PetroHunter Energy Corp
Form 10KSB
January 26, 2007

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

FORM 10-KSB

(Mark One)
[X] ANNUAL REPORT UNDER SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934
FOR THE FISCAL YEAR ENDED SEPTEMBER 30, 2006

[ ] TRANSITION REPORT UNDER 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
(Name of small business issuer as specified in its charter)

MARYLAND	98-0431245
(State or other jurisdiction of incorporation or organization)	(I.R.S. Employer Identification No.)

1875 LAWRENCE STREET, SUITE 1400, DENVER, COLORADO 80203
(Address of principal executive offices) (Zip Code)

Issuer's telephone number: (303) 572-8900

Securities registered under Section 12(b) of the Exchange Act: NONE

Securities registered under Section 12(g) of the Exchange Act:
COMMON STOCK, $0.001 PAR VALUE
(Title of class)

Check whether the issuer (1) filed all reports required to be filed by Section 13 or 15(d) of the Exchange Act 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. Yes [X] No [ ]

Check if there is no disclosure of delinquent filers in response to Item 405 of Regulation S-B contained in this form, and no disclosure will 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-KSB or any amendment to this Form 10-KSB. [ ]

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

State issuer's revenues for its most recent fiscal year: $35,656

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 sold, or the average bid and asked price of such common equity, as of a specified date within the past 60 days: $249,298,342 ON NOVEMBER 30, 2006

State the number of shares outstanding of each of the issuer's classes of common equity, as of the latest practicable date: 219,928,734 ON NOVEMBER 30, 2006

Transitional Small Business Disclosure Format (Check one): Yes [ ] No [X]

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 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. Such risks and uncertainties include those set forth under the caption "Management's Discussion and Analysis or Plan 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 US dollars unless otherwise indicated.

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.

AMI. Area of Mutual Interest.

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(degree) and 70(degree) API gravity. The arbitrary formula used to obtain this effect is: API gravity = (141.5/SG at 60(degree)F) - 131.5, where SG is the specific gravity of the fluid.

ANTICLINE. An arch-shaped fold in rock in which rock layers are upwardly convex.

2

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.

CENTIPOISE. A unit of measurement for viscosity equivalent to one-hundredth of a poise.

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

DARCY. A standard unit of measure of permeability. One darcy describes the permeability of a porous medium through which the passage of one cubic centimeter of fluid having one centipoise of viscosity flowing in one second under a pressure differential of one atmosphere where the porous medium has a cross-sectional area of one square centimeter and a length of one centimeter.

DEVELOPED ACREAGE. The number of acres that are allocated or assignable to producing wells or wells capable of production.

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

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.

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.

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.

MBO. One thousand barrels of oil.

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

MMBO. One million barrels of oil

MMCF. One million cubic feet of natural gas.

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.

PARTICIPANT GROUP. The individuals and/or companies that, together, comprise the ownership of 100% of the working interest in a specific well or project.

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

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

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

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

RE-ENTRY. Entering an existing well bore to redrill or repair.

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

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

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

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

TCF. One trillion cubic feet.

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.

PART I

ITEM 1. DESCRIPTION OF BUSINESS

GENERAL

PetroHunter Energy Corporation ("PetroHunter"), formerly Digital Ecosystems Corp. ("Digital"), through the operations of its wholly owned subsidiary, PetroHunter Operating Company, is a global oil and gas exploration and production company with primary assets consisting of a working interest in oil and gas leases and related interests in various oil and natural gas prospects, including approximately 220,000 net acres in Colorado, Utah and Montana and approximately seven million net acres in the Northern Territory of Australia. The properties are managed and operated in three groups: Heavy Oil, Piceance Basin, and Australia.

PetroHunter Operating Company (formerly GSL Energy Corporation) was formed in June 2005 as a Maryland corporation, and on May 12, 2006 completed a stock exchange by which its stockholders received more than 85% of Digital's outstanding stock. The business of PetroHunter Operating Company became the business of Digital. Subsequent to May 2006, Digital acquired all the remaining outstanding stock of PetroHunter Operating Company, and effective August 14, 2006, Digital changed its name from Digital Ecosystems Corp. to PetroHunter Energy Corporation and changed its domicile to Maryland. Digital was incorporated on February 21, 2002 under the laws of the State of Nevada.

