oil, condensate or natural gas liquids so that six Mcf of natural gas are referred to as one barrel of oil equivalent.

API Gravity. A specific gravity scale developed by the American Petroleum Institute (API) for measuring the relative density of various petroleum liquids, expressed in degrees. API gravity is gradated in degrees on a hydrometer instrument and was designed so that most values would fall between 10° and 70° API gravity. The

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arbitrary formula used to obtain this effect is: $\text{API gravity} = (141.5/\text{SG at } 60^{\circ}\text{F}) - 131.5$, where SG is the specific gravity of the fluid.

Bbl. One stock tank barrel, or 42 U.S. gallons liquid volume, used in reference to oil or other liquid hydrocarbons.

Bcf. One billion cubic feet of natural gas at standard atmospheric conditions.

Capital Expenditures. Costs associated with exploratory and development drilling (including exploratory dry holes); leasehold acquisitions; seismic data acquisitions; geological, geophysical and land related overhead expenditures; delay rentals; producing property acquisitions; other miscellaneous capital expenditures; compression equipment and pipeline costs.

Carried Interest. The owner of this type of interest in the drilling of a well incurs no liability for costs associated with the well until the well is drilled, completed and connected to commercial production/processing facilities.

Completion. The installation of permanent equipment for the production of oil or natural gas.

Developed Acreage. The number of acres that are allocated or assignable to producing wells or wells capable of production.

Development Well. A well drilled within the proved area of an oil or natural gas reservoir to the depth of a stratigraphic horizon known to be productive.

Drilled and Cased. Involves drilling a well and installing casing to a specified depth in the wellbore for future completion.

Exploitation. The continuing development of a known producing formation in a previously discovered field. To make complete or maximize the ultimate recovery of oil or natural gas from the field by work including development wells, secondary recovery equipment or other suitable processes and technology.

Exploration. The search for natural accumulations of oil and natural gas by any geological, geophysical or other suitable means.

Exploratory Well. A well drilled to find and produce oil or natural gas in an unproved area, to find a new reservoir in a field previously found to be productive of oil or natural gas in another reservoir, or to extend a known reservoir.

Farm-In or Farm-Out. An agreement under which the owner of a working interest in a natural gas and oil lease assigns the working interest or a portion of the working interest to another party who desires to drill on the leased acreage. Generally, the assignee is required to drill one or more wells in order to earn its interest in the acreage. The assignor usually retains a royalty or reversionary interest in the lease. The interest received by an assignee is a "farm-in" while the interest transferred by the assignor is a "farm-out".

Field. An area consisting of either a single reservoir or multiple reservoirs, all grouped on or related to the same individual geological structural feature and/or stratigraphic condition.

Finding and Development Costs. The total capital expenditures, including acquisition costs, and exploration and abandonment costs, for oil and gas activities divided by the amount of proved reserves added in the specified period.

Force Pooling. The process by which interests not voluntarily participating in the drilling of a well, may be involuntarily committed to the operator of the well (by a regulatory agency) for the purpose of allocating costs and revenues attributable to such well.

Gross Acres or Gross Wells. The total acres or wells, as the case may be, in which we have a working interest.

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Lease. An instrument which grants to another (the lessee) the exclusive right to enter to explore for, drill for, produce, store and remove oil and natural gas on the mineral interest, in consideration for which the lessor is entitled to certain rents and royalties payable under the terms of the lease. Typically, the duration of the lessee's authorization is for a stated term of years and "for so long thereafter" as minerals are producing.

Mcf. One thousand cubic feet of natural gas at standard atmospheric conditions.

MCFE. One thousand cubic feet of gas equivalent. Gas equivalents are determined using the ratio of six Mcf of gas (including gas liquids) to one Bbl of oil.

Net Acres or Net Wells. A net acre or well is deemed to exist when the sum of our fractional ownership working interests in gross acres or wells, as the case may be, equals one. The number of net acres or wells is the sum of the fractional working interests owned in gross acres or wells, as the case may be, expressed as whole numbers and fractions thereof.

Operator. The individual or company responsible to the working interest owners for the exploration, development and production of an oil or natural gas well or lease.

Overriding Royalty. A revenue interest in oil and gas, created out of a working interest which entitles the owner to a share of the proceeds from gross production, free of any operating or production costs.

Payout. The point at which all costs of leasing, exploring, drilling and operating have been recovered from production of a well or wells, as defined by contractual agreement.

Productive Well. A well that is found to be capable of producing hydrocarbons in sufficient quantities such that proceeds from the sale of the production exceed production expenses and taxes.

Prospect. A specific geographic area which, based on supporting geological, geophysical or other data and also preliminary economic analysis using reasonably anticipated prices and costs, is deemed to have potential for the discovery of commercial hydrocarbons.

Proved Reserves. The estimated quantities of oil, natural gas and natural gas liquids which geological and engineering data demonstrate with reasonable certainty to be commercially recoverable in future years from known reservoirs under existing economic and operating conditions.

Reserves. Natural gas and crude oil, condensate and natural gas liquids on a net revenue interest basis, found to be commercially recoverable.

Reservoir. A porous and permeable underground formation containing a natural accumulation of producible natural gas and/or oil that is confined by impermeable rock or water barriers and is separate from other reservoirs.

Royalty. An interest in an oil and natural gas lease that gives the owner of the interest the right to receive a portion of the production from the leased acreage, or of the proceeds of the sale thereof, but generally does not require the owner to pay any portion of the costs of drilling or operating the wells on the leased acreage. Royalties may be either landowner's royalties, which are reserved by the owner of the leased acreage at the time the lease is granted, or overriding royalties, which are usually reserved by an owner of the leasehold in connection with a transfer to a subsequent owner.

Spud. To start the well drilling process by removing rock, dirt and other sedimentary material with the drill bit.

3-D Seismic. The method by which a three-dimensional image of the earth's subsurface is created through the interpretation of reflection seismic data collected over a surface grid. 3-D seismic surveys allow for a more detailed understanding of the subsurface than do conventional surveys and contribute significantly to field appraisal, exploitation and production.

Undeveloped Acreage. Lease acres on which wells have not been drilled or completed to a point that would permit the production of commercial quantities of oil and gas regardless of whether or not such acreage contains proved reserves.

Working Interest. An interest in an oil and gas lease that gives the owner of the interest the right to drill and produce oil and gas on the leased acreage and requires the owner to pay a share of the costs of drilling and production operations. The share of production to which a working interest owner is entitled will always be smaller than the share of costs that the working interest owner is required to bear, with the balance of the production accruing to the owners of royalties.

PETROHUNTER ENERGY CORPORATION

FORM 10-Q/A

FOR THE SIX-MONTH PERIOD ENDED
MARCH 31, 2008
(restated)

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PART I. FINANCIAL INFORMATION
PETROHUNTER ENERGY CORPORATION
(A Development Stage Company)
CONSOLIDATED BALANCE SHEETS

	March 31,2008 (unaudited) (restated) (\$ in thousands)	September 30, 2007
ASSETS		
Current Assets		
Cash and cash equivalents	\$ 1,592	\$ 120
Receivables		
Oil and gas receivables, net	404	487
Other receivables	15	59
GST receivable	442	—
Due from related parties	160	500
Note receivable — related party	—	2,494
Prepaid expenses and other assets	69	187
Total Current Assets	2,682	3,847
Property and Equipment, at cost		
Oil and gas properties under full cost method, net	165,940	162,843
Furniture and equipment, net	840	569
	166,780	163,412
Other Assets		
Joint interest billings	1,029	13,637
Restricted cash	549	599
Deposits and other assets	48	—
Deferred financing costs	1,785	529
Intangible asset	2,431	—
Total Assets	\$ 175,304	\$ 182,024
LIABILITIES AND STOCKHOLDERS' EQUITY		
Current Liabilities		
Accounts payable and accrued expenses	\$ 27,182	\$ 26,631
Notes payable — short-term	2,109	4,667
Convertible notes payable	400	400
Note payable — related party — current portion	2,805	3,755
Note payable — current portion of long-term liabilities	120	120
Accrued interest payable	5,130	2,399
Accrued interest payable — related party	720	516
Due to shareholder and related parties	1,079	1,474
Contract payable — oil and gas properties	—	1,750
Contingent purchase obligation	2,431	—
Total Current Liabilities	41,976	41,712
Notes payable — net of discount	29,965	27,944
Subordinated notes payable — related parties	1,401	9,050

