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

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

Form 10- Q/A
Amendment No. 1

(Mark One)

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

For the quarterly period ended June 30, 2008

or

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

For the transition period from _____ to _____

Commission file number: 000-51152

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

| | |
|---|---|
| Maryland<br>(State or other jurisdiction of incorporation or organization) | 98-0431245<br>(I.R.S. Employer Identification No.) |
| 1600 Stout Street<br>Suite 2000, Denver, Colorado<br>(Address of principal executive offices) | 80202<br>(Zip Code) |

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

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

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

Large accelerated filer [ ]   Accelerated filer [ ]   Non-accelerated filer [ ]   Smaller reporting company [X]

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

As of July 31, 2008, the registrant had 340,743,469 shares of common stock outstanding.

## EXPLANATORY NOTE

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

## FORWARD-LOOKING STATEMENTS

Certain statements contained in this Quarterly Report on Form 10-Q/A constitute “forward-looking statements.” These statements, identified by words such as “plan,” “anticipate,” “believe,” “estimate,” “should,” “expect” and similar expres include our expectations and objectives regarding our future financial position, operating results and business strategy. These statements reflect the current views of management with respect to future events and are subject to risks, uncertainties and other factors that may cause our actual results, performance or achievements, or industry results, to be materially different from those described in the forward-looking statements. All forward-looking statements herein as well as all subsequent written and oral forward-looking statements attributable to us, or persons acting on our behalf, are expressly qualified in their entirety by cautionary statements set forth in the “Risk Factors” section of our Prospectus on Form S-1 filed with the Securities and Exchange Commission (“SEC”) on June 30, 2008 and in Item 1A “Risk Factors” appearing in our Annual Report on Form 10-K for the fiscal year ended September 30, 2007. We assume no duty to update or revise our forward-looking statements based on changes in internal estimates or expectations or otherwise. We advise you to carefully review the reports and documents we file from time to time with the SEC.

## EXPLANATORY NOTE REGARDING RESTATEMENTS

This Quarterly Report on Form 10-Q/A for the three and nine month periods ended June 30, 2008 includes restatements of the previously filed consolidated financial statements and data (and related disclosures) for the period ended June 30, 2008. A summary of these restatements and corrections are discussed in Note 2, Restatement of Previously Issued Financial Statements, included in the accompanying consolidated financial statements for the period ended June 30, 2008. These corrections are also discussed in Item 2, Management’s Discussion and Analysis of Financial Condition and Results of Operations. We previously announced, in a Form 8-K filed with the SEC on November 20, 2008 that we would restate our previously reported financial statements as originally filed with the SEC on August 13, 2008, as a result of the discovery of several significant errors by management during its year-end review, and in conjunction with the annual audit. The information contained in this Quarterly Report on form 10-Q/A amends only Items 1, 2 and 4 of Part I to the originally filed Quarterly Report on Form 10-Q filed with the SEC on August 13, 2008 (the “Original Report”).

This Quarterly Report on Form 10-Q/A does not reflect all events occurring after the original filing of the Original Report or modify or update all the disclosures affected by subsequent events. Information not modified or updated herein reflects the disclosures made at the time of the filing of the Original Report on August 13, 2008. Accordingly, this Form 10-Q/A should be read in conjunction with all of our periodic filings, including our amended filings on Form 10-Q/A in relation to the three month period ended December 31, 2007, and in relation to the three and six month period ended March 31, 2008, filed with the SEC in conjunction with the filing of this report.

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

GLOSSARY

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

API Gravity. A specific gravity scale developed by the American Petroleum Institute (API) for measuring the relative density of various petroleum liquids, expressed in degrees. API gravity is gradated in degrees on a hydrometer instrument and was designed so that most values would fall between 10° and 70° API gravity. The arbitrary formula used to obtain this effect is: API gravity = (141.5/SG at 60°F) — 131.5, where SG is the specific gravity of the fluid.

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

Productive Well. A well that is found to be capable of producing hydrocarbons in sufficient quantities such that proceeds from the sale of the production exceed production expenses and taxes. Productive wells consist of producing wells and wells capable of production, but specifically exclude wells drilled and cased during the fiscal year that have yet to be tested for completion.

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

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

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

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

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

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

Stratigraphic. Relating to vertical position in a rock column. More generally, relating to relative geological age, since typically, in any given sequence of sedimentary rock, older rock is lower than newer.