In October 2006, GSL Energy Corporation ("GSL") changed its name to PetroHunter Operating Company. On November 8, 2005, GSL formed Paleotechnology, Inc. ("Paleo") as a wholly-owned subsidiary for the purpose of exploring and developing new products and processes using by-products of petroleum extraction environments. On September 11, 2006, PetroHunter formed PetroHunter Heavy Oil Ltd. as a wholly-owned subsidiary for the purpose of holding and developing its heavy oil assets. PetroHunter formed PetroHunter Energy NT Ltd. on October 20, 2006 for the purpose of holding and developing its assets in the Northern Territory of Australia. Collectively, PetroHunter and its subsidiaries are referred to herein as the "Company," "we," "us" or "our".

Our principal executive offices are located at 1875 Lawrence Street, Suite 1400, Denver, Colorado 80202. The telephone number is (303) 572-8900, the facsimile number is (303) 572-8927 and our web site is WWW.PETROHUNTER.COM. Our periodic and current reports filed with the Securities and Exchange Commission (the "SEC") can be found on our web site at www.petrohunter.com and on the SEC's website at www.sec.gov.

MAB RESOURCES LLC

Effective July 1, 2005, we entered into a Management and Development Agreement (the "Development Agreement") with MAB Resources LLC ("MAB"). MAB is a Delaware limited liability company controlled by Marc A. Bruner, our largest shareholder. MAB is in the business of oil and gas exploration and development. MAB has acquired various oil and gas properties and related assets through several purchase and sale agreements and lease development agreements (collectively, the "MAB/Third-Party Agreements").

Commencing shortly after our formation, we entered into a series of exploration and development agreements (the "EDAs") and the Development Agreement with MAB, under which MAB has assigned an undivided 50% working interest in the oil and gas properties which MAB obtained under the MAB/Third-Party Agreements. Under the EDAs and the Development Agreement, MAB has the continuing obligation to assign to us an undivided 50% working interest in additional properties which

MAB acquires (including leases, concessions, permits and related oil and gas interests and assets) throughout the world, subject to reservation of a specified overriding royalty and subject to our specified obligations certain of which are described below.

All of the MAB/Third-Party Agreements establish one or more areas of mutual interest ("AMIs"). In the course of negotiating each MAB/Third-Party

Agreement, MAB secured each selling party's obligation to obtain substantial additional acreage and/or oil and gas leases (including producing properties) within each AMI and to convey to MAB 100% of the working interest in each lease and production asset obtained by seller. Under the EDAs and the Development Agreement, we have a continuing right to acquire an undivided 50% working interest in all such properties.

The Development Agreement sets forth: (a) MAB's obligation to assign to us a minimum 50% undivided interest in any and all oil and gas assets which MAB acquires from third parties in the future; and (b) our long-term relationship with MAB regarding the ownership and operation of all jointly-owned properties. Each of the Properties acquired is covered by a property-specific EDA that is consistent with the terms of the Development Agreement.

Each EDA and the Development Agreement include the following material terms:

- OWNERSHIP: MAB and we each own an undivided 50% working interest in all oil and gas leases, production facilities, and related assets (collectively, the "Properties").

- OPERATOR: We are named as Operator, and have appointed a related controlled entity, MAB Operating Company LLC, as sub-operator. MAB and we will sign a joint operating agreement, governing all operations.

- COSTS AND REVENUES: Each party pays its proportionate share of costs and receives its proportionate share of revenues, subject to us bearing the following burdens:

  a) MAB OVERRIDING ROYALTY INTEREST: Each assignment of Properties from MAB to us reserves an overriding royalty equivalent to 3% of 8/8ths (proportionately reduced to 1.5% of our undivided 50% working interest in the Properties) (the "MAB Override"), payable out of production and sales.

  b) PROJECT COSTS: Each EDA provides that we shall pay 100% of the cost of acquisitions and operations ("Project Costs") up to a specified amount, after which time each party shall pay its proportionate 50% share of such costs. The maximum specified amount of Project Costs of which we must pay 100%, under the Development Agreement for Properties acquired in the future, is $100 million for each Property or project acquired in the future. There is no "before payout" or "after payout" in the traditional sense of a "carried interest" because our obligation to expend the specified amount of Project Costs and MAB's receipt of its 50% share of revenues apply without regard to whether "payout" has occurred. Therefore, our payment of all Project Costs up to such specified amount might occur BEFORE actual payout, or might occur AFTER actual payout, depending on each project and set of Properties.

  c) PROJECT DEVELOPMENT COSTS: Under the Development Agreement, we pay to MAB a monthly advance of Project Development Costs representing a specified portion of MAB's "carried" Project Costs. The total amount of such advances paid to MAB by us will be deducted from MAB's portion of the Project Costs carried by us.