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Convertible notes payable — net of discount	150	—
Asset retirement obligation	104	136
Total Liabilities	73,596	78,842
Common Stock Subscribed	—	2,858
Commitments and Contingencies		
Stockholders' Equity		
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; 318,748,841 and 278,948,841 shares issued and outstanding at March 31, 2008 and September 30, 2007, respectively	319	279
Additional paid-in-capital	198,592	172,672
Accumulated other comprehensive loss	(41)	(5)
Deficit accumulated during the development stage	(97,162)	(72,622)
Total Stockholders' Equity	101,708	100,324
Total Liabilities and Stockholders' Equity	\$ 175,304	\$ 182,024

See accompanying notes to consolidated financial statements.

PETROHUNTER ENERGY CORPORATION
(A Development Stage Company)
CONSOLIDATED STATEMENTS OF OPERATIONS

	Three months ended March 31, 2008	Three months ended March 31, 2007	Six months ended March 31, 2008	Six months ended March 31, 2007	Cumulative From Inception (June 20, 2005) to March 31, 2008
(unaudited, restated, \$ in thousands except per share amounts)					
Revenue					
Oil and gas revenue	\$ 496	\$ 989	\$ 1,003	\$ 1,438	\$ 3,859
Other revenue	150	—	150	—	150
Total revenue	646	989	1,153	1,438	4,009
Costs and Expenses					
Lease operating expenses	140	224	240	386	1,037
General and administrative	2,469	4,405	4,787	8,076	37,735
Project development — related party	—	—	—	1,815	7,205
Impairment of oil and gas properties	—	3,800	—	8,951	24,053
Depreciation, depletion, amortization and accretion	221	827	483	1,213	1,801
Total operating expenses	2,830	9,256	5,510	20,441	71,831
Loss from operations	(2,184)	(8,267)	(4,357)	(19,003)	(67,822)
Other Income (Expense):					
Loss on conveyance of property	—	—	(11,875)	—	(11,875)
Gain on foreign exchange	11	—	11	—	34
Interest income	2	6	27	14	65
Interest expense	(2,574)	(2,004)	(5,359)	(1,831)	(14,577)
Loss on sale of securities	(2,987)	—	(2,987)	—	(2,987)
Total other expense	(5,548)	(1,998)	(20,183)	(1,817)	(29,340)
Net Loss	\$ (7,732)	\$ (10,265)	\$ (24,540)	\$ (20,820)	\$ (97,162)
Net loss per common share — basic and diluted	\$ (0.02)	\$ (0.05)	\$ (0.08)	\$ (0.09)	
Weighted average number of common shares outstanding — basic and diluted	316,978	222,562	312,610	221,245	

See accompanying notes to consolidated financial statements.

PETROHUNTER ENERGY CORPORATION
 (A Development Stage Company)
CONSOLIDATED STATEMENTS OF STOCKHOLDERS' EQUITY AND COMPREHENSIVE LOSS
 (unaudited, \$ in thousands except share and per share amounts)

	Common Stock Shares	Stock Amount	Additional Paid-in Capital	Deficit Accumulated During the Development Stage	Accumulated Other Compre- hensive Loss	Total Stockholders' Equity	Total Compre- hensive Loss
Balances, June 20, 2005 (inception)	—	\$ —	\$ —	\$ —	\$ —	\$ —	\$ —
Shares issued to founder at \$0.001 per share	100,000,000	100	—	—	—	100	—
Stock-based compensation costs for options granted to non-employees	—	—	823	—	—	823	—
Net loss	—	—	—	(2,119)	—	(2,119)	(2,119)
Balances, September 30, 2005	100,000,000	100	823	(2,119)	—	(1,196)	(2,119)
Shares issued for property interests at \$0.50 per share	3,000,000	3	1,497	—	—	1,500	—
Shares issued for finder's fee on property at \$0.50 per share	3,400,000	3	1,697	—	—	1,700	—
Shares issued upon conversion of debt, at \$0.50 per share	44,063,334	44	21,988	—	—	22,032	—
Shares issued for commission on convertible debt at \$0.50 per share	2,845,400	3	1,420	—	—	1,423	—
Sale of shares and warrants at \$1.00 per unit	35,442,500	35	35,407	—	—	35,442	—
Shares issued for commission on sale of units	1,477,500	1	1,476	—	—	1,477	—

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Costs of stock offering:

Cash	—	—	(1,638)	—	—	(1,638)	—
Shares issued for commission at \$1.00 per share	—	—	(1,478)	—	—	(1,478)	—
Exercise of warrants	1,000,000	1	999	—	—	1,000	—
Recapitalization of shares issued upon merger	28,700,000	30	(436)	—	—	(406)	—
Stock-based compensation	—	—	9,189	—	—	9,189	—
Net loss	—	—	—	(20,692)	—	(20,692)	(20,692)
Balances, September 30, 2006	219,928,734	220	70,944	(22,811)	—	48,353	(20,692)
Shares issued for property interests at \$1.62 per share	50,000,000	50	80,950	—	—	81,000	—
Shares issued for property interests at \$1.49 per share	256,000	—	382	—	—	382	—
Shares issued for commission costs on property at \$1.65 per share	121,250	—	200	—	—	200	—
Shares issued for finance costs on property at \$0.70 per share	642,857	1	449	—	—	450	—
Shares issued for property and finance interests at various costs per share	8,000,000	8	6,905	—	—	6,913	—
Foreign currency translation adjustment	—	—	—	—	(5)	(5)	(5)
Discount on notes payable	—	—	4,670	—	—	4,670	—
Stock-based compensation	—	—	8,172	—	—	8,172	—
Net loss	—	—	—	(49,811)	—	(49,811)	(49,811)
Balances, September 30, 2007	278,948,841	279	172,672	(72,622)	(5)	100,324	(49,816)

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	Common Stock Shares	Stock Amount	Additional Paid-in Capital	Accumulated Deficit During the Development Stage	Accumulated Other Compre-hensive Loss	Total Stockholders Equity	Total Compre-hensive Loss
Balances, September 30, 2007	278,948,841	279	172,672	(72,622)	(5)	100,324	(49,816)
Shares issued for property interests at \$0.31 per share – related party	25,000,000	25	7,725	—	—	7,750	—
Shares issued in connection with debt conversion at \$0.23 per share – related party	16,000,000	16	3,664	—	—	3,680	—
Shares issued for property interests at \$0.25 per share	5,000,000	5	1,245	—	—	1,250	—
Shares returned for property conveyance at \$0.22 per share (restated)	(6,400,000)	(6)	(1,402)	—	—	(1,408)	—
Shares issued for finance costs at \$0.28 per share	200,000	—	56	—	—	56	—
Discounts associated with beneficial conversion feature and detachable warrants on convertible debenture issuance	—	—	6,956	—	—	6,956	—
Warrant value associated with convertible debenture issuance (restated)	—	—	21	—	—	21	—

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Warrants issued in connection with debt offering (restated)	—	—	1,895	—	—	1,895	—
Warrant value associated with debt conversion - related party (restated)	—	—	1,841	—	—	1,841	—
Debt conversion – related party (restated)	—	—	2,704	—	—	2,704	—
Discount on notes payable (restated)	—	—	143	—	—	143	—
Foreign currency translation adjustment	—	—	—	—	(36)	(36)	(36)
Stock-based compensation (restated)	—	—	1,072	—	—	1,072	—
Net loss (restated)	—	—	—	(24,540)	—	(24,540)	(24,540)
Balances, March 31, 2008	318,748,841	\$ 319	\$ 198,592	\$ (97,162)	\$ (41)	\$ 101,708	\$ (24,576)

See accompanying notes to consolidated financial statements.