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

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

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

PETROHUNTER ENERGY CORPORATION

FORM 10-Q/A

FOR THE NINE-MONTH PERIOD ENDED
JUNE 30, 2008
(RESTATED)

INDEX

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

| | June 30, 2008 (restated) (unaudited) | September 30, 2007 |
|---|---|---|
| | ($ in thousands) | |
| **ASSETS** | | |
| Current Assets | | |
| Cash and cash equivalents | $ 695 | $ 120 |
| Restricted cash | 531 | — |
| Receivables | | |
| Oil and gas receivables, net | 380 | 487 |
| Other receivables | 62 | 59 |
| GST receivables | 485 | — |
| Due from related parties | — | 500 |
| Note receivable — related party | — | 2,494 |
| Prepaid expenses and other assets | 406 | 187 |
| Total Current Assets | 2,559 | 3,847 |
| | | |
| Property and Equipment, at cost | | |
| Oil and gas properties under full cost method, net | 145,082 | 162,843 |
| Furniture and equipment, net | 792 | 569 |
| Total Property and Equipment | 145,874 | 163,412 |
| Other Assets | | |
| Joint interest billings | — | 13,637 |
| Restricted cash | 524 | 599 |
| Deposits and other assets | 130 | — |
| Deferred financing costs | 1,678 | 529 |
| Intangible asset | 3,532 | — |
| Total Assets | $ 154,297 | $ 182,024 |
| **LIABILITIES AND STOCKHOLDERS' EQUITY** | | |
| Current Liabilities | | |
| Accounts payable and accrued expenses | $ 10,172 | $ 26,631 |
| Notes payable — short-term | 1,055 | 4,667 |
| Convertible notes payable | 400 | 400 |
| Note payable — related party — current portion | 2,622 | 3,755 |
| Note payable — current portion of long-term liabilities | 120 | 120 |
| Accrued interest payable | 5,960 | 2,399 |
| Accrued interest payable — related party | 18 | 516 |
| Due to shareholder and related parties | 440 | 1,474 |
| Contract payable — oil and gas properties | — | 1,750 |
| Contingent purchase obligation | 3,532 | — |
| Total Current Liabilities | 24,319 | 41,712 |
| | | |
| Non-current obligations | | |

| | | |
|---|---|---|
| Notes payable — net of discount | 37,207 | 27,944 |
| Subordinated notes payable — related parties | 106 | 9,050 |
| Convertible notes payable — net of discount | 240 | — |
| Asset retirement obligation | 73 | 136 |
| Net Non-current Obligations | 37,626 | 37,130 |
| | | |
| Total Liabilities | 61,945 | 78,842 |
| | | |
| Common Stock Subscribed | — | 2,858 |
| Commitments and Contingencies (Note 12) | | |
| Stockholders’ Equity | | |
| Preferred stock, $0.001 par value; authorized 100,000,000 shares; none issued | — | — |
| Common stock, $0.001 par value; authorized 1,000,000,000 shares; 338,065,950 and 278,948,841 shares issued and outstanding at June 30, 2008 and September 30, 2007, respectively | 338 | 279 |
| Additional paid-in-capital | 203,362 | 172,672 |
| Accumulated other comprehensive gain (loss) | 33 | (5) |
| Deficit accumulated during the development stage | (111,381) | (72,622) |
| Total Stockholders’ Equity | 92,352 | 100,324 |
| Total Liabilities and Stockholders’ Equity | $ 154,297 | $ 182,024 |

See accompanying notes to consolidated financial statements.

