PetroHunter Energy Corp
Form 10-K
January 13, 2010

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

Form 10-K

(Mark One)

þ	ANNUAL REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934 For the fiscal year ended September 30, 2009
	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

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

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

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

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

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

Indicate by check mark whether the registrant has submitted electronically and posted on its corporate Web site, if any, every Interactive Data File required to be submitted and posted pursuant to Rule 405 of Regulation S-T during the preceding 12 months (or for such shorter period that the registrant was required to submit and post such files).
¨ Yes ¨ No (not required)

Indicate by check mark if disclosure of delinquent filers pursuant to Item 405 of Regulation S-K (§ 229.405 of this chapter) is not contained herein, and will not be contained, to the best of registrant's knowledge, in definitive proxy or information statements incorporated by reference in Part III of this Form 10-K or any amendment to this Form 10-K. ¨

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

Large accelerated filer ¨	Accelerated filer ¨
Non-accelerated filer ¨	Smaller reporting company þ

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

State the aggregate market value of the voting and non-voting common equity held by non-affiliates computed by reference to the price at which the common equity was last sold, or the average bid and asked price of such common equity, as of the last business day of the registrant's most recently completed second fiscal quarter: $3,525,943 as of March 31, 2009.

As of December 31, 2009, the registrant had 380,468,544 shares of common stock outstanding.

FORWARD-LOOKING STATEMENTS

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

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

CURRENCIES

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

GLOSSARY

Certain Definitions

Terms used to describe quantities of oil and natural gas and marketing

- Bbl — 42 U.S. gallons liquid volume, of crude oil or other liquid hydrocarbons.
- BOE— One barrel of oil equivalent, converting natural gas to oil at the ratio of 6 Mcf of natural gas to 1 Bbl of oil.
- MBbl — One thousand barrels.
- Mcf — One thousand cubic feet of natural gas.
- Mcfe— One thousand cubic feet of natural gas equivalent, converting oil or condensate to natural gas at the ratio of 1 Bbl of oil or condensate to 6 Mcf of natural gas.
- MMcf — One million cubic feet of natural gas.
- MBOE — One thousand BOE.

Terms used to assign a present value to the Company's reserves

- Standardized measure of discounted future net cash flows, after income taxes — The present value, discounted at 10%, of the after-tax future net cash flows attributable to estimated net proved reserves. The Company calculates this amount by assuming that it will sell the oil and natural gas production attributable to the proved reserves estimated in its independent engineer's reserve report for the oil and natural gas spot prices on the last day of the year, adjusted for quality and transportation. The Company also assumes that the cost to produce the reserves will remain constant at the costs prevailing on the date of the report. The assumed costs are subtracted from the assumed revenues resulting in a stream of future net cash flows. Estimated future income taxes, using rates in effect on the date of the report, are deducted from the net cash flow stream. The after-tax cash flows are discounted at 10% to result in the standardized measure of the Company's proved reserves.

- Standardized measure of discounted future net cash flows before income taxes — The discounted present value of proved reserves is identical to the standardized measure described above, except that estimated future income taxes are not deducted in calculating future net cash flows. The Company discloses the discounted present value without deducting estimated income taxes to provide what it believes is a better basis for comparison of its reserves to the producers who may have different income tax rates.

Terms used to classify the Company's reserve quantities

The Securities and Exchange Commission ("SEC") definition of proved oil and natural gas reserves, per Regulation S-X, is as follows:

- Proved oil and natural gas reserves — Proved oil and natural gas reserves are the estimated quantities of crude oil, natural gas, and natural gas liquids which geological and engineering data demonstrate with reasonable certainty to be recoverable in future years from known reservoirs under existing economic and operating conditions, i.e., prices and costs as of the date the estimate is made as defined in Rule 4-10(a)(2).

Prices include consideration of changes in existing prices provided only by contractual arrangements, but not on escalations based upon future conditions.

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- Proved developed reserves —Proved reserves that can be expected to be recovered through existing wells with existing equipment and operating methods as defined in Rule 4-10(a)(3).

- Proved undeveloped reserves —Proved reserves that are expected to be recovered from new wells on undrilled acreage, or from existing wells where a relatively major expenditure is required as defined in Rule 4-10(a)(4).

Terms used to describe the legal ownership of the Company’s oil and natural gas properties

- Working interest — A real property interest entitling the owner to receive a specified percentage of the proceeds of the sale of oil and natural gas production or a percentage of the production, but requiring the owner of the working interest to bear the cost to explore for, develop and produce such oil and natural gas. A working interest owner who owns a portion of the working interest may participate either as operator or by voting its percentage interest to approve or disapprove the appointment of an operator and drilling and other major activities in connection with the development and operation of a property.

PETROHUNTER ENERGY CORPORATION

FORM 10-K

FOR THE FISCAL YEAR ENDED
SEPTEMBER 30, 2009
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PART I

ITEM 1. BUSINESS

General

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

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

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

In October 2006, GSL Energy Corporation changed its name to PetroHunter Operating Company. In March 2006, GSL acquired a 50% interest in four exploration permits held by Sweetpea Corporation Pty Ltd. ("Sweetpea"), an Australian corporation; and effective January 1, 2007, we acquired 100% of the common shares of Sweetpea from MAB Resources, LLC ("MAB"), a Delaware limited liability company which is also in the business of oil and gas exploration and development, and is our largest shareholder. Sweetpea is the record owner of four exploration permits issued by the Northern Territory of Australia. On October 20, 2006, PetroHunter formed PetroHunter Energy NT Ltd., also known as PetroHunter Australia Ltd. ("PetroHunter Australia") for the purpose of holding and developing its assets in Australia, but no assets were assigned into PetroHunter Australia. In May 2007, we approved the dissolution of PetroHunter Australia.