PETROHUNTER ENERGY CORPORATION
(A Development Stage Company)
CONSOLIDATED STATEMENTS OF CASH FLOWS

	Six months ended March 31, 2008	Six months ended March 31, 2007	Cumulative From Inception (June 20, 2005) to March 31, 2008
	(unaudited, restated, \$ in thousands)		
Cash flows from operating activities			
Net loss	\$ (24,540)	\$ (20,820)	\$ (97,162)
Adjustments used to reconcile net loss to net cash used in operating activities:			
Stock-based compensation	1,072	3,617	19,256
Detachable warrants recorded as interest expense	163	—	163
Depreciation, depletion, amortization and accretion	483	1,763	1,801
Impairment of oil and gas properties	—	8,400	24,053
Amortization of deferred financing costs	1,020	1,441	2,643
Amortization of debt discount and beneficial conversion feature	1,180	148	2,216
Loss on marketable securities	2,987	—	2,987
Loss on conveyance of property	11,875	—	11,875
Other adjustments to reconcile net loss	45	—	122
Changes in assets and liabilities:			
Receivables	(315)	(1,569)	(861)
Due from related party	—	921	(500)
Prepays and other	70	24	25
Accounts payable, accrued expenses, and other liabilities	1,898	(1,255)	6,752
Due to shareholder and related parties	—	618	1,474
Net cash used in operating activities	(4,062)	(6,712)	(25,156)
Cash flows from investing activities			
Additions to oil and gas properties	(8,707)	(3,808)	(74,372)
Notes receivable, related party	—	(12,863)	(2,494)
Proceeds from sale of oil and gas properties	7,500	—	7,500
Proceeds from sales of marketable securities	2,541	—	2,541
Additions to furniture and equipment	(277)	(95)	(964)
Restricted cash	50	(525)	(1,027)
Net cash provided by (used in) investing activities	1,107	(17,291)	(68,816)
Cash flows from financing activities			
Proceeds from the sale of common stock	—	—	35,742
Proceeds from common stock subscribed	—	3,067	2,858
Proceeds from the issuance of notes payable	1,250	12,500	32,800
Borrowing on short-term notes payable	850	—	1,350
Payments on short-term notes payable	(4,654)	—	(4,654)
Payments on related party borrowing	(519)	(450)	(519)
Proceeds from related party borrowing	1,170	—	1,445
Proceeds from the exercise of warrants	—	—	1,000

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Cash received upon recapitalization and merger	—	—	21
Proceeds from issuance of convertible notes	6,330	—	27,162
Offering and financing costs	—	(44)	(1,638)
Net cash provided by financing activities	4,427	15,073	95,567
Effect of exchange rate changes on cash	—	—	(3)
Net increase (decrease) in cash and cash equivalents	1,472	(8,930)	1,592
Cash and cash equivalents, beginning of period	120	10,632	—
Cash and cash equivalents, end of period	\$ 1,592	\$ 1,702	\$ 1,592
Supplemental schedule of cash flow information			
Cash paid for interest	\$ 16	\$ —	\$ 1,517
Cash paid for income taxes	\$ —	\$ —	\$ —

See accompanying notes to consolidated financial statements.

PETROHUNTER ENERGY CORPORATION
(A Development Stage Company)
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
(unaudited, restated)

Note 1 — Organization and Basis of Presentation

We are a development stage global oil and gas exploration and production company committed to acquiring and developing primarily unconventional natural gas and oil prospects that we believe have a very high probability of economic success. Since our inception in 2005, our principal business activities have been raising capital through the sale of common stock and convertible notes and acquiring oil and gas properties in the western United States and Australia. Currently, we own property in Colorado, where we have drilled five wells on our Buckskin Mesa property, and Australia, where we have drilled one well on our property in the Northern Territory, and in Montana, where we hold a land position in the Bear Creek area. The wells on these properties have not yet commenced oil and gas production. We own working interests in eight additional wells in Colorado which are operated by EnCana Oil & Gas USA (“EnCana”) and are currently producing gas. In November 2007, we sold 66,000 net acres of land and two wells in Montana and 177,445 acres of land in Utah (see Note 5) and subsequent to March 31, 2008, we entered into a binding purchase and sale agreement to sell up to 1,059 net acres and 16 wells in the Southern Piceance Basin in Colorado (see Note 13).

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). In accounting for this transaction:

- i. GSL was deemed to be the purchaser and parent company for financial reporting purposes. Accordingly its net assets were included in the consolidated balance sheet at their historical book value; and
- ii. control of the net assets and business of Digital was effective May 12, 2006 for no consideration.

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”). Likewise, in October 2006, GSL changed its name to PetroHunter Operating Company.

PetroHunter is considered a development stage company as defined by Statement of Financial Accounting Standards (“SFAS”) 7, Accounting and Reporting by Development Stage Enterprises, as we have not yet commenced our planned principal operations. A development stage enterprise is one in which planned principal operations have not commenced, or if its operations have commenced, there has been no significant revenue therefrom.

Unless otherwise noted in this report, any description of “us” or “we” refers to PetroHunter Energy Corporation and our subsidiaries. Financial information in this report is presented in U.S. dollars.

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Note 2 – Restatement of Previously Issued Financial Statements

On August 11, 2008, we concluded our unaudited financial statements for the quarterly periods ended December 31, 2007 and March 31, 2008, included in our Quarterly Reports on Form 10-Q for the quarterly periods ended December 31, 2007 and March 31, 2008, should not be read without also considering the effect of errors that were discovered in subsequent periods. The Company had identified the aggregate effects of correcting these errors in their proper quarterly periods, which was announced in our Form 8-K filed with the SEC on August 14, 2008.

On November 14, 2008, we concluded our unaudited financial statements included in the Company's Quarterly Reports on Form 10-Q for the quarters ended December 31, 2007, March 31, 2008 and June 30, 2008 would be restated due to the discovery of additional errors.

The following errors affected our Original Report for the three and six month periods ended March 31, 2008:

1. Detachable Warrants with Convertible Debentures – We corrected an error during our first quarter ended December 31, 2007 in relation to our accounting for the value of detachable warrants that were issued in relation to the issuance of \$7.0 million of Convertible Debentures, where we erroneously charged the \$2.9 million of value assigned to the detachable warrants to interest expense, versus recording the warrant value as a discount against the face value of the Convertible Debentures and amortizing the discount to interest expense over the remaining term of the convertible debentures using the effective interest method. We recorded further corrections during the second quarter ended March 31, 2008 to give proper effect to the additional discount against the face value of the Convertible Debentures, and to properly record the effects of the additional amortization to interest expense.
2. Detachable Warrants with Global Debt Facility – We corrected errors in our accounting for detachable warrants issued in relation to our Global Credit Facility during our first quarter ended December 31, 2007. First, we inappropriately used a warrant term assumption in our Black-Scholes calculation of fair value that was less than the contractual life of the warrants, which understated the initial value of the warrants by \$1.9 million. Second, we failed to properly record \$1.2 million of the total as deferred financing costs associated with the warrants that were issued in connection with securing the facility. We recorded further corrections during the second quarter ended March 31, 2008 to give proper effect to the additional amortization to interest expense.
3. Heavy Oil Asset Sale – We corrected several errors in our accounting for the sale of our Heavy Oil Projects during our first quarter ended December 31, 2007. First, we corrected an error in our accounting for the proceeds from the sale of these assets to Pearl Exploration and Production Ltd., where we erroneously recorded \$2.7 million of contingent consideration (in the form of the common stock of the acquirer) relating to the sale of assets that did not ultimately transfer, net of \$0.9 million in unrealized losses also recognized in error. Second, we corrected a \$2.4 million error in our accounting for unrealized losses from declines in the market value of the securities received in the transaction, where we erroneously treated the securities as trading securities and recorded an unrealized loss in our statement of operations, versus reflecting the \$1.6 million in unrealized losses (net of the \$0.9 million excess discussed above) as a charge to other comprehensive income. Finally, we determined we should have recorded a \$11.9 million loss on conveyance on the transaction, based on the relationship of the fair value of the Heavy Oil Projects, versus what was recorded in our full cost pool. We recorded further corrections during the second quarter ended March 31, 2008 to give proper effect to the recognition of the realized loss on the sale of marketable securities we acquired in relation to this transaction, and had been held for sale, by recording the proper realized loss in our statement of operations. In addition, we recorded corrections during the second