- RIGHTS AND OBLIGATIONS: MAB conveys to us an undivided 50% working interest in all rights and benefits under each EDA (such as additional Assets acquired under AMIs), and we assume our share of all duties and obligations under each EDA (such as drilling and development obligations).

Effective January 1, 2007, we entered into an Acquisition and Consulting Agreement with MAB, which replaces the previous joint ownership agreement between the parties. Under the new agreement, MAB has relinquished and assigned to us all of MAB's 50% working interest, resulting in us now owning 100% working interest in the leases, permits and licenses covering 7.2 million net mineral acres that were previously owned 50/50. As a direct result of that assignment, MAB's carried interest (totaling 50% of our estimated $700 million in capital expenditures) is void and no longer applicable. In addition, MAB's monthly advance payments of Project Development Costs ($600,000 as of December 31, 2006) are replaced with a monthly consulting fee of $25,000 and monthly payments of $225,000 under the $13.5 million promissory note.

In consideration for MAB's full relinquishment of its working interest and the carried interest, and the reduction in the monthly payment, and in connection with MAB's ongoing consulting services, our new agreement with MAB provides for the following consideration to MAB:

a) The new agreement increases MAB's previous 3% overriding royalty interest to a 10% override. However, one-half of the override (5%) is deferred for a three-year period, during which time we receive the cash attributable to that 5% portion of the override, with such amount to be repaid at the end of the three-year period.

b) The new agreement provides for the issuance of 50 million shares of our common stock to MAB.

c) MAB has the right and opportunity to receive up to an additional 50 million shares, to be held in escrow and released over a five-year period in specified numbers of shares that are tied to our performance in booking reserves. The agreement provides for thresholds, beginning with the issuance of the first five million shares if and when we achieve proved reserves of 150 billion cubic feet of gas. All 50 million shares would be issued to MAB if and when we book one trillion cubic feet of proved reserves by January 1, 2012. If we do not achieve one trillion cubic feet of proved reserves by that date, the balance of shares in escrow, if any, will be returned to us.

d) MAB will receive a promissory note in the principal amount of $13.5 million, payable in arrears by monthly installments of $225,000, commencing January 31, 2007, accruing interest at the London Interbank Offered Rate (LIBOR) (to be adjusted quarterly), and which shall be unsecured and subordinated to any other indebtedness in existence as of the date of the agreement or which is incurred by us or any affiliate or subsidiary in the future.

The transfer of MAB's working interest for our shares (including the carried interest), the revised override and MAB foregoing monthly capital cost advances, will be analyzed in an independent economic evaluation, and the closing of this agreement, which is to occur by the end of January 2007, will be subject to such evaluation concluding that the consideration exchanged by the parties reflects a fair and reasonable market value for us.

PROPOSED ACQUISITION OF POWDER RIVER BASIN PROPERTIES

On December 29, 2006, we entered into a Purchase and Sale Agreement (the "PSA") with Galaxy Energy Corporation ("Galaxy") and its wholly owned subsidiary, Dolphin Energy Corporation ("Dolphin"). Pursuant to the PSA, we agreed to purchase all of Galaxy's and Dolphin's oil and gas interests in the Powder River Basin of Wyoming and Montana (the "Powder River Basin Assets").

Marc A. Bruner, who is our largest shareholder, also is a 14.3% beneficial shareholder of Galaxy. Marc A. Bruner is the father of Marc E. Bruner, the President, Chief Executive Officer and director of Galaxy. Marc E. Bruner is the stepson of Carmen J. Lotito, the Chief Financial Officer and a director of the Company.

The purchase price for Powder River Basin Assets is $45 million, with $20 million to be paid in cash and $25 million to be paid in shares of our common stock at the rate of $1.50 per share.

Closing of the transaction is subject to approval by Galaxy's secured noteholders, approval of all matters in its discretion by our Board of Directors, including the Company obtaining outside financing on terms acceptable to its Board of Directors, and various other terms and conditions. Either party may terminate the agreement if closing has not occurred by February 28, 2007.