Through September 30, 2009 Sweetpea has sold 75% of its original 100% working interest to Falcon Oil & Gas Australia Pty Ltd ("Falcon Australia"). PetroHunter currently owns a 25% working interest in the four exploration permits covering 7 million acres in Australia, including one well (known as the Beetaloo Basin Project), and a 100% working interest in leases covering 20,000 acres and ten wells in the Piceance Basin in Western Colorado. These oil and gas wells have not yet commenced oil and gas production.

During fiscal 2010, Sweetpea began the process of selling its remaining 25% working interest in the Beetaloo Basin project in Australia to Falcon Australia in order to consolidate the interest in this property to facilitate its further financing. In consideration, Sweetpea will receive 25% of the shares in Falcon Australia, which currently owns the other 75% working interest and operates the project (See Note 14 - Subsequent Events of the Notes to Consolidated Financial Statements included in Item 8. Financial Statements and Supplementary Data).

Our annual report on Form 10-K, quarterly reports on Form 10-Q, and current reports on Form 8-K, as well as any amendments to such reports and all other filings pursuant to Section 13(a) or 15(d) of the Securities Exchange Act of 1934 are available free of charge to the public on the Company's website at www.petrohunter.com. To access the Company's SEC filings, select "SEC FILINGS" under the INVESTOR RELATIONS tab on the Company's website. You may also request a copy of these filings at no cost by making written or telephone requests for copies to our principal executive offices at PetroHunter Energy Corporation, Investor Relations, 1600 Stout Street, Suite 450, Denver, CO 80202. The telephone number is (303) 572-8900 and the facsimile number is (303) 893-4838. Our

periodic and current reports filed with the SEC can be found on our website and on the SEC's website at www.sec.gov.

Business Strategy

During the period ended September 30, 2009, we continued to focus our efforts in two core properties: the Beetaloo Basin in Australia and the Piceance Basin, of Western Colorado. We also focused on improving our liquidity. We sold additional working interests in the Beetaloo Basin and the Piceance Basin to Falcon Oil & Gas Ltd. ("Falcon"), a related party, as follows. In September 2008, we closed on an agreement with Falcon to sell a 50% working interest in the Beetaloo Basin and sold an additional 25% working interest in the Beetaloo Basin to Falcon in June 2009. In August 2008, we closed a transaction with Falcon selling a 25% working interest in five wells located within our 20,000-acre Buckskin Mesa Project located in the Piceance Basin, in Western Colorado. As a component of this sale Falcon had an option to purchase an additional 50% interest in these wells. In February 2009, Falcon decided not to pursue this project or participate in the purchase of an additional 50% interest. As a result of Falcon's election, in accordance with our agreements, Falcon assigned the 25% working interest back to us. We are in the process of pursuing other potential partners in relation to our Buckskin Mesa Project.

Australia

Beetaloo Basin Project

As of September 30, 2009, Sweetpea, our wholly-owned Australian subsidiary, owned a 25% non-operated working interest in four exploration permits in the Northern Territory, comprising the Beetaloo Basin Project, operated by Falcon. Sweetpea participated in the deepening of the Shenandoah #1A during the year ended September 30, 2009. During September 2007, Sweetpea had drilled that well (as 100% working interest owner and operator as the Shenandoah #1) to a total depth of 1,555 meters (4,740 feet). We are very encouraged with the results of the logging program that was conducted after the well was deepened to 2,714 meters (8,904 feet), and we plan further testing/deepening activities for 2010.

We have also applied for two additional exploration permits in the Northern Territory in Australia covering an additional 1.5 million acres that are adjacent to our Beetaloo Basin Project acreage. We continue to await the outcome of the application for these permits.

Northwest Shelf Project

In March 2007, Sweetpea acquired Exploration Permit #WA-393-P in the Barrow Sub-Basin of the Carnavon Basin on the Northwest Shelf of Australia. Sweetpea did not carry out the required work program associated with this permit and this permit was cancelled during the year ended September 30, 2009.

Piceance Basin, Colorado

Buckskin Mesa Project

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

Per the agreement with DPC we were required to drill 5 additional wells by July 31, 2009, or pay DPC $2 million, or return these leases to DPC. We did not drill these additional five wells. Global Project Finance AG ("Global") holds a

first lien on this leasehold interest as described in Note 8 – Notes Payable, in the Notes to Consolidated Financial Statements included in Item 8. Financial Statements and Supplementary Data. We are in the process of negotiating a mutually agreeable alternative to assigning the leases back with Daniels in order to be able to further explore for oil and gas on this leasehold interest. We are not able to determine if these negotiations will be successful. We are in the process of evaluating other alternatives to further explore this leasehold interest in conjunction with these negotiations.

Financing Strategy

During the year ended September 30, 2009, we completed several asset sale transactions with Falcon that were entered into to reduce cash requirements for capital expenditures, to improve working capital, and to provide available funds to attempt to complete our Buckskin Mesa Project wells.

Marketing and Pricing

We have historically derived our revenues principally from the sale of natural gas and associated condensate production from wells operated by us and others in the Piceance Basin, in Western Colorado. Our revenues have been determined, to a large degree, by prevailing natural gas prices for production situated in the Rocky Mountain Region of the United States, specifically, Colorado. Energy commodity prices in general, and the Company's regional prices in particular, have been highly volatile in the past, and such high levels of volatility are expected to continue in the future. We cannot predict or control the market prices for the sale of our natural gas, condensate, or oil production.

Natural Gas Marketing

Historically, we have sold all of our natural gas production to a diverse group of third-party, non-affiliated entities in a portfolio of transactions of various durations and prices (daily, monthly and longer term), under a marketing agreement with EnCana, who was the operator of our 8 producing gas wells that we sold effective December 1, 2008. As of September 30, 2009, we are not producing or selling any natural gas.

Competition

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

Employees

At September 30, 2009, we had 4 full time equivalent employees. In addition, we utilized the services of 1 full time consultant. Our employees are not covered by a collective bargaining agreement.