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

| | Three months ended June 30, 2008 | Three months ended June 30, 2007 | Nine months ended June 30, 2008 | Nine months ended June 30, 2007 | Cumulative From Inception (June 20, 2005) to June 30, 2008 |
|---|---|---|---|---|---|
| | (unaudited, restated, $ in thousands except per share amounts) | | | | |
| Revenues | | | | | |
| Oil and gas revenues | $ 567 | $ 847 | $ 1,570 | $ 2,285 | $ 4,426 |
| Other revenues | 6 | — | 156 | — | 156 |
| Total revenues | 573 | 847 | 1,726 | 2,285 | 4,582 |
| | | | | | |
| Costs and Expenses | | | | | |
| Lease operating expenses | 164 | 211 | 404 | 597 | 1,201 |
| General and administrative | 2,511 | 5,470 | 7,298 | 13,546 | 40,246 |
| Project development — related party | — | — | — | 1,815 | 7,205 |
| Impairment of oil and gas properties | — | 600 | — | 9,551 | 24,053 |
| Depreciation, depletion, amortization and accretion | 337 | 805 | 820 | 2,018 | 2,138 |
| Total operating expenses | 3,012 | 7,086 | 8,522 | 27,527 | 74,843 |
| | | | | | |
| Loss from operations | (2,439) | (6,239) | (6,796) | (25,242) | (70,261) |
| Other Income (Expense): | | | | | |
| Loss from conveyance of property | (8,593) | — | (20,468) | — | (20,468) |
| Gain on foreign exchange | — | — | 11 | — | 34 |
| Interest income | 6 | 6 | 33 | 20 | 71 |
| Interest expense | (3,193) | (846) | (8,552) | (2,677) | (17,770) |
| Loss on sale of securities | — | — | (2,987) | — | (2,987) |
| Total other expense | (11,780) | (840) | (31,963) | (2,657) | (41,120) |
| Net Loss | $ (14,219) | $ (7,079) | $ (38,759) | $ (27,899) | $ (111,381) |
| Net loss per common share — basic and diluted | $ (0.04) | $ (0.03) | $ (0.12) | $ (0.13) | |
| Weighted average number of common shares outstanding — basic and diluted | 324,147 | 256,906 | 317,811 | 221,802 | |

See accompanying notes to consolidated financial statements

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

| | Common Stock Shares | Amount | Additional Paid-in Capital | Deficit Accumulated During the Development Stage | Accumulated Other Comprehensive Loss | Total Stockholders' Equity | Total Comprehensive Loss |
|---|---|---|---|---|---|---|---|
| Balances, June 20, 2005 (inception) | — | $ — | $ — | $ — | $ — | $ — | $ — |
| Shares issued to founder at $0.001 per share | 100,000,000 | 100 | — | — | — | 100 | — |
| Stock-based compensation costs for options granted to non-employees | — | — | 823 | — | — | 823 | — |
| Net loss | — | — | — | (2,119) | — | (2,119) | (2,119) |
| Balances, September 30, 2005 | 100,000,000 | 100 | 823 | (2,119) | — | (1,196) | (2,119) |
| Shares issued for property interests at $0.50 per share | 3,000,000 | 3 | 1,497 | — | — | 1,500 | — |
| Shares issued for finder's fee on property at $0.50 per share | 3,400,000 | 3 | 1,697 | — | — | 1,700 | — |
| Shares issued upon conversion of debt, at $0.50 per share | 44,063,334 | 44 | 21,988 | — | — | 22,032 | — |
| Shares issued for commission on convertible debt at $0.50 per share | 2,845,400 | 3 | 1,420 | — | — | 1,423 | — |
| Sale of shares and warrants at $1.00 per unit | 35,442,500 | 35 | 35,407 | — | — | 35,442 | — |
| Shares issued for commission on sale of units | 1,477,500 | 1 | 1,476 | — | — | 1,477 | — |
| Costs of stock offering: | | | | | | | |
| Cash | — | — | (1,638) | — | — | (1,638) | — |

| | | | | | | | |
|---|---|---|---|---|---|---|---|
| Shares issued for commission at $1.00 per share | — | — | (1,478) | — | — | (1,478) | — |
| Exercise of warrants | 1,000,000 | 1 | 999 | — | — | 1,000 | — |
| Recapitalization of shares issued upon merger | 28,700,000 | 30 | (436) | — | — | (406) | — |
| Stock-based compensation | — | — | 9,189 | — | — | 9,189 | — |
| Net loss | — | — | — | (20,692) | — | (20,692) | (20,692) |
| Balances, September 30, 2006 | 219,928,734 | 220 | 70,944 | (22,811) | — | 48,353 | (20,692) |
| Shares issued for property interests at $1.62 per share | 50,000,000 | 50 | 80,950 | — | — | 81,000 | — |
| Shares issued for property interests at $1.49 per share | 256,000 | — | 382 | — | — | 382 | — |