Within ten (10) days of signing the PSA, we were required and did make an initial earnest money payment of $1.4 million. On or before January 31, 2007, we will make an additional earnest money payment of $600,000. In the event the closing does not occur for any reason other than a material breach by us, the deposit shall convert into a promissory note (the "Note"), payable to us, and shall be an unsecured subordinated debt of both Galaxy and Dolphin, which is payable only after repayment of Galaxy's and Dolphin's senior indebtedness.

We became the contract operator of the Powder River Basin Assets beginning January 1, 2007. At closing, the operating expenses incurred by us as the contract operator will be credited toward the purchase price, or if closing does not occur, will be added to the principal amount of the Note.

MAB has orally agreed to guarantee the performance of Galaxy and Dolphin under the PSA (including but not limited to all their obligations under the Note), and has orally agreed to reimburse us for certain losses and damages which might be incurred as a result of those parties entering into the PSA. We expect that a written agreement will be entered into by the parties prior to closing.

PALEO

On November 14, 2006, we, through our subsidiary, Paleo, and the Box Hill Institute signed an agreement which commenced a five-year research collaboration with the BioSkills Specialist Centre for Biotechnology Training at the Box Hill Institute in Melbourne, Australia. As part of the agreement, Paleo and the Box Hill Institute share laboratory space and offer training opportunities for Box Hill students. The team will target a broad array of applications including energy/petrochemical, environmental remediation, timber and plant resources, agricultural and consumer products.

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 December 31, 2006, we had 16 full time employees and 16 total employees.

ENVIRONMENTAL MATTERS

Operations on properties in which we have an interest are subject to extensive federal, state and local environmental laws that regulate the discharge or disposal of materials or substances into the environment and otherwise are intended to protect the environment. Numerous governmental agencies issue rules and regulations to implement and enforce such laws, which are often difficult and costly to comply with and which carry substantial administrative, civil and criminal penalties and in some cases injunctive relief for failure to comply.

Some laws, rules and regulations relating to the protection of the environment may, in certain circumstances, impose "strict liability" for environmental contamination. These laws render a person or company liable for environmental and natural resource damages, cleanup costs and, in the case of oil spills in certain states, consequential damages without regard to negligence or fault. Other laws, rules and regulations may require the rate of oil and gas production to be below the economically optimal rate or may even prohibit exploration or production activities in environmentally sensitive areas. In addition, state laws often require some form of remedial action, such as closure of inactive pits and plugging of abandoned wells, to prevent pollution from former or suspended operations.

Legislation has been proposed in the past and continues to be evaluated in Congress from time to time that would reclassify certain oil and gas exploration and production wastes as "hazardous wastes." This reclassification would make these wastes subject to much more stringent storage, treatment, disposal and clean-up requirements, which could have a significant adverse impact on our operating costs. Initiatives to further regulate the disposal of oil and gas wastes are also proposed in certain states from time to time and may include initiatives at the county, municipal and local government levels. These various initiatives could have a similar adverse impact on our operating costs.

The regulatory burden of environmental laws and regulations increases our cost and risk of doing business and consequently affects our profitability. The federal Comprehensive Environmental Response, Compensation and Liability Act, or CERCLA, also known as the "Superfund" law, imposes liability, without regard to fault, on certain classes of persons with respect to the release of a "hazardous substance" into the environment. These persons include the current or prior owner or operator of the disposal site or sites where the release occurred and companies that transported, disposed or arranged for the transport or disposal of the hazardous substances found at the site. Persons who are or were responsible for releases of hazardous substances under CERCLA may be subject to joint and several liability for the costs of cleaning up the hazardous substances that have been released into the environment and for damages to natural resources, and it is not uncommon for the federal or state government to pursue such claims.

It is also not uncommon for neighboring landowners and other third parties to file claims for personal injury or property or natural resource damages allegedly caused by the hazardous substances released into the environment. Under CERCLA, certain oil and gas materials and products are, by definition, excluded from the term "hazardous substances." At least two federal courts have held that certain wastes associated with the production of crude oil may be classified as hazardous substances under CERCLA. Similarly, under the federal Resource, Conservation and Recovery Act, or RCRA,

which governs the generation, treatment, storage and disposal of "solid wastes" and "hazardous wastes," certain oil and gas materials and wastes are exempt from the definition of "hazardous wastes." This exemption continues to be subject to judicial interpretation and increasingly stringent state interpretation. During the normal course of operations on properties in which we have an interest, exempt and non-exempt wastes, including hazardous wastes, that are subject to RCRA and comparable state statutes and implementing regulations are generated or have been generated in the past. The federal Environmental Protection Agency and various state agencies continue to promulgate regulations that limit the disposal and permitting options for certain hazardous and non-hazardous wastes.