Environmental Regulation

Our exploration, drilling and production activities from wells and natural gas facilities, including the operation and construction of pipelines, plants and other facilities for transporting, processing, treating or storing oil, natural gas and other products are subject to stringent federal, state and local laws and regulations governing environmental quality, including those relating to oil spills and pollution control, that are constantly changing. Although such laws and regulations can increase the cost of planning, designing, installing and operating such facilities, it is anticipated that, absent the occurrence of an extraordinary event, compliance with existing federal, state and local laws, rules and regulations governing the release of materials in the environment or otherwise relating to the protection of the environment, will not have a material effect upon our business operations, capital expenditures, operating results or competitive position.

ITEM 1A. RISK FACTORS

Risks Related to Our Business

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

The report of our independent registered public accounting firm on the financial statements for the years ended September 30, 2009 and 2008 includes an explanatory paragraph relating to significant doubt or uncertainty of our ability to continue as a going concern. We have an accumulated deficit of $279 million as of September 30, 2009 and generated losses of $130 million for the year then ended. For the 2010 fiscal year, we do not expect our operations to generate sufficient cash flows to provide working capital to pay overhead expenses, the funding of our lease acquisitions, and the exploration and development of our properties. Without adequate financing, we may not be able to successfully develop prospects that we have, and we may not achieve profitability from operations in the near future or at all.

As a result of severe cash flow constraints, we have experienced substantial difficulties in meeting our short term cash needs, particularly in relation to our past due financing and vendor commitments. Substantially all of our assets are pledged, and extreme volatility in energy pricing and a deteriorating global economy are creating great difficulties in the capital markets and have greatly hindered our ability to raise debt and/or equity capital. Further, as the result of a series of asset sale transactions, we no longer have proven reserves, which will increase our difficulties in obtaining any financing. During the year ended September 30, 2009 we have obtained minimal debt financing from related parties which we expect will not continue in the near future. We have a $64.9 million working capital deficit as of September 30, 2009, and substantially all of our current assets are concentrated in marketable equity securities we received in conjunction with the sale of a total of 75% of our working interest in our Australian assets to a related party. Those securities have experienced a dramatic decline in value and the price of these securities remains highly volatile.

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

During the years ended September 30, 2009 and 2008, we experienced significant dispositions of assets, both in sale transactions and as a result of our inability to maintain certain financial commitments. These dispositions of non-core assets have resulted in our development risks being concentrated in two primary projects in Australia and Colorado, which are both undeveloped and at this stage without proved reserves associated with them.

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

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

Two related parties control a significant percentage of our outstanding common stock, which may enable them to control many significant corporate actions and may prevent a change in control that would otherwise be beneficial to

our stockholders.

Entities controlled by Marc A. Bruner and Christian Russenberger beneficially owned approximately 25.3% and 14.5%, respectively, of our common stock as of December 31, 2009. The control and/or significant influence held by such entities may have a substantial impact on matters requiring the vote of common shareholders, including the election of our directors and most of our corporate actions. Such control could delay, defer or prevent others from

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initiating a potential merger, takeover or other change in control that might benefit us and our shareholders. Such control could adversely affect the voting and other rights of our other shareholders and could depress the market price of our common stock.

Marc A. Bruner is the controlling owner of MAB Resources, LLC. Mr. Bruner serves as chairman of the board, chief executive officer and president of Falcon, a company whose stock is traded on the TSX Venture Exchange, and our partner in our primary exploration and development projects.

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

Our convertible debentures could significantly dilute the interests of shareholders.

In November 2007, we issued convertible debentures in the aggregate principal amount of approximately $7.0 million. The debentures are convertible into shares of our common stock at any time prior to their maturity dates at a conversion price of $0.15, subject to adjustments for stock splits, stock dividends, stock combinations and other similar transactions. The conversion prices of the convertible debentures could be further lowered, perhaps significantly, in the event of our issuance of common stock below the convertible debentures' conversion price, either directly or in connection with the issuance of securities that are convertible into, or exercisable for, shares of our common stock.

In addition, to date we have issued five-year warrants to the holders of the convertible debentures. The warrant holders are entitled to purchase an aggregate of 52.2 million shares of our common stock at exercise prices ranging from $0.12 to $0.28 per share, inclusive of warrants issued in consideration of certain waivers and amendments during our fiscal year ended September 30, 2009. Both the number of warrants and the exercise price are subject to potential adjustments which could result in further dilution to our stockholders.

Neither the convertible debentures nor the warrants establish a "floor" that would limit reductions in the conversion price of the convertible debentures or the exercise price of the warrants that may occur under certain circumstances. Correspondingly, there is no "ceiling" on the number of shares that may be issuable under certain circumstances under the anti-dilution adjustment in the convertible debentures and warrants. Accordingly, our issuance of the convertible debentures and warrants could significantly dilute the interests of our shareholders.

Our failure to satisfy our registration, listing and other obligations with respect to the common stock underlying the warrants issued to our convertible debenture holders could result in adverse consequences, including acceleration of the convertible debentures.

We are required to file a registration statement, and to have it become effective, to cover the resale of the common stock underlying the warrants, until the earlier of the date the underlying common stock may be resold pursuant to Rule 144 under the Securities Act of 1933 without any type of restriction or the date on which the sale of all of the underlying common stock is completed, subject to certain exceptions. We will be subject to various penalties for failing to meet our registration obligations, which include cash penalties and the forced redemption of the convertible debentures.

We are obligated to make significant periodic payments of interest on our portfolio of debt.

We are currently obligated to pay annual interest of approximately $5.0 million. Currently, we are not able to make these interest payments and we are in the process of renegotiating these terms. We have pledged or secured our assets in respect to these obligations.

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

As of September 30, 2009, we have issued warrants and options to purchase a total of 172.3 million shares of common stock. The issuance of shares upon exercise of warrants and options may result in significant dilution to the interests of our existing stockholders.

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

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

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

We depend on the performance of our executive officers and key employees. The loss of any member of our senior management or other key employees could negatively impact our ability to execute our strategy. We do not maintain key person life insurance policies on any of our employees.