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| | Common Stock Shares | Amount | Additional Paid-in Capital | Deficit Accumulated During the Development Stage | Accumulated Other Compre-hensive Loss | Total Stockholders' Equity | Total Compre-hensive Loss |
|---|---|---|---|---|---|---|---|
| Shares issued for commission costs on property at $1.65 per share | 121,250 | — | 200 | — | — | 200 | — |
| Shares issued for finance costs on property at $0.70 per share | 642,857 | 1 | 449 | — | — | 450 | — |
| Shares issued for property and finance interests at various costs per share | 8,000,000 | 8 | 6,905 | — | — | 6,913 | — |
| Foreign currency translation adjustment | — | — | — | — | (5) | (5) | (5) |
| Discount on notes payable | — | — | 4,670 | — | — | 4,670 | — |
| Stock-based compensation | — | — | 8,172 | — | — | 8,172 | — |
| Net loss | — | — | — | (49,811) | — | (49,811) | (49,811) |
| Balances, September 30, 2007 | 278,948,841 | 279 | 172,672 | (72,622) | (5) | 100,324 | (49,816) |
| Shares issued for property interests at $0.31 per share – related party | 25,000,000 | 25 | 7,725 | — | — | 7,750 | — |
| Shares issued in connection with debt conversion at $0.23 per share – related party | 16,000,000 | 16 | 3,664 | — | — | 3,680 | — |
| Shares issued for property interest at $0.25 per share | 5,000,000 | 5 | 1,245 | — | — | 1,250 | — |
| Shares returned for property | (6,400,000) | (6) | (1,402) | — | — | (1,408) | — |

| | | | | | | | |
|---|---|---|---|---|---|---|---|
| conveyance at prices ranging from $0.22 per share (restated) | | | | | | | |
| Shares issued for finance costs at $0.28 per share | 200,000 | — | 56 | — | — | 56 | — |
| Shares issued for vendor settlements at $0.20 per share (restated) | 16,879,219 | 17 | 3,359 | — | — | 3,376 | — |
| Shares issued for finance costs at $0.20 per share (restated) | 2,037,890 | 2 | 365 | — | — | 367 | — |
| Shares issued for option to purchase CCES | 400,000 | — | 80 | — | — | 80 | — |
| Discounts associated with beneficial conversion feature and detachable warrants on convertible debenture issuance | — | — | 6,956 | — | — | 6,956 | — |
| Warrant value associated with amendment and waiver on convertible debt (restated) | — | — | 332 | — | — | 332 | — |
| Warrants in connection with debt offering (restated) | — | — | 21 | — | — | 21 | — |
| Warrant value associated with debt conversion – related party (restated) | — | — | 1,841 | — | — | 1,841 | — |
| Debt conversion – related party (restated) | — | — | 2,704 | — | — | 2,704 | — |
| Warrants issued as origination fees for debt | — | — | 1,895 | — | — | 1,895 | — |

| | | | | | | | |
|---|---|---|---|---|---|---|---|
| offering | | | | | | | |
| Discount on notes payable | — | — | 336 | — | — | 336 | — |
| Foreign currency translation adjustment | — | — | — | — | 38 | 38 | 38 |
| Stock-based compensation, (restated) | — | — | 1,513 | — | — | 1,513 | — |
| Net loss (restated) | — | — | — | (38,759) | — | (38,759) | (38,759) |
| Balances, June 30, 2008, restated | 338,065,950 | $ 338 | $ 203,362 | $ (111,381) | $ 33 | $ 92,352 | $ (38,721) |

See accompanying notes to consolidated financial statements.