quarter ended March 31, 2008 to our oil and gas property accounts and our accumulated deficit in relation to the loss on conveyance.

4. Related Party Consulting Agreement Termination – We corrected a \$0.2 million error in our accounting for the termination of certain consulting services that had been provided by a significant shareholder during the first quarter ended December 31, 2007, which understated accrued expenses and general and administrative expense. We recorded further corrections during the second quarter ended March 31, 2008 to reverse the

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effects of corrections we reflected in our Original Report, affecting accrued expenses, additional paid in capital and general and administrative expense.

5. **Contingent Purchase Obligation** – During our first quarter ended December 31, 2007, we corrected an error in our accounting for a financial guarantee in relation to capital costs incurred by a third party in conjunction with the construction of a gas gathering system and the provision of gas gathering services for our Buckskin Mesa Project, and recorded a \$2.0 million intangible asset and contingent purchase obligation to reflect the fair value of this guarantee. We recorded further corrections during the second quarter ended March 31, 2008 to properly reflect the value the guarantee as of that date.
6. **Stock-Based Compensation Expense** – During our second quarter ended March 31, 2008, we corrected a \$0.4 million error in our accounting for stock-based compensation expense, resulting from various errors in valuing our expense using our Black-Scholes calculation of fair value.
7. **Maralex Transaction** – During the first quarter ended December 31, 2007, we corrected an error in our accounting for the value of 6.4 million shares of our common stock that we reacquired during the quarter ended December 31, 2007. The shares were originally issued during our year ended September 30, 2007 in relation to the acquisition of certain properties (our “Sugarloaf Project”) and the incurrence of penalties on a series of payment defaults on our contract. The correction of this error resulted in a \$4.1 million increase in our oil and gas property accounts, with a corresponding increase in additional paid in capital. We recorded further corrections to our oil and gas property accounts and additional paid in capital during the second quarter ended March 31, 2008 to give proper effect to the correction of this error on our balance sheet.
8. **Other Errors** – We corrected several other errors that were individually insignificant and primarily related to the timing of the recognition of costs and expenses in our statement of operations during our year ending September 30, 2008 (primarily between the first quarterly period ended December 31, 2007 and the second quarterly period ended March 31, 2008) and the proper classification of amounts receivable for Goods and Services Taxes in Australia.

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Balance Sheet Effects of Restatements

The following table sets forth the unaudited condensed consolidated balance sheet, showing previously reported amounts, adjustments resulting from the correction of errors and reclassifications, and restated balances as of March 31, 2008 (in thousands):

	March 31, 2008		
	As previously reported	Net Adjustments	As restated
Current Assets			
Cash and cash equivalents	\$ 1,592	\$ -	\$ 1,592
Receivables	359	662	1,021
Other current assets	69	-	69
Total Current Assets	2,020	662	2,682
Property and Equipment, at cost and Other Assets			
Oil and gas properties under full cost method, net	173,975	(8,035)	165,940
Intangible asset	2,756	(325)	2,431
Deferred financing costs	713	1,072	1,785
Other assets	2,073	393	2,466
Total Assets	\$ 181,537	\$ (6,233)	\$ 175,304
Current Liabilities			
Accounts payable and accrued expenses	\$ 26,695	\$ 487	\$ 27,182
Due to shareholders and related parties	1,058	21	1,079
Notes and interest payable	7,759	-	7,759
Notes and interest payable, related parties	3,525	-	3,525
Contingent purchase obligation	2,756	(325)	2,431
Total Current Liabilities	41,793	183	41,976
Non-Current Obligations			
Notes payable, net	30,099	(134)	29,965
Convertible notes payable, net	2,997	(2,847)	150
Subordinated notes payable, related parties	1,401	-	1,401
Asset retirement obligation	104	-	104
Net Non-Current Obligations	34,601	(2,981)	31,620
Total Liabilities	76,394	(2,798)	73,596
Stockholders' Equity			
Common stock	319	-	319
Additional paid in capital	193,240	5,352	198,592

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Accumulated other comprehensive loss	(41)	-	(41)
Deficit accumulated during development stage	(88,375)	(8,787)	(97,162)
Total Stockholders' Equity	105,143	(3,435)	101,708
Total Liabilities and Stockholders' Equity	\$ 181,537	\$ (6,233)	\$ 175,304

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Statement of Operations Effects of Restatements

The following table presents our unaudited condensed consolidated statement of operations, showing previously reported amounts, adjustments resulting from the correction of errors, and restated balances for the three and six month periods ended March 31, 2008 (in thousands, except share data):

	For the three months ended March 31, 2008			For the six months ended March 31, 2008		
	As previously reported	Net Adjustments	As restated	As previously reported	Net Adjustments	As restated
Total Revenue	\$ 705	\$ (59)	\$ 646	\$ 992	\$ 161	\$ 1,153
Costs & Expenses:						
General and administrative	3,796	(1,327)	2,469	5,690	(903)	4,787
Other operating expenses	322	39	361	681	42	723
Total Operating Expenses	4,118	(1,288)	2,830	6,371	(861)	5,510
Loss From Operations	(3,413)	1,229	(2,184)	(5,379)	1,022	(4,357)
Other Income (Expense):						
Loss on conveyance of property	-	-	-	-	(11,875)	(11,875)
Interest expense	(2,390)	(184)	(2,574)	(7,425)	2,066	(5,359)
Loss on marketable securities	(594)	(2,393)	(2,987)	(2,987)	-	(2,987)
Other, net	60	(47)	13	38	-	38
Total Other Expense	(2,924)	(2,624)	(5,548)	(10,374)	(9,809)	(20,183)
NET LOSS	\$ (6,337)	\$ (1,395)	\$ (7,732)	\$ (15,753)	\$ (8,787)	\$ (24,540)
Net Loss Per share	\$ (0.02)	\$ (0.00)	\$ (0.02)	\$ (0.05)	\$ (0.03)	\$ (0.08)
Weighted Average Number of Shares Outstanding-Basic and Diluted	316,978	-	316,978	312,610	-	312,610

Statement of Cash Flows Effects of Restatements

The following table presents selected unaudited condensed consolidated statement of cash flows information, showing previously reported amounts, adjustments resulting from the correction of errors and reclassifications, and restated balances for the six months ended March 31, 2008 (in thousands):

	For the six months ended March 31, 2008		
	As previously reported	Net Adjustments	As restated
Net cash used in operating activities	\$ (6,420)	\$ 2,358	\$ (4,062)
Net cash provided by investing activities	4,753	(3,646)	1,107
Net cash provided by financing activities	3,152	1,275	4,427
Effect of exchange rate changes on cash	(13)	13	—
Increase in cash and cash equivalents	1,472	—	1,472
Cash and cash equivalents beginning of year	120	—	120
Cash and cash equivalents end of period	\$ 1,592	\$ —	\$ 1,592