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

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

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

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

We have found material weaknesses in our internal controls that require remediation and concluded that our internal controls over financial reporting at September 30, 2009, were not effective.

As we discuss in Part II, Item 9A(T), “Controls and Procedures”, of this Form 10-K, we have determined that we continue to have deficiencies, including material weaknesses, in our internal control over financial reporting as of September 30, 2009.

We are subject to various risks associated with our Australian operations.

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

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

- potential difficulties in our ability to expatriate cash and/or assets to the U.S.

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

Risks Relating to the Oil and Gas Industry

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

- A substantial or extended decline in natural gas and oil prices may adversely affect our ability to meet our capital expenditure obligations and financial commitments.

- Drilling for and producing natural gas and oil are high-risk activities with many uncertainties that could adversely affect our business, financial condition or results of operations.

- Competition in the oil and gas industry is intense, and many of our competitors have greater financial, technological and other resources than we do, which may adversely affect our ability to compete.

- Our industry is heavily regulated which increases our cost of doing business and decreases our profitability.

- Our operations must comply with complex environmental regulations that may have a material adverse effect on our business.

Risks Related to Our Common Stock

We are subject to various risks in respect to our Common Stock, summarized as follows:

- Our stock price and trading volume may be volatile, which could result in losses for our stockholders.

- Our common stock may not meet the criteria necessary to qualify for listing on one or more particular stock exchanges on which we seek or desire a listing. Even if our common stock does meet the criteria, it is possible that our common stock will not be accepted for listing on any of these exchanges.

- Our common stock may be thinly traded, and therefore, an investor may not be able to easily liquidate his or her investment.

- We have not and do not anticipate paying dividends on our common stock.

ITEM 1B. UNRESOLVED STAFF COMMENTS

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

ITEM 2. PROPERTIES

Location and Characteristics

Our headquarters are located at 1600 Stout Street, Suite 450, Denver, Colorado, 80202. The lease for this office space of approximately 3,800 square feet has a term expiring September 1, 2014. The annual rent is approximately $0.2 million, including adjustments for inflation and expenses, as well as termination fees for additional square footage we had leased through September 1, 2009. We no longer occupy that space.

Currently, we own oil and gas leases in Colorado, where we own ten wells on our Buckskin Mesa property (20,000 gross and net acres), and in the Northern Territory in Australia, where we own a 25% working interest in the Beetaloo Basin project (7,000,000 gross and 1,750,000 net acres), including one well. The wells on these properties have not yet commenced oil and gas production. In fiscal 2008, we owned working interests in eight natural gas wells in Colorado which were operated by EnCana Oil & Gas USA ("EnCana"). These interests were sold to a third party in December 2008. We also owned other undeveloped acreage in Montana and Western Colorado in fiscal 2008. This acreage has been sold or the underlying leases have expired.

Plan of Operations

In fiscal 2010, we will focus on executing and implementing a financing strategy with Falcon Australia for our Beetaloo Basin project in Australia in order to further explore and develop this acreage, as well as to pursue opportunities to further explore our Buckskin Mesa acreage. We will continue to reduce operating costs and attempt to reduce/renegotiate our debt, accounts payable and other liabilities, and potentially acquire additional properties.

Oil and Gas Reserves

The following table is a summary of our oil and gas reserves. For the year ended September 30, 2008, the reserves are presented as estimated by independent petroleum engineers Gustavson Associates, LLC. For the year ended September 30, 2009, the Company did not engage Gustavson or any other independent petroleum engineers and has presented its internal estimates for that period ($'s in thousands unless volumetric unit or per volumetric unit):

	Year Ended September 30,			
	2009		2008	
Proved Undeveloped Reserves				
Natural gas (MMcf)		—		16,504
Oil (MBbl)		—		5
Proved Developed Reserves				
Natural gas (MMcf)		—		3,310
Oil (MBbl)		—		2
Total Proved Reserves (MMcfe)		—		19,856
Estimated future net cash flows, before income tax	$	—	$	33,739
Standardized measure of discounted future net cash flows, before income taxes	$	—	$	8,357
Future income tax		—		—
Standardized measure of discounted future net cash flows, after income taxes	$	—	$	8,357
Calculated weighted average prices per unit				
Gas ($/Mcf)	$	—	$	3.36
Oil ($/Bbl)	$	—	$	79.47

Production Volumes, Average Sales Prices and Average Production Costs

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

	Year ended September 30,					
	2009		2008		2007	
Production Data:						
Natural gas (Mcf)		66,527		286,474		456,740
Oil (Bbl)		74		348		137
Average Prices:						
Natural gas (per Mcf)	$	5.43	$	6.82	$	6.16
Oil (per Bbl)	$	37.35	$	111.80	$	52.40
Production Costs:						
Lease operating expenses (per Mcfe)	$	8.82	$	2.79	$	1.73

Productive Wells

As of September 30, 2009 we do not have any producing wells.

Oil and Gas Drilling Activities

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

During the fiscal year ended September 30, 2008, we drilled 2 gross wells and 2 net wells as follows: the Lake 6-22 well in the Buckskin Mesa Project in Colorado, and the Shenandoah #1 well in the Beetaloo Basin in Australia.

Oil and Gas Interests

As of September 30, 2009, we owned interests in the following undeveloped acreage positions. Undeveloped acreage refers to acreage that has not been placed in production.

	Undeveloped	
	Gross Acres	Net Acres
Location		
Colorado	20,000	20,000
Australia	7,000,000	1,750,000
Total	7,020,000	1,770,000

Impairment of Oil and Gas Properties

Costs capitalized for properties accounted for under the full cost method of accounting are subjected to a ceiling test limitation to the amount of costs included in the cost pool by geographic cost center. Costs of oil and gas properties may not exceed the ceiling which is an amount equal to the present value, discounted at 10%, of the estimated future net cash flows from proved oil and gas reserves plus the cost, or estimated fair market value, if lower, of unproved properties. Should capitalized costs exceed this ceiling, impairment expense equal to the costs exceeding the ceiling is recognized. As the Company does not have available capital to develop the U.S. properties the entire U.S. Full Cost Pool has been written down to $0.0 million as of September 30, 2009. During the fiscal years ended September 30, 2009 and 2008, we recorded impairment expense of $90.4 million and $30.8 million, respectively.