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

| | Nine months ended June 30, 2008 | Nine months ended June 30, 2007 | Cumulative From Inception (June 20, 2005) to June 30, 2008 |
|---|---|---|---|
| | (unaudited, restated, $ in thousands) | | |
| Cash flows from operating activities | | | |
| Net loss | $ (38,759) | $ (27,899) | $ (111,381) |
| Adjustments used to reconcile net loss to net cash used in operating activities: | | | |
| Stock-based compensation | 1,512 | 7,305 | 19,696 |
| Detachable warrants recorded as interest expense | 495 | — | 495 |
| Depreciation, depletion, amortization and accretion | 820 | 2,268 | 2,138 |
| Impairment of oil and gas properties | — | 4,400 | 24,053 |
| Amortization of deferred financing costs | 1,340 | 1,338 | 2,963 |
| Amortization of debt discount and beneficial conversion feature | 1,783 | 458 | 2,819 |
| Loss on marketable securities | 2,987 | — | 2,987 |
| Loss on conveyance of properties | 20,468 | — | 20,468 |
| Other adjustments to reconcile net loss | 45 | — | 122 |
| Changes in assets and liabilities: | | | |
| Receivables | (381) | (894) | (927) |
| Due from related party | — | 848 | (500) |
| Prepaids and other | (349) | (54) | (394) |
| Accounts payable, accrued expenses, and other liabilities | (11,210) | (2,508) | (6,356) |
| Due to shareholder and related parties | (967) | 1,291 | 507 |
| Net cash used in operating activities | (22,216) | (13,447) | (43,310) |
| Cash flows from investing activities | | | |
| Additions to oil and gas properties | (14,838) | (13,212) | (80,503) |
| Proceeds from sale of oil and gas properties | 26,922 | — | 26,922 |
| Sale of marketable securities, available for sale | 2,541 | — | 2,541 |
| Due from joint interest owner | — | (16,274) | — |
| Notes receivable – related party | — | (2,244) | (2,494) |
| Additions to furniture and equipment | (324) | (260) | (1,011) |
| Restricted cash | 75 | 475 | (1,002) |
| Net cash provided by (used in) investing activities | 14,376 | (31,515) | (55,547) |
| Cash flows from financing activities | | | |
| Proceeds from the sale of common stock | — | 300 | 35,742 |
| Proceeds from common stock subscribed | — | 2,768 | 2,858 |
| Proceeds from the issuance of notes payable | 8,250 | 31,700 | 39,800 |
| Borrowing on short-term notes payable | 850 | — | 1,350 |
| Payments on short-term notes payable | (6,088) | — | (6,088) |
| Payments on related party borrowing | (2,097) | (600) | (2,097) |

| | | | |
|---|---|---|---|
| Proceeds from related party borrowing | 1,170 | — | 1,445 |
| Proceeds from the exercise of warrants | — | — | 1,000 |
| Cash received upon recapitalization and merger | — | — | 21 |
| Proceeds from issuance of convertible notes | 6,330 | — | 27,162 |
| Offering and financing costs | — | 180 | (1,638) |
| Net cash provided by financing activities | 8,415 | 34,348 | 99,555 |
| Effect of exchange rate changes on cash | — | — | (3) |
| Net increase (decrease) in cash and cash equivalents | 575 | (10,614) | 695 |
| Cash and cash equivalents, beginning of period | 120 | 10,632 | — |
| Cash and cash equivalents, end of period | $ 695 | $ 18 | $ 695 |
| | | | |
| Supplemental schedule of cash flow information | | | |
| Cash paid for interest | $ 2,227 | $ 1 | $ 3,744 |
| Cash paid for income taxes | $ — | $ — | $ — |

See accompanying notes to consolidated financial statements.

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

Note 1 — Organization and Basis of Presentation

We are a development stage global oil and gas exploration and production company committed to acquiring and developing primarily unconventional natural gas and oil prospects that we believe have a high probability of economic success. Since our inception in 2005, our principal business activities have been raising capital through the sale of common stock and convertible notes and acquiring oil and gas properties in the western United States and Australia. Currently, we own property in Colorado, where we have drilled five wells on our Buckskin Mesa property, and Australia, where we have drilled one well on our property in the Northern Territory, and in Montana, where we hold a land position in the Bear Creek area. The wells on these properties have not yet commenced oil and gas production. We own working interests in eight additional wells in Colorado which are operated by EnCana Oil & Gas USA (“EnCana”) and are currently producing gas. In November 2007, we sold 66,000 net acres of land and two wells in Montana and 177,445 acres of land in Utah (see “Heavy Oil” in Note 5 ) and on May 30, 2008, we sold 605 net acres, 16 wells which had been drilled but not completed or connected to a pipeline and rights to participate in an additional 8 wells in the Southern Piceance Basin in Colorado (see Note 13 ).

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

i. GSL was deemed to be the purchaser and parent company for financial reporting purposes. Accordingly its net assets were included in the consolidated balance sheet at their historical book value; and

ii. control of the net assets and business of Digital was effective May 12, 2006 for no consideration.

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

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

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

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Note 2 – Restatement of Previously Issued Financial Statements

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

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

The following errors affected our Original Report for the three and nine month periods ended June 30, 2008:

1. Detachable Warrants with Convertible Debentures – We corrected an error during our first quarter ended December 31, 2007 in relation to our accounting for the value of detachable warrants that were issued in relation to the issuance of $7.0 million of Convertible Debentures, where we erroneously charged the $2.9 million value of the detachable warrants to interest expense, versus recording the warrant value as a discount against the face value of the Convertible Debentures and amortizing the discount to interest expense over the remaining term of the convertible debentures using the effective interest method. In our Original Report for the quarter ended June 30, 2008, we disclosed in Notes 7 and 14 that we had corrected the cumulative effect of the error. In our restatement, we recorded further adjustments during the third quarter ended June 30, 2008 to give proper effect to the correction of the original error in its proper period during the quarter ended December 31, 2007, thereby reversing the correction recorded in our Original Report for the period ended June 30, 2008.