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Note 3 — 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. As shown in the accompanying statements of operations, we have incurred a cumulative loss in the amount of \$97.2 million for the period from inception (June 20, 2005) to March 31, 2008, have a working capital deficit of approximately \$———39.3 million as of March 31, 2008, were not in compliance with the covenants of several loan agreements, have had multiple property liens and foreclosure actions filed by vendors and have significant capital expenditure commitments. As of March 31, 2008, we have earned oil and gas revenue from our initial operating wells, but will require significant additional funding to sustain operations and satisfy contractual obligations for planned oil and gas exploration, development and operations in the future. These factors, among others, may indicate that we may be unable to continue in existence. Our financial statements do not include adjustments related to the realization of the carrying value of assets or the amounts and classification of liabilities that might be necessary should we be unable to continue in existence. Our ability to establish ourselves as a going concern is dependent upon our ability to obtain additional financing to fund planned operations and to ultimately achieve profitable operations. Management believes that we can be successful in obtaining equity and/or debt financing and/or sell interests in some of our properties, which will enable us to continue in existence and establish ourselves as a going concern. We have raised approximately \$ 100.7 million through March 31, 2008 through issuances of common stock and convertible and other debt.

For the three and six-month periods ending March 31, 2008 and 2007, the consolidated financial statements include the accounts of PetroHunter and our wholly-owned subsidiaries. For the period from June 20, 2005 through September 30, 2005, the consolidated financial statements include only the accounts of GSL. All significant intercompany transactions have been eliminated upon consolidation.

The accompanying financial statements should be read in conjunction with our Annual Report on Form 10-K for the year ended September 30, 2007. The accompanying consolidated financial statements are unaudited; however, in the opinion of management, they include all normal recurring adjustments necessary for a fair presentation of our consolidated financial position at March 31, 2008 and the consolidated results of our operations and cash flows for the three and six-month periods ending March 31, 2008 and 2007. The results of operations for the three and six-month periods ending March 31, 2008 are not necessarily indicative of the results that may be expected for the full fiscal year ending September 30, 2008 or for any other interim period in the September 2008 fiscal year. Further, the accompanying balance sheet as of September 30, 2007 was derived from audited financial statements.

Use of Estimates. Preparation of our 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 as of the date of the financial statements and the reported amounts of revenues and expenses for the reporting period. Actual results could differ from those estimates.

In the course of preparing the consolidated financial statements, management makes various assumptions, judgments and estimates to determine the reported amounts of assets, liabilities, revenue and expenses, and to disclose commitments and contingencies. Changes in these assumptions, judgments and estimates will occur as a result of the passage of time and the occurrence of future events and, accordingly, actual results could differ from amounts initially established.

The more significant areas requiring the use of assumptions, judgments and estimates relate to volumes of natural gas and oil reserves used in calculating depletion, the determination of whether losses should be recorded on property conveyances, the amount of expected future cash flows used in determining possible impairments of oil and gas properties and the amount of future capital costs estimated for such calculations. Assumptions, judgments and estimates are also required to determine future abandonment obligations, the value of undeveloped properties for impairment analysis and the value of deferred tax assets.

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

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Marketable Securities, Available for Sale. In November 2007, we sold our Heavy Oil assets (see Note 5, Oil and Gas Properties). As partial consideration, we accepted a total of 1.5 million shares of common stock of the purchaser, Pearl Exploration and Production Ltd. These shares were sold subsequent to a holding period, and were classified as available for sale in the short term at December 31, 2007. During the intervening period from closing through the date of sale in March 2008, we accounted for them by marking them to market with unrealized losses reflected as a component of other comprehensive income, until realized. During the second quarter ended March 31, 2008, we recognized a \$3.0 million loss on sales of these marketable securities.

Joint Interest Billings. Joint interest billings represents our working interest partners' share of costs that we paid, on their behalf, to drill certain wells. During the first quarter of 2008, we entered into a transaction whereby we increased our interest in 14 wells to 100% (see Note 5, Oil and Gas Properties) and we therefore reclassified \$12.6 million of costs related to those wells from Joint interest billings to Oil and gas properties.

Oil and Gas Properties. We utilize the full cost method of accounting for our oil and gas activities. 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 sale or abandonment significantly alters the relationship between capitalized costs and proved oil and gas reserves of the cost center. Depletion and amortization of oil and gas properties is computed on the units-of-production method based on proved reserves. Amortizable costs include estimates of future development costs of proved undeveloped reserves.

Asset Retirement Obligation. Asset retirement obligations associated with tangible long-lived assets are accounted for in accordance with SFAS 143, 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 depletion, amortization and accretion expense in the accompanying consolidated statements of operations.

Guarantees. As part of a Gas Gathering Agreement we have with CCES Piceance Partners I, LLC ("CCES"), we have guaranteed that, should there be a mutual failure to execute a formal agreement for long-term gas gathering services in the future, we will repay CCES for certain costs they have incurred in relation to the development of a gas gathering system and repurchase certain gas gathering assets we sold to CCES. We have accounted for this guarantee using FASB Interpretation No. 45 as amended, Guarantor's Accounting and Disclosure Requirements for Guarantees, Including Indirect Guarantees of Indebtedness of Others, which requires us to recognize a liability for the obligations undertaken upon issuing the guarantee in order to have a more representationally faithful depiction of the guarantor's assets and liabilities. Accordingly, we have recognized a \$2.4 million contingent purchase obligation and related intangible asset on our balance sheet as of March 31, 2008.

Impairment. We use the full cost method of accounting for our oil and gas properties and as such, these properties are subject to SEC Regulation S-X Rule 4-10, Financial Accounting and Reporting for Oil and Gas Producing Activities Pursuant to the Federal Securities Laws and the Energy Policy and Conservation Act of 1975 ("Rule 4-10"). Rule 4-10 requires that each regional cost center's (by country) capitalized cost, less accumulated amortization and

related deferred income taxes not exceed a cost center “ceiling.” The ceiling is defined as the sum of:

- The present value of estimated future net revenues computed by applying current prices of oil and gas reserves to estimated future production of proved oil and gas reserves as of the balance sheet date less estimated future expenditures to be incurred in developing and producing those proved reserves to be computed using a discount factor of 10%; plus

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- The cost of properties not being amortized; plus
- The lower of cost or estimated fair value of unproven properties included in the costs being amortized; less
- Income tax effects related to differences between the book and tax basis of the properties.

If unamortized costs capitalized within a cost center, less related deferred income taxes, exceed the cost center ceiling, the excess is charged to expense. During the three and six-month periods ended March 31, 2008, we did not record any impairment charges. During the three and six-month periods ended March 31, 2007, we recorded impairment charges of \$3.8 million and \$9.0 million.

Fair Value. The carrying amount reported in the consolidated balance sheets for cash, receivables, prepaids, accounts payable and accrued liabilities approximates fair value because of the immediate or short-term maturity of these financial instruments. Based upon the borrowing rates currently available to us for loans with similar terms and average maturities, the fair value of notes payable, approximates their face value.

Revenue Recognition. We recognize revenue from the sales of natural gas and crude oil related to our interests in producing wells when delivery to the customer has occurred and title has transferred. We currently have no gas balancing arrangements in place.

Income Taxes. In June 2006, the FASB issued Interpretation ("FIN") 48, Accounting for Uncertainty in Income Taxes, which clarifies the accounting for uncertainty in income taxes recognized in financial statements in accordance with FASB Statement 109, Accounting for Income Taxes. FIN 48 prescribes a recognition threshold and measurement attribute for the financial statement recognition and measurement of a tax position taken or expected to be taken in a tax return. FIN 48 also provides guidance on derecognition, classification, interest and penalties, accounting in interim periods, disclosure and transition. FIN 48 was effective for us on October 1, 2007. The cumulative effect of adopting FIN 48 did not have a significant impact on the Company's financial position or results of operations and accordingly no adjustment was made.