Depreciation, Depletion, Amortization and Accretion

Depreciation, depletion, amortization and accretion expense was $0.2 million in 2009 and $1.2 million in 2008.

ITEM 3. LEGAL PROCEEDINGS

As of September 30, 2009, there are no legal proceedings filed or threatened (to our knowledge) against or involving the Company.

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

None.

PART II

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

Market Information

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

Quarter Ended	High	Low
December 31, 2007	$0.31	$0.15
March 31, 2008	$0.25	$0.12
June 30, 2008	$0.30	$0.15
September 30, 2008	$0.24	$0.11
December 31, 2008	$0.13	$0.06
March 31, 2009	$0.15	$0.01
June 30, 2009	$0.04	$0.02
September 30, 2009	$0.04	$0.01

On December 30, 2009, the last sale price for our common stock was $0.02.

Holders and Dividends

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

As of December 31, 2009, there were 220 record holders of our common stock.

Recent Sales of Unregistered Securities

None.

ITEM 6. SELECTED FINANCIAL DATA

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

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

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

Results of Operations - Year Ended September 30, 2009 versus Year Ended September 30, 2008

Oil and Gas Revenues – Oil and gas revenues were $0.1 million and $2.0 million for the fiscal years ended September 30, 2009 and 2008, respectively, which represents a decline of $1.9 million or 95%. Oil and gas revenues decreased

as we sold our only producing wells effective as of December 1, 2008.

Costs and Expenses

General and Administrative – During 2009, general and administrative expenses were $7.8 million as compared to $10.7 million in fiscal 2008, representing a decrease of $3.0 million or 28%. The following table highlights significant general and administrative expenses for the respective periods ($ in thousands):

	Period Ending September 30,			
	2009	2008	Change	
Payroll	$2,193	$2,572	$(379)	(15)%
Consulting fees	551	1,936	(1,385)	(72)%
Stock - based compensation expense	2,942	3,276	(334)	(10)%
Legal	355	906	(551)	(61)%
Travel	22	224	(202)	(90)%
Investor relations	79	250	(171)	(68)%
Insurance	464	575	(111)	(19)%
Office	320	314	6	2%
Other	833	689	144	21%
Total	$7,759	$10,742	$(2,983)	

Payroll Expense – Declined $0.4 million to $2.2 million, from $2.6 million in 2008. This 15% decline was attributable to the termination of a large percentage of our workforce on March 31, 2009. These reductions were offset by additional compensation paid to executive and officers during the year, including one time awards of stock. As of September 30, 2009, the rightsizing of our labor force was essentially complete as we had reduced the workforce from 30 full time equivalents as of March 31, 2009 to four full time equivalents and one full time consultant. We anticipate payroll expense in fiscal 2010 to be nominal in comparison to prior fiscal periods.

Consulting Fees – Declined $1.4 million or 72% due to the Company's cost reduction efforts and lower activity levels.

Stock-Based Compensation - Decreased to $2.9 million in 2009 from $3.3 million in 2008, a decrease of $0.4 million. This 10% decrease results from fewer grants of options during the period, coupled with grants issued being valued at a lower intrinsic value resultant from significant declines in the value of our common stock. Additionally, the Board of Directors approved the extension of the terms of many of the employees of the Company who were terminated in March 31, 2009. Accordingly, a one-time expense was realized related to this extension during the period. We anticipate stock-based compensation expense in fiscal 2010 to be nominal in comparison to prior fiscal periods.

Legal Fees – Decreased to $0.4 million in 2009 from $0.9 million in 2008, a decrease of $0.5 million. This 61% decrease is primarily attributable to efforts to reduce the use of outside legal services in 2009, coupled with fewer equity and property related transactions. We anticipate legal expense in fiscal 2010 to be less in comparison to prior fiscal periods.

Travel Costs – Decreased to $0.0 million in 2009 from $0.2 million in 2008. This 90% decrease results from our conscious efforts to manage costs.

Investor Relations – Decreased to $0.1 million in 2009 from $0.3 million in 2008. This 68% decrease is due primarily to our focus on expense management.

Insurance, Office, and Other – Remained at $1.6 million per year, for both 2009 and 2008.

Lease Operating Expenses – Lease operating expenses decreased $0.2 million from $0.8 million in 2008 to $0.6 million in 2009. This decrease is primarily attributed to property sales.

Impairment of Oil and Gas Properties – During the year ended September 30, 2009, we recorded impairment expense of $90.4 million, and during the year ended September 30, 2008, we recorded an impairment of $30.8

million, an increase of $59.6 million or 194%. The increase was due to the impairment of the remaining book value of the U.S. full cost pool due to unsuccessful exploration activity and the Company's inability to fund additional exploration.

Impairment expense recorded in 2008 was primarily attributable to oil and gas properties that were subsequently sold.

Depreciation, Depletion, Amortization and Accretion – Depreciation, depletion, amortization and accretion expense was $0.2 million in 2009 and $1.2 million in 2008, respectively. This decrease is attributable to decreases in production volumes related to the sale of our producing properties in December 2008.

Gains (Losses) on Conveyances of Property – During 2009, we completed several significant asset sales, which resulted in our recognizing net gains of $2.5 million in accordance with the full cost accounting rules. During our first quarter ended December 31, 2008, we sold our eight producing wells and realized net proceeds of $2.3 million. The disposition of these assets was significant in relation to our U.S. full cost pool, and therefore, we were required to evaluate whether the transaction had significantly altered the relationship between our capitalized costs and proved reserves, which could cause us to recognize a loss under the full cost pool accounting rules. Accordingly, our evaluation resulted in our recognition of a $0.2 million loss on conveyance during the quarter ended December 31, 2008. Similarly, during our third quarter ended June 30, 2009, we sold an additional 25% of our exploration licenses and permits in the Beetaloo Basin. This transaction was considered a recoup of expenses and caused us to write down the remaining balances in the Australian full cost pool to $0 and we recorded a gain on the conveyance of $2.7 million. During fiscal 2008, we sold our Heavy Oil Project and our Southern Piceance property, and we recorded losses on conveyance of $11.9 million and $8.6 million, respectively.

