

PetroHunter Energy Corp  
Form 10-Q  
May 12, 2011

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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, 2011

Or

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

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

Commission file number: 000-51152

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

Maryland  
(State or other jurisdiction of  
incorporation or organization)

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

1600 Stout Street  
Suite 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 has submitted electronically and posted on its corporate Web site, if any, every Interactive Data File required to be submitted and posted pursuant to Rule 405 of Regulation S-T during the preceding 12 months (or for such shorter period that the registrant was required to submit and post such files). Yes

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No  (not required)

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):

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 May 12, 2011 the registrant had 439,078,759 shares of common stock outstanding.

1

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### 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 SIX-MONTH PERIOD ENDED  
MARCH 31, 2011

INDEX

|   | Page |
|---|------|
| PART I — FINANCIAL INFORMATION  |      |
| Item 1.   | 4    |
| Financial Statements  |      |
| Management's Discussion and Analysis of Financial Condition and Results of Operations | 12   |
| Item 2.   | 14   |
| Quantitative and Qualitative Disclosures About Market Risk                            |      |
| Item 3.   | 14   |
| Controls and Procedures   |      |
| Item 4.   |      |
| PART II — OTHER INFORMATION   |      |
| Item 1.   | 15   |
| Legal Proceedings   |      |
| Item 1A.  | 15   |
| Risk Factors  |      |
| Item 2.   | 15   |
| Unregistered Sales of Equity Securities and Use of Proceeds                           |      |
| Item 3.   | 15   |
| Defaults Upon Senior Securities   |      |
| Item 4.   | 15   |
| Submission of Matters to a Vote of Security Holders                                   |      |
| Item 5.   | 15   |
| Other Information   |      |
| Item 6.   | 15   |
| Exhibits  |      |
| SIGNATURES  |      |

PETROHUNTER ENERGY CORPORATION  
CONDENSED CONSOLIDATED BALANCE SHEETS

|  | March 31,<br>2011<br>(unaudited) | September 30,<br>2010 |
|--|----------------------------------|-----------------------|
| <b>ASSETS</b>  |                                  |                       |
| Current Assets   |                                  |                       |
| Cash and cash equivalents  | \$ 57,748                        | \$ 75,624             |
| Other receivables  | 44,064                           | 13,204                |
| Unrestricted marketable securities   | 410,000                          | 837,000               |
| Restricted marketable securities   | 800,000                          | 1,015,241             |
| Prepaid expenses and other assets  | 41,942                           | 164,441               |
| <b>TOTAL CURRENT ASSETS</b>  | <b>1,353,754</b>                 | <b>2,105,510</b>      |
| Property and Equipment, at cost  |                                  |                       |
| Furniture and equipment, net   | 2,664                            | 3,280                 |
|  | 2,664                            | 3,280                 |
| Other Assets   |                                  |                       |
| Restricted cash  | 130,600                          | 130,600               |
| Deposits and other assets  | 556                              | 676                   |
| <b>TOTAL ASSETS</b>  | <b>\$ 1,487,574</b>              | <b>\$ 2,240,066</b>   |
| <b>LIABILITIES AND STOCKHOLDERS' DEFICIT</b>                                   |                                  |                       |
| Current Liabilities  |                                  |                       |
| Accounts payable and accrued expenses  | \$ 2,681,594                     | \$ 2,372,433          |
| Notes payable — related party current portion                                  | 2,746,342                        | 2,722,060             |
| Convertible notes payable — current portion                                    | 717,873                          | 717,873               |
| Accrued interest payable   | 158,715                          | 116,773               |
| Accrued interest and fees payable — related parties                            | 100,000                          | 100,000               |
| Other accrued liabilities  | 7,273,331                        | 7,273,331             |
| Asset retirement obligation  | 137,007                          | 137,007               |
| <b>TOTAL CURRENT LIABILITIES</b>   | <b>13,814,862</b>                | <b>13,439,448</b>     |
| Notes payable – related party  | 40,759,000                       | 40,759,000            |
| Convertible notes payable  | 6,238,419                        | 6,238,419             |
| Accrued interest and fees payable – related parties                            | 4,315,025                        | 2,969,889             |
| Accrued interest payable   | 575,713                          | 310,576               |
| Asset retirement obligation  | 632,471                          | 632,471               |
| <b>TOTAL LIABILITIES</b>   | <b>66,335,490</b>                | <b>64,349,832</b>     |
| Commitments and Contingencies (Note 8)   |                                  |                       |
| Stockholders' Deficit  |                                  |                       |
| Preferred stock, \$0.001 par value; authorized 100,000,000 shares; none issued | —                                | —                     |