The Company has adopted the provisions of SFAS 109, Accounting for Income Taxes. SFAS 109 requires recognition of deferred tax liabilities and assets for the expected future tax consequences of events that have been included in the financial statements or tax returns. Under this method, deferred tax liabilities and assets are determined based on the difference between the financial statement and tax basis of assets and liabilities using enacted tax rates in effect for the year in which the differences are expected to reverse.

Temporary differences between the time of reporting certain items for financial and tax reporting purposes consist primarily of exploration and development costs on oil and gas properties, and stock based compensation of options granted.

Loss per Common Share. Basic loss per 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 dilutive weighted-average number of common shares outstanding excluded potential common shares from stock options and warrants of approximately 114,169,114 and 48,701,500 for the periods ended March 31, 2008 and 2007, respectively.

Recently Issued Accounting Pronouncements. In February 2007, the Financial Accounting Standards Board (“FASB”) issued SFAS 159, The Fair Value Option for Financial Assets and Financial Liabilities, which allows entities to choose, at specified election dates, to measure eligible financial assets and liabilities at fair value that are not otherwise required to be measured at fair value. If a company elects the fair value option for an eligible item, changes in that item’s fair value in subsequent reporting periods must be recognized in current earnings. SFAS 159 also establishes presentation and disclosure requirements designed to draw comparison between entities that elect different measurement attributes for similar assets and liabilities. SFAS 159 will be effective for us on October 1,

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2008. We have not assessed the impact of SFAS 159 on our consolidated results of operations, cash flows or financial position.

In September 2006, the FASB issued SFAS 157, Fair Value Measurements, which provides guidance for using fair value to measure assets and liabilities. The standard also responds to investors' requests for more information about: (1) the extent to which companies measure assets and liabilities at fair value; (2) the information used to measure fair value; and (3) the effect that fair value measurements have on earnings. SFAS 157 will apply whenever another standard requires (or permits) assets or liabilities to be measured at fair value. SFAS 157 does not expand the use of fair value to any new circumstances. SFAS 157 will be effective for us on October 1, 2008. We have not assessed the impact of SFAS 157 on our consolidated results of operations, cash flows or financial position.

Supplemental Cash Flow Information. Supplement cash flow information for the six months ended March 31, 2008 and 2007, respectively, and cumulative from inception (June 2005) is as follows:

	Six Months Ended March 31, 2008 (unaudited, restated, \$ in thousands)	Six Months Ended March 31, 2007	Cumulative From Inception (June 20, 2005) to March 31, 2008
Supplemental disclosures of non-cash investing and financing activities			
Shares issued for expenditures advanced	\$ —	\$ —	\$ 100
Contracts for oil and gas properties	\$ (1,500)	\$ 2,900	\$ 12,024
Shares issued for debt conversion	\$ 6,384	\$ —	\$ 28,416
Shares issued for commissions on offerings	\$ 56	\$ 200	\$ 2,956
Shares issued for property	\$ 9,000	\$ 81,275	\$ 90,000
Shares returned on property conveyance	\$ (1,408)	\$ —	\$ (1,408)
Shares issued for property and finder's fee on property	\$ —	\$ —	\$ 9,644
Warrants issued for debt	\$ 3,757	\$ —	\$ 8,427
Non-cash uses of notes payable, accounts payable and accrued liabilities	\$ —	\$ —	\$ 26,313
Convertible debt issued for property	\$ —	\$ —	\$ 1,200
Common stock issuable	\$ —	\$ 4,128	\$ —
Discount associated with beneficial conversion feature and detachable warrants	\$ 6,956	\$ —	\$ 6,956
Common stock subscriptions converted to notes and convertible debentures	\$ 2,858	\$ —	\$ 2,858
Marketable securities received from sale of oil and gas properties	\$ 5,529	\$ —	\$ 5,529
Acquisition of oil and gas properties by exchange of joint interest billings, oil and gas receivables and accounts payable	\$ 12,707	\$ —	\$ 12,707

Note 4 — Agreements with MAB Resources LLC

We have entered into various agreements with MAB Resources LLC (“MAB”), a company that is controlled by our largest shareholder, Marc A. Bruner. The following is a summary of those agreements.

The Development Agreement. From July 1, 2005 through December 31, 2006, we and MAB operated pursuant to a Development Agreement and a series of individual property agreements (collectively, the “EDAs”). The Development Agreement defined MAB’s and our long-term relationship regarding the ownership and operation of all jointly-owned properties and stipulated that we and MAB would sign a joint operating agreement governing all operations. The Development Agreement specified, among other things, that:

MAB assign to us a 50% undivided interest in any and all oil and gas leases, production facilities and related assets (collectively, the “Properties”) that MAB was to acquire from third parties in the future, we would be operator

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of the jointly owned properties, with MAB Operating Company LLC as sub-operator, and each party would pay its proportionate share of costs and receive its proportionate share of revenues, subject to certain adjustments, including our burden to carry MAB for specified costs, pay advances, and to make an overriding royalty payment of 3% (gross, or 1.5% net) to MAB out of production and sales.

A more thorough description of the Development Agreement is included in Item 8 of our Annual Report on Form 10-K, Financial Statements and Supplementary Data - Note 4 .

The Consulting Agreement. Effective January 1, 2007, we and MAB began operating under an Acquisition and Consulting Agreement (the "Consulting Agreement") which replaced in its entirety the Development Agreement described above. Upon execution of the Consulting Agreement, MAB conveyed its entire remaining working interest in the Properties to us in consideration for a \$13.5 million promissory note, 50 million shares of PetroHunter Energy Corporation and an additional 50 million shares (the "Performance Shares") provided we met certain thresholds based on proven reserves. Furthermore, MAB would receive:

- 7% of the issued and outstanding shares of any new subsidiary with assets comprised of the subject properties
- A 5% overriding royalty interest on certain of the properties, to be accrued and deferred for three years, provided these royalties do not render our net revenue interest to be less than 75%, and
- \$25,000 per month for consulting services (which was later rescinded by Amendment 1 to the Consulting Agreement, effective retroactively to January 1, 2007).

Our obligation to pay up to \$700.0 million in capital costs for MAB's 50% interest as well as the monthly project cost advances against such capital costs was also eliminated.

We accounted for the acquisition component of the Consulting Agreement in accordance with the purchase accounting provisions of SFAS 141 Business Combinations. Accordingly, at the date of acquisition, we recorded oil and gas properties of \$94.5 million, notes payable of \$13.5 million, and common stock and additional-paid-in capital totaling \$81.0 million (equal to the 50.0 million shares issued to MAB at the trading price of \$1.62 per share for our common stock on the trading date immediately preceding the closing date of the transaction).

In the first quarter of the current fiscal year ending September 30, 2008, the Consulting Agreement was amended three times, resulting in the following changes:

- MAB relinquished portions of its overriding royalty interest effective October 1, 2007 such that the override currently only applies to our Australian properties and Buckskin Mesa property;
 - MAB received 25.0 million additional shares of our common stock;
 - MAB relinquished all rights to the Performance Shares described above;
 - MAB's consulting services were terminated effective retroactively back to January 1, 2007;
 - MAB waived all past due amounts and all claims against PetroHunter; and
 - the note payable to MAB was reduced in accordance with and in exchange for the following:
 - o by \$8.0 million in exchange for 16.0 million shares of our common stock with a value of \$3.7 million based on the closing price of \$0.23 per share at November 15, 2007 and warrants to acquire 32.0 million shares of our common stock at \$0.50 per share. The warrants expire on November 14, 2009 and were valued at \$0.7 million;
 - o by \$2.9 million in exchange for our release of MAB's obligation to pay the equivalent amount as guarantor of the performance of Galaxy Energy Corporation under the subordinated unsecured promissory note dated August 31, 2007 (see Note 11);

- o a reduction to the note payable to MAB of \$0.5 million for cash payments made during the first quarter of 2008;
and
 - o by \$0.2 million for MAB assuming certain costs that Paleo Technology owed to us.