2. Detachable Warrants with Global Debt Facility – We corrected errors in our accounting for detachable warrants issued in relation to our Global Credit Facility during our first quarter ended December 31, 2007. First, we inappropriately used a warrant term assumption in our Black-Scholes calculation of fair value that was less than the contractual life of the warrants, which understated the initial value of the warrants by $1.9 million. Second, we failed to properly record $1.2 million of the total as deferred financing costs associated with the warrants that were issued in connection with securing the Facility. In our Original Report for the quarter ended June 30, 2008, we disclosed in Notes 7 and 14 that we had corrected the cumulative effect of the error. In our restatement, we recorded further adjustments during the third quarter ended June 30, 2008 to give proper effect to the correction of the original error in its proper period during the quarter ended December 31, 2007.

3. Heavy Oil Asset Sale – We corrected several errors in our accounting for the sale of our Heavy Oil Projects during our first quarter ended December 31, 2007. First, we corrected an error in our accounting for the proceeds from the sale of these assets to Pearl Exploration and Production Ltd., where we erroneously recorded $2.7 million of contingent consideration (in the form of the common stock of the acquirer) relating to the sale of assets that did not ultimately transfer, net of $0.9 million in unrealized losses also recognized in error. Second, we corrected a $2.4 million error in our accounting for unrealized losses from declines in the market value of the securities received in the transaction, where we erroneously treated the securities as marketable securities, available for sale and recorded an unrealized loss in our statement of operations, versus reflecting the $1.5 million in unrealized losses (net of the $0.9 million excess discussed above) as a charge to other comprehensive income. Finally, we determined we should have recorded a $11.9 million loss on conveyance on the transaction, based on the

relationship of the fair value of the Heavy Oil Projects, versus what was recorded in our full cost pool. We recorded further corrections during the third quarter ended June 30, 2008 to give proper effect to our oil and gas property accounts and our accumulated deficit in relation to the loss on conveyance.

4. Loss on Conveyance – As a result of adjustments to our oil and gas property accounts we recorded in our first quarter ended December 31, 2007 and in our second quarter ended March 31, 2008, we recalculated

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our loss on conveyance during the third quarter ended June 30, 2008 in relation to the sale of our Piceance II Prospect Assets to Laramie Energy II, LLC. In our Original Report, we recorded a loss on conveyance of $15.2 million in relation to this transaction. We reduced this loss to $8.6 million as a result of the cumulative effect of our restatement adjustments, that we recorded in the first two quarters, including the loss on conveyance we recorded in relation to our Heavy Oil Asset sale noted above.

5. Contingent Purchase Obligation – During our first quarter ended December 31, 2007, we corrected an error in our accounting for a financial guarantee in relation to capital costs incurred by a third party in conjunction with the construction of a gas gathering system and the provision of gas gathering services for our Buckskin Mesa Project, and recorded a $2.0 million intangible asset and contingent purchase obligation to reflect the fair value of this guarantee. We recorded further corrections during the third quarter ended June 30, 2008 to properly reflect the value the guarantee as of that date.

6. Interest Expense – During our third quarter ended June 30, 2008, we corrected two $0.3 million, offsetting errors in our accounting for interest expense, resulting from errors in overstating our accrued interest and deferred financing cost accounts.

7. Maralex Transaction – During the first quarter ended December 31, 2007, we corrected an error in our accounting for the value of 6.4 million shares of our common stock that we reacquired during the quarter ended December 31, 2007. The shares were originally issued during our year ended September 30, 2007 in relation to the acquisition of certain properties (our “Sugarloaf Project”) and the incurrence of penalties on a series of payment defaults on our contract. The correction of this error resulted in a $4.1 million increase in our oil and gas property accounts, with a corresponding increase in additional paid in capital. We recorded further corrections to our oil and gas property accounts and additional paid in capital during the third quarter ended June 30, 2008 to give proper effect to the correction of this error on our balance sheet.