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Common stock, \$0.001 par value; authorized  
1,000,000,000 shares;  
439,078,759 shares issued and outstanding at  
March 31, 2011 and

|  |                |                |
|--|----------------|----------------|
| September 30, 2010, respectively               | 439,079        | 439,079        |
| Additional paid-in-capital                     | 223,311,556    | 223,281,330    |
| Other comprehensive income                     | 57,239         | 144,160        |
| Accumulated deficit                            | (288,655,790 ) | (285,974,335 ) |
| TOTAL STOCKHOLDERS' DEFICIT                    | (64,847,916 )  | (62,109,766 )  |
| TOTAL LIABILITIES AND STOCKHOLDERS'<br>DEFICIT | \$ 1,487,574   | \$ 2,240,066   |

See accompanying notes to these unaudited condensed consolidated financial statements.

PETROHUNTER ENERGY CORPORATION  
CONDENSED CONSOLIDATED STATEMENTS OF OPERATIONS  
(unaudited)

|   | Three Months<br>Ended<br>March 31,<br>2011 | Three Months<br>Ended<br>March 31,<br>2010 |
|---|--|--|
| Costs and Expenses  |  |  |
| General and administrative  | \$ 294,907                                 | \$ 504,886                                 |
| Depreciation, depletion, amortization and accretion                       | 308  | 28,901                                     |
| Total operating expenses  | 295,215                                    | 533,787                                    |
| (Loss) From Operations  | (295,215 )                                 | (533,787 )                                 |
| Other Income (Expense)  |  |  |
| Gains recognized in connection with sale of marketable securities         | 23,445                                     | 17,438                                     |
| Gains recognized in connection with debt restructure and debt forgiveness | —  | 307,208                                    |
| Interest income   | —  | 34   |
| Interest expense  | (1,012,448 )                               | (1,998,720 )                               |
| Other income (expense)  | —  | 87,036                                     |
| Total Other Expense   | (989,003 )                                 | (1,587,004 )                               |
| Net Loss  | \$ (1,284,218 )                            | \$ (2,120,791 )                            |
| Net loss per common share — basic and diluted                             | \$ (0.00 )                                 | \$ (0.01 )                                 |
| Weighted average number of common shares outstanding — basic and diluted  | 439,078,759                                | 396,826,963                                |

See accompanying notes to these unaudited condensed consolidated financial statements.

PETROHUNTER ENERGY CORPORATION  
 CONDENSED CONSOLIDATED STATEMENTS OF OPERATIONS  
 (unaudited)

|   | Six Months<br>Ended<br>March 31,<br>2011 | Six Months<br>Ended<br>March 31,<br>2010 |
|---|--|--|
| Costs and Expenses  |  |  |
| General and administrative  | \$ 623,903                               | \$ 1,321,435                             |
| Depreciation, depletion, amortization and accretion                       | 616                                      | 70,190                                   |
| Total operating expenses  | 624,519                                  | 1,391,625                                |
| (Loss) From Operations  | (624,519 )                               | (1,391,625 )                             |
| Other Income (Expense)  |  |  |
| Gains on recognized in connection with sale of marketable securities      | 4,087                                    | 163,865                                  |
| Gains recognized in connection with debt restructure and debt forgiveness | —  | 320,529                                  |
| Interest income   | 20                                       | 132                                      |
| Interest expense  | (2,061,043 )                             | (3,249,611 )                             |
| Other income (expense)  | —  | 120,603                                  |
| Total Other Expense   | (2,056,936 )                             | (2,644,482 )                             |
| Net Loss  | \$ (2,681,455 )                          | \$ (4,036,107 )                          |
| Net loss per common share — basic and diluted                             | \$ (0.01 )                               | \$ (0.01 )                               |
| Weighted average number of common shares outstanding — basic and diluted  | 439,078,759                              | 388,504,568                              |

See accompanying notes to these unaudited condensed consolidated financial statements.