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The net effect of the reduction of debt and issuance of our common shares resulted in a net benefit to us of \$2.7 million and has been reflected as additional paid-in-capital during the six months ended March 31, 2008. Monthly payments on the revised promissory note in the amount of \$2.0 million commenced February 1, 2008 and are due in full in two years.

Note 5 — Oil and Gas Properties

Oil and gas properties consisted of the following:

	March 31, 2008 (restated)	September 30, 2007
	(\$ in thousands)	
Oil and gas properties, at cost, full cost method		
Unproved		
United States	\$ 108,300	\$ 107,239
Australia	23,648	23,569
Proved – United States	35,423	57,168
Total	167,371	187,976
Less accumulated depreciation, depletion, amortization and impairment	(1,431)	(25,133)
Total	\$ 165,940	\$ 162,843

Included in oil and gas properties above is capitalized interest of \$0.0 million and \$0.4 million for three months ended March 31, 2008 and 2007, respectively. In the six months ended March 31, 2008 and 2007, oil and gas properties included capitalized interest of \$0.2 million and \$0.4 million, respectively.

Included below is a summary of significant activity related to oil and gas properties during the three and six-month periods ended March 31, 2008.

PICEANCE BASIN

Buckskin Mesa Project. As of March 31, 2008, we had drilled five wells, with two wells having been completed and shut-in, awaiting completion of the gathering system, and the remaining 3 wells awaiting completion. We are required to drill 16 wells during the calendar year ending December 31, 2008, three during the first quarter and four during each of the second and third calendar quarters of 2008 and five during the fourth calendar quarter of 2008, under the terms of an agreement between us and a third party assignor, Daniels Petroleum Company (“DPC”). If we do not satisfy these quarterly drilling requirements, our agreement with DPC requires that we pay DPC \$0.5 million for each undrilled well on the last day of the applicable quarter. At the end of the first calendar quarter of 2008, we extended and subsequently exercised our right to pay \$0.5 million in penalties for three wells that were required to be drilled that quarter by agreeing to pay the \$1.5 million fee, plus a \$1.0 million additional penalty. These amounts were paid on April 28, 2008, thereby reducing the total number of wells we are committed to drill for the remainder of calendar year 2008 to 13. We currently estimate our cost to drill and complete each well at \$3.0 million, aggregating \$39.0 million for the remaining 13 wells.

Piceance II Project. As of March 31, 2008, we had drilled, but did not complete, 16 wells.

On December 10, 2007, we entered into two agreements with EnCana Oil & Gas (USA) Inc. (“EnCana”) to exchange and augment interests in certain Piceance Basin properties, which resulted in an increase in our working interest in 12 of the 16 wells mentioned above as follows:

Exchange 1 — We received from EnCana an interest in 40 net acres, including two net and gross wells, and conveyed to EnCana interests in 19 gross wells and 0.4 net wells. We and EnCana relieved each other of existing obligations related to all past costs and operations of the respective properties exchanged. EnCana’s share of the costs to drill the two wells of \$3.2 million reflected as Joint interest billings in our consolidated balance sheet at September 30, 2007 was reclassified to Oil and gas properties during the first quarter ended December 31, 2007. In

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addition, our accounts receivable from EnCana for oil and gas sales and accounts payable to EnCana for lease operating expenses from the 19 wells, of \$0.2 million and \$0.1 million respectively, as of December 31, 2007, was also reclassified to Oil and gas properties during the first quarter ended December 31, 2007.

Exchange 2 — We received from EnCana an interest in 99 net acres, including 10 gross wells (5 net). EnCana's share of the costs to drill the 10 wells of \$9.4 million reflected as Joint interest billings in our consolidated balance sheet at September 30, 2007 was reclassified to Oil and gas properties during the first quarter ended December 31, 2007. In addition, we paid EnCana \$1.0 million at closing that is also reflected in Oil and gas properties during the first quarter ended December 31, 2007.

By the terms of a Lease Acquisition and Development Agreement between MAB, Apollo Energy LLC and ATEC Energy Ventures and a third oil and gas lease pertaining to the Piceance II properties, we were required to drill 10 wells by December 31, 2008. Of the 10 wells, we drilled two during the fiscal year ended September 30, 2007 and we paid 100% of the costs to drill those two wells (two of the 16 wells mentioned above). Our joint interest partner's share in the amount of \$1.0 million is reflected as Joint interest billings on our consolidated balance sheet at March 31, 2008. We have estimated total estimated costs to drill and complete the 8 additional wells at approximately \$16.8 million (\$10.5 million to our 62.5% interest). We are currently conducting negotiations with the owners of the remaining 37.5% working interest owners to trade their interest in this lease for other oil and gas interests owned by us.

By the terms of a Lease Acquisition and Development Agreement between MAB, Apollo Energy LLC and ATEC Energy Ventures and of a certain oil and gas lease, we were to have commenced drilling on two wells by August 31, 2007 and an additional two wells by August 31, 2008. Subject to certain spacing orders being issued by the Colorado Oil and Gas Conservation Commission, that requirement has been deferred in its entirety by one year, thus requiring the drilling of two wells by August 31, 2008 and two wells by August 31, 2009. We have estimated total costs to drill and complete these wells at approximately \$4.2 million (\$1.6 million to our 37.5% interest in the dedicated spacing unit) to be incurred by August 31, 2008 and 2009, respectively.

By the terms of a Lease Acquisition and Development Agreement between MAB, Apollo Energy LLC and ATEC Energy Ventures and of a second oil and gas lease, pertaining to the Piceance II properties, we were to have commenced the drilling of four wells by June 30, 2007, an additional two wells by June 30, 2008 and an additional two wells by June 30, 2009. Subject to certain spacing orders being issued by the Colorado Oil and Gas Conservation Commission, that requirement has been deferred indefinitely. We have estimated total costs to drill and complete these wells at approximately \$16.8 million (\$8.4 million to our 50% interest).

Sugarloaf Project. We failed to make payments in accordance with the agreement related to this prospect and as a result, on December 4, 2007, the agreement was terminated and we instructed the escrow agent to return all assignments which were being held in escrow to the seller (See Note 7).

AUSTRALIA

Australia Project. We own four exploration licenses comprising 7.0 million net acres in the Beetaloo Basin (owned by our wholly-owned subsidiary, Sweetpea Petroleum Pty Ltd., ["Sweetpea"]). In July 2007, we drilled and cased one well to a depth of 4,724 feet, with the intention to deepen the well at a later date.

Beetaloo Project. We have a 100% working interest in this project with a royalty interest of 10% to the government of the Northern Territory and an overriding royalty interest of 1% to 2%, 8% and 5% to the Northern Land Council, the original assignor of the

licenses, and to MAB, respectively, leaving a net revenue interest of 75% to 76% to us. We have committed to drill five wells at a total estimated cost of \$20.0 million related to this property.

Northwest Shelf Project. Effective February 19, 2007, the Commonwealth of Australia granted an exploration permit in the shallow, offshore waters of Western Australia to Sweetpea. The permit has a six year term and

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encompasses almost 20,000 net acres. We have committed to an exploration program with geological and geophysical data acquisition in the first two years with a third year drilling commitment and additional wells to be drilled in the subsequent three year period depending upon the results of the initial well.