Interest Expense – During 2009, interest expense was $16.2 million in comparison to $11.2 million incurred in 2008. The $5.0 million net increase in interest expense, or 45%, primarily relates to charges of $9.8 million including $1.4 million for the amortization of deferred financing costs, and $8.6 million for the amortization of debt discount and beneficial conversion feature. These charges were increased significantly during the current period as we deemed that the underlying debt instruments would not be held to maturity and or be repaid in cash, and therefore the related amortization and accretion charges were accelerated during the period. (See Note 8 - Notes Payable, of the Notes to Consolidated Financial Statements included in Item 8. Financial Statements and Supplementary Data).

Net Loss – Our net loss of $129.7 million in 2009 compared to the loss of $76.9 million in 2008 represents an increase of $52.8 million or 68.7%, as a result of the factors above, primarily impairment.

Going Concern

The report of our independent registered public accounting firm on the financial statements for the years ended September 30, 2009 and 2008 includes explanatory paragraphs relating to substantial doubt or uncertainty of our ability to continue as a going concern. We have generated a cumulative net loss of $279.2 million, and we have a working capital deficit of $64.9 million as of September 30, 2009. For our 2010 fiscal year, we expect that we will be able to fund, on a very limited basis, overhead expenses from the proceeds of sales of our Falcon shares. We do not believe we will be investing cash in our properties in the foreseeable future. Our ability to establish ourselves as a going concern is dependent upon our ability to obtain additional funding in order to finance our planned operations. Further, our outstanding debentures (as further explained in Note 8 - Notes Payable of the Notes to Consolidated Financial Statements included in Item 8. Financial Statements and Supplementary Data) are in technical default. Management continues to negotiate with the Company's creditors. However, our ability to establish ourselves as a going concern is dependent upon our ability to either refinance our currently outstanding obligations or obtain additional funding and there are no assurances either of these can occur in the forseeable future.

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Schedule of Contractual Commitments

The following table summarizes the Company's obligations and commitments to make future payments under its notes payable, operating leases, employment contracts, consulting agreements and service contracts for the periods specified as of September 30, 2009 ($ in thousands):

	Payments Due by Period			
Contractual Obligations	Total	Less Than 1 Year	1-3 Years	3-5 Years
Office lease	$ 632	$ 176	$ 255	$ 201

Plan of Operation

Colorado

In fiscal year 2010 we will continue to focus on exploring alternative financing and/or working interest partners to further explore on our Buckskin Mesa prospect.

Australia

During fiscal 2010 we plan to continue to seek ways to finance the exploration and development in the Beetaloo Basin project area located in Australia, through Falcon Australia.

Liquidity and Capital Resources

Our most recent year ended September 30, 2009 continued to be a year of significant transition for us. Our cash flows from operations continued to be insufficient for us to meet our operating commitments. Given these circumstances, our primary goal during 2009 was to ensure liquidity to continue in existence, and further our exploration activities, on a limited basis, on our remaining properties. We continued to seek financing transactions, and to seek development partners for our Buckskin Mesa Project in Colorado and our Beetaloo Basin Project in Australia.

We completed the sale of the following interests in our properties pursuant to a purchase and sale agreement with Falcon dated August 25, 2008: (a) an undivided 50% working interest in four exploration permits in the Beetaloo Basin, Australia, which closed on September 30, 2008 and yielded net cash proceeds of $5.0 million and securities in the common stock of Falcon valued at $14.1 million as of September 30, 2008; and (b) an undivided 25% working interest in the five wells drilled in Buckskin Mesa, including the 40-acre tract surrounding each well, which closed on November 10, 2008, in exchange for a $7.0 million cash work commitment to complete certain of these wells. In addition, in December 2008, we completed the sale of our working interests in our eight producing wells operated by EnCana Oil & Gas (USA), Inc., for net cash proceeds of $2.3 million.

In addition, as part of the Purchase and Sale Agreement with Falcon relating to our Buckskin Mesa property, Falcon obtained an option to acquire up to a 50% interest in our entire Buckskin Mesa Project, for total consideration of $28.5 million in cash or shares of Falcon common stock, and an $18.0 million work commitment ($9.0 million of which would be a carried interest for us). Further, Falcon had the option to elect to become the operator of the Buckskin Mesa Project for an additional payment of $3.5 million. In February 2009, Falcon elected not to exercise its option to acquire additional interests in the Buckskin Mesa. In June 2009, we sold an additional 25% interest in our four exploration permits in the Beetaloo Basin located in the Northern Territory of Australia to Falcon. In consideration, we received relief of a $5.0 million note payable to Falcon, as well as relief of $1.2 million in accounts payable related to the prospect, and the remaining restrictions on our Falcon shares which had secured the note payable were lifted,

subject to our escrow agreement with Falcon.

Working Capital

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

As of September 30, 2009, we had a working capital deficit of $64.9 million and a cash balance of $0.2 million. As of September 30, 2008, we had working capital deficit of $3.9 million and cash of $1.0 million; accordingly our working capital deficit increased by $61 million during 2009.