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

|   | Six Months<br>Ended<br>March 31,<br>2011 | Six Months<br>Ended<br>March 31,<br>2010 |
|---|--|--|
| Cash flows from operating activities  |  |  |
| Net (loss)  | \$ (2,681,455 )                          | \$ (4,036,107 )                          |
| Adjustments used to reconcile net loss to net cash (used in) operating activities:          |  |  |
| Stock based compensation  | 30,226                                   | 99,710                                   |
| Depreciation, depletion, amortization and accretion   | 616                                      | 70,190                                   |
| Gain (loss) on sale of marketable securities  | 6,623                                    | (163,865 )                               |
| Non cash interest expense incurred in connection with debt restructure and debt forgiveness | —  | 779,182                                  |
| Gain on debt forgiveness  | —  | (320,529 )                               |
| Changes in assets and liabilities:  |  |  |
| Receivables   | 44,064                                   | 17,347                                   |
| Prepaid expenses and other assets   | 122,618                                  | 173,905                                  |
| Accounts payable and accrued expenses   | 1,940,437                                | 2,595,603                                |
| Due from related party  | (9,978 )                                 | -  |
| Net cash (used in) operating activities   | (546,849 )                               | (784,564 )                               |
| Cash flows from investing activities  |  |  |
| Proceeds from sale of marketable securities   | 528,973                                  | 600,515                                  |
| Net cash provided by investing activities   | 528,973                                  | 600,515                                  |
| Net increase (decrease) in cash and cash equivalents  | (17,876 )                                | (184,049 )                               |
| Cash and cash equivalents, beginning of period  | 75,624                                   | 236,044                                  |
| Cash and cash equivalents, end of period  | \$ 57,748                                | \$ 51,995                                |
| Supplemental schedule of cash flow information  |  |  |
| Cash paid for interest  | \$ —                                     | \$ —                                     |

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 periods presented. Results for interim periods 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, interest rates, the timing of acquisitions, 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, 2010.

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 contemplate 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, 2010 includes an explanatory paragraph relating to substantial doubt or uncertainty of our ability to continue as a going concern. As shown in the accompanying financial statements, we have an accumulated deficit of \$288,655,790 and our current assets exceeded our current liabilities by \$12,461,108 as of March 31, 2011.

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

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

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

**Fair Value** – We apply the provisions of FASB ASC 820, “Fair Value Measurements.” The carrying amounts reported in the consolidated balance sheets for cash, marketable securities, prepaid assets, accounts payable and accrued liabilities approximate fair value because of the immediate or short-term maturity of these financial instruments. Fair values of assets and liabilities measured on a recurring basis as of March 31, 2011 and September 30, 2010 included marketable securities, recorded at fair values of \$1,210,000 and \$1,852,241 respectively, which had quoted prices in active markets for identical assets (level 1) of \$1,210,000 and \$1,852,241, respectively.

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

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

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

**Property and Equipment** – Property and equipment are stated at cost and depreciated using the straight-line method over the estimated useful lives of the related assets approximating seven years.

**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.

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

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

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

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

#### Recently Issued Accounting Pronouncements

The Company has evaluated recent accounting pronouncements issued by the FASB (including its Emerging Issues Task Force), the American Institute of Certified Public Accountants (“AICPA”) and the SEC and we have not identified any that would have a material impact on the Company’s financial position, or statements.



Note 3 — Restricted Cash and Marketable Securities

As of March 31, 2011, long term restricted cash consists of \$130,600 in certificates of deposit and letters of credit for exploration permits, state and local bonds.

As of March 31, 2011, we have recorded \$1,210,000 in marketable securities on our Condensed Consolidated Balance Sheet, representing the 7,562,500 shares of Falcon Oil & Gas Ltd. (“Falcon”) common stock that we held on this date. 5,000,000 shares were restricted through various agreements wherein they had been pledged as collateral. As described in Note 2, we have accounted for these securities in accordance with FASB ASC 320, “Accounting for Certain Investments in Debt and Equity Securities.”

Note 4 — Equity Investment

As of March 31, 2011 and September 30, 2010, we held approximately 50,000,000 shares in Falcon Oil & Gas Australia Limited (“Falcon Australia”), a related party. We have accounted for this investment under the equity method. As of March 31, 2011 and September 30, 2010, our basis in this investment had been reduced to \$nil as the result of historical losses of \$164,506 recorded during the fiscal year ended September 30, 2010.

Note 5 — Share-Based Compensation

Common Stock Options - There were no material changes to common stock options from those disclosed in the audited annual consolidated financial statements for the year ended September 30, 2010.

Compensation Expense - Stock-based employee and non-employee compensation expense of \$15,113 and \$30,226 was charged to operations during the three and six months ended March 31, 2011. Stock-based compensation expense of \$32,533 and \$99,710 was charged to operations during the three and six months ended March 31, 2010. Stock-based compensation has been included in general and administrative expense in the consolidated statements of operations.