POWDER RIVER BASIN

On December 29, 2006, we entered into a purchase and sale agreement (the "Galaxy PSA") with Galaxy Energy Corporation ("Galaxy") and its wholly-owned subsidiary, Dolphin Energy Corporation ("Dolphin"), both of which are related parties to us. Pursuant to the Galaxy PSA, we agreed to purchase all of Galaxy's and Dolphin's oil and gas interests in the Powder River Basin of Wyoming and Montana (the "Powder River Basin Assets"), and to assume operations as contract operator, pending the purchase.

In January 2007, we paid a \$2.0 million earnest money deposit to Galaxy, which was due under the terms of the Galaxy PSA. As contract operator of the Powder River Basin Assets, we incurred \$0.8 million in expenses. The Galaxy PSA expired by its terms on August 31, 2007. Upon expiration and under the terms of the Galaxy PSA, we obtained a note receivable in the amount of \$2.5 million (the "Galaxy Note") which consisted of the \$2.0 million earnest deposit plus a portion of operating costs paid by us. As guarantor of the Galaxy Note, MAB repaid the balance in November 2007 by offsetting it against amounts owed by us to MAB under the MAB Note (see Notes 4 and 8).

MONTANA COALBED METHANE

Bear Creek Project. We have retained 15,991 acres of the original 25,278 acres of leasehold acquired through an assignment from MAB. The remaining 11,373 acres of leasehold have expired. The acres retained have been reflected in unproved oil and gas properties and are subject to further evaluation. The acres released have been reflected in unproved properties but included in evaluated costs subject to amortization and in the full cost ceiling test at the lower of cost or market value.

HEAVY OIL

Sale of Heavy Oil Projects. On November 6, 2007 and effective October 1, 2007, the Company sold a majority of its interest in certain Heavy Oil Projects, including the West Rozel, Fiddler Creek and Promised Land Projects to Pearl Exploration and Production Ltd. ("Pearl"). We recognized a loss related to the transaction of \$11.9 million during the quarter ended December 31, 2007. Prior to this sale, we had engaged in a lengthy sales process and turned down numerous offers from other parties for the property. We felt that Pearl's offer was within the range of valuation we considered to be reasonable for this property. In evaluating the impact on our full cost pool, we applied the guidance of Regulation S-X Rule 4-10, Financial Accounting and Reporting for Oil and Gas Producing Activities Pursuant to the Federal Securities Laws and the Energy Policy and Conservation Act of 1975 ("Rule 4-10"). Pursuant to Rule 4-10, the sale of these properties resulted in a significant alteration in the reserves on our properties and therefore, we had to evaluate the properties for a loss on the transaction. Accordingly, the net book value of our properties was allocated on the same ratio of reserves between the sold properties and those that we retained, resulting in a loss on the conveyance of these properties of \$11.9 million during the period ended December 31, 2007.

The purchase price was a maximum of \$30.0 million, payable as follows: (a) \$7.5 million in cash; (b) the issuance of the number of shares of Pearl equivalent to \$10.0 million in total (based on a price of \$4.00 Canadian dollars per share or such other higher price as is dictated by the regulations of the TSX Venture Exchange), including value attributable to leases on which title is being reviewed after closing, and value attributable to 4,645 net acres of leasehold which

were not assigned at closing, pending Pearl's attempt to renegotiate the terms of the Company's agreement with the third party that sold acreage to PetroHunter (within six months after closing); and (c) a performance payment (the "Pearl Performance Payment") of \$12.5 million in cash at such time as either: (i) production from the assets reaches 5,000 barrels per day; or (ii) proven reserves from the assets is greater than 50.0 million barrels of oil as certified by a third party reserve engineer. In the event that these targets have not been achieved by September 30, 2010, the Pearl Performance Payment obligation will expire. Upon the expiration of the

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six-month period noted above, Pearl was unable to assist us in our efforts to transfer the 4,545 net acres, and therefore, no consideration was received from Pearl.

The sale of assets to Pearl also resulted in amendments to existing agreements with third parties, including MAB's relinquishment of its rights and obligations in all PetroHunter present and future properties in Utah and Montana, as set forth in the Second Amendment, and termination of PetroHunter's obligation to pay an overriding royalty and a per barrel production payment to American Oil & Gas, Inc. ("American") and Savannah Exploration ("Savannah"), in consideration for: (a) five million common shares of PetroHunter common stock to be issued to American and Savannah; and (b) a contingent obligation to pay a total of \$2.0 million to American and Savannah in the event PetroHunter receives the Pearl Performance Payment.

Note 6 — 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 increase in carrying value is included in proved oil and gas properties in the consolidated balance sheets. We deplete the amount added to proved oil and gas property costs and recognize 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. The credit-adjusted risk-free rates used to discount our abandonment liabilities range from 8% to 15%. Revisions to the liability are due to increases in estimated abandonment costs and changes in well economic lives, or in changes to federal or state regulations regarding the abandonment of wells.

A reconciliation of our asset retirement obligation liability is as follows:

	March 31, 2008	September 30, 2007
	(\$ in thousands)	
Beginning asset retirement obligation	\$ 136	\$ 522
Liabilities incurred	1	30
Liabilities settled	(35)	—
Revisions to estimates	—	(429)
Accretion expense	2	13
Ending asset retirement obligation	\$ 104	\$ 136

Note 7 — Contract Payable

On November 28, 2006, MAB entered into a Lease Acquisition and Development Agreement (the "Agreement") with Maralex Resources, Inc. and Adelante Oil & Gas LLC (collectively, "Maralex") for the acquisition and development of the Sugarloaf Prospect in Garfield County, Colorado. MAB subsequently assigned the Agreement to us in January 2007 (the "Assignment"). By the terms of the Agreement and subsequent Assignment, we paid \$0.1 million at closing,

with the remaining cash of \$2.9 million and the issuance of 2.4 million shares of our common stock due on January 15, 2007. We initially recorded the \$2.9 million obligation as a contract payable - oil and gas properties, and \$4.1 million as stockholders' equity (equal to 2.4 million shares at the \$1.70 closing price of our common stock on the date of the closing).

The terms of the Agreement were amended on several occasions resulting in the issuance of an additional 5.6 million shares of our common stock as well as the grant of several cash "uplifts" and penalties that were recorded as interest expense during the year ended September 30, 2007.

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We continually failed to make payments in accordance with the Agreement and subsequent amendments and as a result, on December 4, 2007, Maralex terminated the Agreement. Pursuant to this termination Maralex returned to us 6.4 million shares of common stock that had been issued to them, and all leases related to the Agreement were returned to Maralex. To account for the termination and conveyances we reclassified the balance of the contract payable - oil and gas properties in the amount of \$1.5 million to oil and gas properties, recorded the return of the common stock in the amount of \$1.4 million as a reduction of oil and gas properties and shareholders' equity, and reversed the value of our outstanding remaining unpaid cash obligations to oil and gas properties.

Note 8 — Notes Payable

Notes payable are summarized below:

	March 31, 2008 (restated) (\$ in thousands)	September 30, 2007
Notes payable – short-term:		
Global Project Finance AG	\$ 850	\$ 500
Vendor	1,224	4,050
Flatiron Capital Corp.	35	117
Notes payable – short-term	\$ 2,109	\$ 4,667
Convertible notes payable	\$ 400	\$ 400
Notes payable – related party – current portion:		
Bruner Family Trust	\$ 2,705	\$ —
Wealth Preservation	100	—
MAB- current portion	—	3,755
Notes payable – related party – current portion	\$ 2,805	\$ 3,755
Subordinated notes payable — related party:		
Bruner Family Trust	\$ 106	\$ 275
MAB	1,295	8,775
Subordinated notes payable — related party	\$ 1,401	\$ 9,050
Long-term notes payable — net of discount:		
Global Project Finance AG	\$ 32,800	\$ 31,550
Vendor	200	250
Less current portion	(120)	(120)
Discount on notes payable		