Cash Flow – Year Ended September 30, 2009 versus Year Ended September 30, 2008

Net cash used in or provided by operating, investing and financing activities for the years ended September 30, 2009 and 2008 were as follows ($ in thousands):

	Year Ended September 30,					
		2009			2008	
Net cash used in operating activities	$	(8,900	)	$	(21,737	)
Net cash provided by investing activities	$	3,361		$	14,145	
Net cash provided by financing activities	$	4,807		$	8,439	

Net Cash Used in Operating Activities. Net cash used in operating activities decreased approximately $12.8 million in 2009 as compared to 2008. The improvement is attributed to the use of cash for paying off accounts payable, shareholders and related parties of approximately $9 million in 2008, while in 2009 we received $2.5 million in receivable related payments and our accounts payable balance increased by $0.2 million.

Net Cash Provided in Investing Activities. Net cash provided by investing activities decreased by approximately $11 million in 2009 as compared to 2008. The decrease in cash provided is primarily attributed to one time property sales in 2008, netted against oil and gas property additions, which provided approximately $12 million in 2008, and in 2009 property sale proceeds net of oil and gas property additions resulted in $1 million of cash provided.

Net Cash Provided by Financing Activities. Net cash provided by financing activities decreased by approximately $3.6 million in 2009 as compared to 2008 primarily due to our declining financial position.

2009 Financing Transactions

During 2009, we completed financing transactions as follows:

(1) We issued an 18% subordinated debenture in the amount of $0.03 million to a shareholder of the Company in exchange for the relief of amounts due the shareholder. The subordinated debenture is collateralized by an interest in .01 million shares of Falcon common stock held by us as restricted marketable securities. In connection with the issuance of the debenture we issued 0.07 million warrants to purchase our common stock at $0.15 per share, which expire in January 2010. The debenture was due on April 15, 2009. We made partial payments on the note and are currently in default under the terms of the debenture agreement for the remaining outstanding balance.

(2) We issued three subordinated convertible debentures totaling $0.2 million to two related parties in December 2008. These debentures bore interest at 15% per annum and were due in May 2009. We issued 0.5 million warrants to purchase our common stock at $0.15 per share in connection with these debentures. As of September 30, 2009 these debentures along with all related accrued interest have been repaid.

(3) We issued a promissory note in the amount of $0.1 million to a related party. This note bore interest at 15% per annum. As of September 30, 2009 we have repaid this note and all accrued interest.

(4) We entered into a 10% secured loan agreement with Falcon. Under the terms of the loan agreement, Falcon agreed to advance us $5.0 million. This loan was secured by 14.5 million shares of Falcon common stock we had received as consideration in relation to the sale of a 50% working interest in our four exploration permits in Australia to Falcon in October 2008. In addition the loan was also secured by a first position security interest in the five wells we drilled in our Buckskin Mesa project. In June 2009, we sold an additional 25% interest in our Australian exploration permits to Falcon, for relief of debt in respect to this loan of $5.0 million, which released the shares as collateral.

2008 Financing Transactions

During 2008, we completed financing transactions as follows:

(1) We borrowed $8.3 million on our credit facility with Global, for a total of $39.8 million drawn as of September 30, 2008. The credit facility bears interest at prime plus 6.75%, which ranged from 14.0% at the beginning of the year to 11.8% at the end of the year. Accrued interest of $6.5 million at September 30, 2008 was converted to into 32.6 million shares of our common stock. We pay an advance fee of 2% on all amounts borrowed under the facility, totaling $0.2 million during the year.

(2) In November 2007, we completed the sale of 8.5% convertible debentures to several accredited investors for an aggregate principal amount of $7.0 million, for which we received $6.3 million in cash proceeds. The remaining $0.7 million resulted from a transfer of $0.5 million or the $2.9 million common stock subscription outstanding at September 30, 2007 and $0.2 million of amounts converted from other accrued expenses. The debenture holders also received five-year warrants to purchase 46.4 million shares of our common stock. We paid a placement fee of $0.3 million.

(3) We borrowed $1.4 million from Global under short term promissory notes, which were unsecured and bore interest at 15% per annum.

(4) We borrowed $0.9 million from vendors which was subsequently repaid during the year.

(5) We entered into four separate promissory notes with Bruner Family Trust, UTD March 28, 2005 for a total borrowing of $0.4 million in the current year. Each note bears interest at 8.0%. The funds were used to fund working capital needs. The remaining $2.3 million of the $2.7 million balance due to the Bruner Family Trust was converted from the $2.9 million common stock subscription outstanding as of September 30, 2007.

Off-Balance Sheet Arrangements

We do not have any off-balance sheet arrangements.

Critical Accounting Policies and Estimates

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

Reserve Estimates

Our estimates of oil and natural gas reserves, by necessity, are projections based on an interpretation of geological and engineering data. There are uncertainties inherent in the interpretation of such data as well as the projection of future rates of production and the timing of development expenditures. Reserve engineering is a subjective process of estimating underground accumulations of oil and natural gas that are difficult to measure. The accuracy of any reserve estimate is a function of the quality of available data, engineering and geological interpretation and judgment. Estimates of economically recoverable oil and natural gas reserves and future net cash flows necessarily

depend upon a number of variable factors and assumptions, such as historical production from the area compared with production from other producing areas, and the assumed effects of regulations by governmental agencies. Any significant variance in the assumptions could materially affect the estimated quantity and value of the reserves which could affect the carrying value of our oil and gas properties and/or the rate of depletion of the oil and gas properties.

Oil and Gas Properties

The Company utilizes the full cost method of accounting for its oil and gas properties. Under this method, subject to a limitation based on estimated value, all costs associated with property acquisition, exploration and development, including costs of unsuccessful exploration, are capitalized within a cost center on a by country basis. No gain or loss is recognized upon the sale or abandonment of undeveloped or producing oil and gas properties unless the sale represents a significant portion of oil and gas properties and the gain significantly alters the relationship between capitalized costs and proved oil and gas reserves of the cost center. Depreciation, depletion and amortization of oil and gas properties are computed on the units-of-production method based on proved reserves. Amortizable costs include estimates of future development costs of proved undeveloped reserves.