Note 6 — Common Stock Warrants

There were no material changes to common stock warrants from those disclosed in the audited annual consolidated financial statements for the year ended September 30, 2010.

The following stock purchase warrants were outstanding at March 31, 2011 and September 30, 2010 (warrants in thousands):

|                    | March 31,<br>2011 | September<br>30,<br>2010 |
|--------------------|-------------------|--------------------------|
| Number of warrants | 106,536           | 106,536                  |
| Exercise price     | \$0.12 - \$2.10   | \$0.12 - \$2.10          |
| Expiration date    | 2011 - 2014       | 2011 - 2014              |

Subsequent to March 31, 2011, 35,442,500 warrants to purchase our common shares expired. (Note 9)

Note 7 — Related Party Transactions

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Accounts Payable - As of March 31, 2011, included in accounts payable is approximately \$176,000 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, 2011, we have recorded both restricted and unrestricted marketable securities totaling \$1,210,000 in aggregate on our consolidated condensed balance sheet. These securities were received from a related party, Falcon.

Bruner Family Trust – As of March 31, 2011, we owed \$2,828,060 in principal and \$374,826 in accrued interest to the Bruner Family Trust related to seven outstanding notes payable. We have recognized interest expense in the amounts of \$24,606 and \$49,212 during the three and six months ended March 31, 2011 related to these notes. 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, 2011, we owed \$40,650,000 in principal and \$4,417,025 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 and six months ended March 31, 2011, we recorded interest expense in the amounts of \$815,979 and \$1,722,813 related to these various instruments.

#### Note 8 — 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, 2010.

#### Note 9 — Subsequent Events

The Company has evaluated subsequent events through the date the financial statements were issued. There were no items which would have materially impacted the Company's condensed consolidated financial statements except those below:

As of January 1, 2011 waivers of default received from a related party related to seven notes payable expired. As a result we were in default on five of the seven notes related to principal repayment and all seven notes related to failure to make interest payments.

Subsequent to March 31, 2011, 35,442,500 warrants to purchase our common shares expired.



## 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, 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 either directly or through an equity investment 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, 2011 and 2010 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.

### Company Overview for the three and six months ended March 31, 2011

Our net losses for the three and six months ended March 31, 2011 were \$1,284,218 and \$2,681,455 respectively. We had no revenues and continue to incur general and administrative and interest expense. During the three and six months ended March 31, 2010 we incurred net losses of \$2,021,791 and \$4,036,107, respectively.

### Comparison of the results of operations for the three and six months ended March 31, 2011 and March 31, 2010

#### Costs and Expenses

**General and Administrative.** During the three and six months ended March 31, 2011, general and administrative expenses amounted to \$294,907 and \$623,903, respectively, as compared to \$504,886 and \$1,321,435 respectively, in the corresponding 2010 periods. The decrease in general and administrative expenses in 2011 results from decreases in salaries, legal expenses, rent expense, share based compensation, travel and other miscellaneous expenses.

**Depreciation, Depletion, Amortization and Accretion.** Depreciation, depletion, amortization and accretion expense ("DD&A") was \$308 and \$616, respectively, for the three and six months ended 2011 as compared to \$28,901 and \$70,190 in the corresponding 2010 periods. Decreases in DD&A result from the fact that our property plant and equipment balances have decreased significantly due to the downsizing of our corporate offices, and based on the fact that our asset retirement obligations have been fully accreted.

Interest Expense. During the three and six months ended March 31, 2011 interest expense was \$1,012,448 and \$2,061,043, respectively, as compared to \$1,998,720 and \$3,249,611, respectively, in the corresponding 2010 periods. The decrease in interest expense relates to the fact that indices underlying interest rates attached to several

of our debt instruments decreased during fiscal 2011 and continue to remain at historical lows. In addition, we restructured our debt portfolio in March and April 2010, and as a result of this restructure the interest rates on the largest components of our debt portfolio were reduced.

### Going Concern

The report of our independent registered public accounting firm on the financial statements for the year ended September 30, 2010 includes an explanatory paragraph relating to the significant doubts about our ability to continue as a going concern. We have an accumulated deficit of \$288,655,790 and our current assets exceeded our current liabilities by \$12,461,108 as of March 31, 2011. We require significant additional funding to sustain our operations and satisfy our contractual obligations for our planned development 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 2011, we will focus on attempting to preserve remaining capital assets, while awaiting the outcome of the well in progress being drilled and other exploratory activities in the Beetaloo Basin project in Australia. These activities are being undertaken by our investee Falcon Australia. As of March 31, 2011, our remaining acreage in the Piceance Basin in Western Colorado was greatly reduced as a letter of intent we had executed with the intent of forming an LLC to explore opportunities on the prospect expired and the underlying leases related to the acreage reverted to the counterparties in the agreement.