8. Other Errors – We corrected several other errors that were individually insignificant and primarily related to the timing of the recognition of costs and expenses in our statement of operations during our year ending September 30, 2008 and the proper classification of certain of our debt obligations.

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Balance Sheet Effects of Restatements

The following table sets forth the unaudited condensed consolidated balance sheet, showing previously reported amounts, adjustments resulting from the correction of errors and reclassifications, and restated balances as of June 30, 2008 (in thousands):

| | June 30, 2008 | | |
|---|---|---|---|
| | As previously reported | Net Adjustments | As restated |
| Current Assets | | | |
| Cash and cash equivalents | $ 695 | $ - | $ 695 |
| Receivables | 827 | 100 | 927 |
| Other current assets | 937 | - | 937 |
| Total Current Assets | 2,459 | 100 | 2,559 |
| | | | |
| Property and Equipment, at cost and Other Assets | | | |
| Oil and gas properties under full cost method, net | 146,184 | (1,102) | 145,082 |
| Intangible asset | 4,142 | (610) | 3,532 |
| Deferred financing costs | 1,657 | 21 | 1,678 |
| Other assets | 1,076 | 370 | 1,446 |
| Total Assets | $ 155,518 | $ (1,221) | $ 154,297 |
| | | | |
| Current Liabilities | | | |
| Accounts payable and accrued expenses | $ 9,873 | $ 299 | $ 10,172 |
| Due to shareholders and related parties | 440 | - | 440 |
| Notes and interest payable | 7,877 | (342) | 7,535 |
| Notes and interest payable, related parties | 2,640 | - | 2,640 |
| Contingent purchase obligation | 4,142 | (610) | 3,532 |
| Total Current Liabilities | 24,972 | (653) | 24,319 |
| | | | |
| Non-Current Obligations | | | |
| Notes payable, net | 37,207 | - | 37,207 |
| Convertible notes payable, net | 684 | (444) | 240 |
| Subordinated notes payable, related parties | 106 | - | 106 |
| Asset retirement obligation | 73 | - | 73 |
| Net Non-Current Obligations | 38,070 | (444) | 37,626 |
| | | | |
| Total Liabilities | 63,042 | (1,097) | 61,945 |
| | | | |
| Stockholders' Equity | | | |
| Common stock | 338 | - | 338 |
| Additional paid-in-capital | 199,968 | 3,394 | 203,362 |
| Accumulated other comprehensive gain | 33 | - | 33 |
| Deficit accumulated during the development stage | (107,863) | (3,518) | (111,381) |

| | | | |
|---|---|---|---|
| Total Stockholders' Equity | 92,476 | (124) | 92,352 |
| Total Liabilities and Stockholders' Equity | $ 155,518 | $ (1,221) | $ 154,297 |

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Statement of Operations Effects of Restatements

The following table presents our unaudited condensed consolidated statement of operations, showing previously reported amounts, adjustments resulting from the correction of errors, and restated balances for the three and nine month periods ended June 30, 2008 (in thousands, except share data):

| | For the three months ended June 30, 2008 | | | For the nine months ended June 30, 2008 | | |
|---|---|---|---|---|---|---|
| | As previously reported | Net Adjustments | As restated | As previously reported | Net Adjustments | As restated |
| Total Revenue | $ 580 | $ (7) | $ 573 | $ 1,571 | $ 155 | $ 1,726 |
| | | | | | | |
| Costs and Expenses: | | | | | | |
| General and administrative | 2,554 | (43) | 2,511 | 8,245 | (947) | 7,298 |
| Other operating expenses | 498 | 3 | 501 | 1,178 | 46 | 1,224 |
| Total Operating Expenses | 3,052 | (40) | 3,012 | 9,423 | (901) | 8,522 |
| | | | | | | |
| Loss From Operations | (2,472) | 33 | (2,439) | (7,852) | 1,056 | (6,796) |
| | | | | | | |
| Other Income (Expense): | | | | | | |
| Loss on conveyance of properties | (15,220) | 6,627 | (8,593) | (15,220) | (5,248) | (20,468) |
| Interest expense | (1,801) | (1,392) | (3,193) | (9,226) | 674 | (8,552) |
| Loss on marketable securities | - | - | - | (2,987) | - | (2,987) |
| Other, net | 6 | - | 6 | 44 | - | 44 |
| Total Other Expense | (17,015) | 5,235 | (11,780) | (27,389) | (4,574) | (31,963) |