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

Asset Retirement Obligation

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

Share - Based Compensation

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

Impairment

We apply the provisions of FASB ASC 360, "Property Plant and Equipment," which addresses financial accounting and reporting for the impairment or disposal of long-lived assets. FASB ASC 360 requires a long-lived asset to be sold to

be classified as “held for sale” in the period in which certain criteria are met, including that the sale of the asset within one year is probable. FASB ASC 360 also requires that the results of operations of a component of an entity that either has been disposed of or is classified as held for sale be reported in discontinued operations if the

operations and cash flows of the component have been or will be eliminated from the Company's ongoing operations.

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

Marketable Securities

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

Recently Issued Accounting Pronouncements

In May 2009, the FASB issued FASB ASC 855, "Subsequent Events". FASB ASC 855 incorporates accounting and disclosure requirements related to subsequent events into U.S. GAAP. The requirements of FASB ASC 855 for subsequent-events accounting and disclosure are not significantly different from those in existing auditing standards, which we have historically followed for financial reporting purposes, as a result, we do not believe this standard had any material impact on our financial statements. We have evaluated subsequent events through the date of issuance of these consolidated financial statements, which is January 13, 2010.

In July 2009, the FASB issued new guidance relating to the "FASB Accounting Standards Codification" at FASB ASC 105, as the single source of authoritative nongovernmental U.S. generally accepted accounting principles (GAAP). The codification is effective for interim periods ending after September 15, 2009. All existing accounting standards are superseded as described in ASC 105. All other accounting literature not included in the Codification is non-authoritative. The adoption of ASC 105 did not impact our results of operations, financial position or cash flows.

In October 2009, we adopted certain accounting principles within FASB ASC 470 "Debt with Conversion and Other Options" that requires the proceeds from the issuance of certain convertible debt instruments to be allocated between a liability component (issued at a discount) and an equity component. The resulting debt discount is amortized over the period the convertible debt is expected to be outstanding as additional non-cash interest expense. The change in accounting treatment is effective for us in fiscal 2010, and it is required to be applied retrospectively to prior periods. Management is currently assessing the potential impact that the adoption of this new guidance could have on our financial statements in fiscal 2010.

In October 2009, we adopted certain accounting principles within FASB ASC 805 "Business Combinations" which requires an acquirer to recognize the assets acquired, the liabilities assumed, including those arising from contractual contingencies, any contingent consideration, and any non-controlling interest in the acquiree at the acquisition date, measured at their fair values as of that date, with limited exceptions specified in the statement. It also requires the

acquirer in a business combination achieved in stages (sometimes referred to as a step acquisition) to recognize the identifiable assets and liabilities, as well as the non-controlling interest in the acquiree, at the full amounts of their fair values (or other amounts determined in accordance with this accounting principle). In addition, the accounting principles requirement to measure the non-controlling interest in the acquiree at fair value will result in recognizing

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the goodwill attributable to the non-controlling interest in addition to that attributable to the acquirer. ASC 805 also requires the acquirer to recognize changes in the amount of its deferred tax benefits that are recognizable because of a business combination either in income from continuing operations in the period of the combination or directly in contributed capital, depending on the circumstances. It also provides guidance on the impairment testing of acquired research and development intangible assets and assets that the acquirer intends not to use. ASC 805 applies prospectively to business combinations for which the acquisition date is on or after October 1, 2009, therefore, the adoption of ASC 805 did not have any impact on our historical financial statements.

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

In January 2010, the FASB issued Accounting Standards Update (ASU) No. 2010-03 "Oil and Gas Reserve Estimation and Disclosures." The ASU aligns the current oil and gas reserve estimation and disclosure requirements of FASB Accounting Standards Codification Topic 932, Extractive Activities — Oil and Gas, with those in SEC Final Rule Release No. 33-8995, Modernization of Oil and Gas Reporting. The ASU will be effective for reporting periods ending on or after December 31, 2009. We are currently assessing the impact that adoption of this rule will have on our financial statements.

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

ITEM 7A. QUANTITATIVE AND QUALITATIVE DISCLOSURES ABOUT MARKET RISK

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

ITEM 8. FINANCIAL STATEMENTS AND SUPPLEMENTARY DATA

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REPORT OF INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRM

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

We have audited the accompanying consolidated balance sheets of PetroHunter Energy Corporation (the "Company") as of September 30, 2009 and 2008, and the related consolidated statements of operations, stockholders' equity and comprehensive income (loss), and cash flows for the years then ended. The Company's management is responsible for these financial statements. Our responsibility is to express an opinion on these financial statements based on our audits.

We conducted our audits in accordance with the standards of the Public Company Accounting Oversight Board (United States). Those standards require that we plan and perform the audits to obtain reasonable assurance about whether the financial statements are free of material misstatement. The company is not required to have, nor were we engaged to perform, an audit of its internal control over financial reporting. Our audits included consideration of internal control over financial reporting as a basis for designing audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the company's internal control over financial reporting. Accordingly, we express no such opinion. An audit also includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements, assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of PetroHunter Energy Corporation as of September 30, 2009 and 2008 and the results of its operations and its cash flows for the years then ended in conformity with accounting principles generally accepted in the United States of America.

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

As discussed in Notes 3, 4, 8, 9, 10 11, 12 and 14, the Company had numerous significant transactions with related parties.

/s/ Eide Bailly LLP

Eide Bailly LLP

Greenwood Village, Colorado
January 8, 2010

PETROHUNTER ENERGY CORPORATION
CONSOLIDATED BALANCE SHEETS

ASSETS	September 30, 2009	2008
	($ in thousands)	
Current Assets		
Cash and cash equivalents	$ 235	$ 967
Receivables		
Oil and gas receivables, net	—	193
GST receivables	1	504
Other receivables	16	12
Due from related parties	—	1,840
Restricted marketable securities	2,925	7,495
Unrestricted marketable securities	455	6,638
Prepaid expenses and other assets	205	273
TOTAL CURRENT ASSETS	3,837	17,922
Property and Equipment, at cost		
Oil and gas properties under full cost method, net	1,427	97,352
Furniture and equipment, net		