### Liquidity and Capital Resources

During our most recent quarter ended March 31, 2011, 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, 2011.

Working Capital. As of March 31, 2011, we had a working capital deficit of \$12,461,108 and unrestricted cash of \$57,748, while at September 30, 2010 we had a working capital deficit of \$11,333,938 and cash of \$75,624. The decreases in working capital are primarily attributable to the fact that we have no revenues from operations and continue to incur expenses. 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, 2011 and 2010 were as follows:

|   | Six Months Ended<br>March 31, |               |
|---|-------------------------------|---------------|
|   | 2011                          | 2010          |
| Net cash (used in) operating activities   | \$ (546,849 )                 | \$ (784,564 ) |
| Net cash provided by investing activities | \$ 528,973                    | \$ 600,515    |

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, 2011 and 2010 was related to net proceeds received in connection with the sale of marketable securities.

Net Cash Provided by Financing Activities. We received no cash from financing activities for the six months ended March 31, 2011 and 2010.

## Financing

During the quarter ended March 31, 2011, we did not enter into any financing arrangements.

## 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, 2010 for the description of critical accounting policies and estimates,

## Recently Issued Accounting Pronouncements

The Company has evaluated recent accounting pronouncements issued by the FASB (including its Emerging Issues Task Force), the AICPA and the SEC and we have not identified any that would have a material impact on the Company's financial position, or statements.

## ITEM 3. QUANTITATIVE AND QUALITATIVE DISCLOSURES ABOUT MARKET RISK

### Foreign Currency Exchange Rate Risk

We hold equity investments in and 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. If our or our investee's oil and gas operations grow, 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 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

An evaluation was performed under the supervision and with the participation of the Company's management, including Martin B. Oring, the Company's President and Chief Executive Officer ("CEO"), and Paul D. Maniscalco the Company's Principal Accounting Officer ("PAO"), of the effectiveness of the design and operation of the Company's disclosure controls and procedures (as defined in Rule 13a-15(e) and Rule 15d-15(e) promulgated under the Securities and Exchange Act of 1934, the "Exchange Act") as of March 31, 2011. Based on this evaluation, the Company's CEO and PAO concluded that the Company's disclosure controls and procedures were effective such that the material information required to be included in the Company's SEC reports is recorded, processed, summarized and reported within the time periods specified in SEC rules and forms relating to the Company, including its consolidated subsidiaries, and the information required to be disclosed was accumulated and communicated to management as appropriate to allow timely decisions for disclosure.



### 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, 2011 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, 2011, the Company is not a party to any legal or administrative actions or proceedings.

### ITEM 1A. RISK FACTORS

Not required for smaller reporting companies.

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

None.

### ITEM 3. DEFAULTS UPON SENIOR SECURITIES

None.

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

None.

### ITEM 5. OTHER INFORMATION

The Company's independent auditor, Eide Bailly, LLP ("Eide Bailly") has recently advised the Audit Committee of PetroHunter's Board of Directors, that it identified an independence rule violation related to providing prohibited services. Eide Bailly was appointed independent auditor for the Company in February 2008. In October 2010, Eide Bailly assisted our Principal Accounting Officer in preparing and filing individual tax returns. The provision of these tax services was prohibited under PCAOB Rule 3523. In connection with the performance of these tax return preparation services, the employee of PetroHunter paid approximately \$1,200 directly to Eide Bailly. PetroHunter's Board/Audit Committee has considered the impact that providing these services may have had on Eide Bailly's independence with respect to its audit of PetroHunter's financial statements for the fiscal year ended September 30, 2010 and concluded that while an independence rule violation occurred, at no time was there an impairment of its objectivity and integrity with respect to the audit of PetroHunter's financial statements for the fiscal year ended September 30, 2010.

### 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

Date: May 12, 2011

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

Date: May 12, 2011

EXHIBIT INDEX

| Regulation<br>S-K Number | Exhibit  |
|--------------------------|--|
| 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<br>Adopted Pursuant to Section 906 of the Sarbanes-Oxley Act Of 2002 |