We believe that the operator of the properties in which we have an interest is in substantial compliance with applicable laws, rules and regulations relating to the control of air emissions at all facilities on those properties. Although we maintain insurance against some, but not all, of the risks described above, including insuring the costs of clean-up operations, public liability and physical damage, there is no assurance that our insurance will be adequate to cover all such costs, that the insurance will continue to be available in the future or that the insurance will be available at premium levels that justify our purchase. The occurrence of a significant event not fully insured or indemnified against could have a material adverse effect on our financial condition and operations. Compliance with environmental requirements, including financial assurance requirements and the costs associated with the cleanup of any spill, could have a material adverse effect on our capital expenditures, earnings or competitive position. We do believe, however, that our operators are in substantial compliance with current applicable environmental laws and regulations. Nevertheless, changes in environmental laws have the potential to adversely affect our operations. At this time, we have no plans to make any material capital expenditures for environmental control facilities.

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.

We are a development stage oil and gas company and have earned very limited production revenue. Our principal activities have been raising capital through the sale of our securities and identifying and evaluating potential oil and gas properties.

The report of our independent registered public accounting firm on the financial statements for the year ended September 30, 2006, includes an explanatory paragraph relating to the uncertainty of our ability to continue as a going concern. From inception to September 30, 2006, we have generated a cumulative net loss of $22,810,834. For the 2007 fiscal year, we do not expect our operations to generate sufficient cash flows to provide working capital for our ongoing overhead, 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 any prospects that we have or acquire and we may not achieve profitability from operations in the near future or at all.

THE LACK OF PRODUCTION AND ESTABLISHED RESERVES FOR OUR PROPERTIES IMPAIRS OUR ABILITY TO RAISE CAPITAL.

As of September 30, 2006, we have established very limited production of natural gas from a limited number of wells, and have no properties for which reserves have been established, making it more difficult to raise the amount of capital needed to fully exploit the production potential of our properties. Therefore, we may have to raise capital on terms less favorable than we would desire. This may result in increased dilution to existing stockholders.

TERMS OF SUBSEQUENT FINANCINGS MAY ADVERSELY IMPACT YOUR INVESTMENT.

We may have to engage in common equity, debt, or preferred stock financing in the future. Your rights and the value of your investment in the common stock could be reduced by any type of financing we do. Interest on debt securities could increase costs and negatively impacts operating results, and investors in debt securities may negotiate for other consideration or terms which could have a negative impact on your investment. Preferred stock could be issued in series from time to time with such designations, rights, preferences, and limitations as needed to raise capital, and the terms of preferred stock could be more advantageous to those investors than to the holders of common stock. If we need to raise more equity capital from the sale of common stock, institutional or other investors may negotiate terms at least as, and possibly more, favorable than the terms of your investment. In addition, any shares of common stock that we sell could be sold into the market and subsequent sales could adversely affect the market price of our stock.

MARC A. BRUNER AND HIS AFFILIATES CONTROL A SIGNIFICANT PERCENTAGE OF OUR OUTSTANDING COMMON STOCK, WHICH WILL ENABLE THEM TO CONTROL MANY SIGNIFICANT CORPORATE ACTIONS AND MAY PREVENT A CHANGE IN CONTROL THAT WOULD OTHERWISE BE BENEFICIAL TO OUR STOCKHOLDERS.

Marc A. Bruner beneficially owned approximately 33.4% of our common stock as of November 30, 2006. Under the terms of the new Acquisition and Consulting Agreement with MAB, he will acquire beneficial ownership of at least 50 million additional shares and up to as many as 100 million shares. This control by Mr. Bruner could have a substantial impact on matters requiring the vote of the stockholders, including the election of our directors and most of our corporate actions. This control could delay, defer or prevent others from initiating a potential merger, takeover or other change in our control, even if these actions would benefit our stockholders and us. This control could adversely affect the voting and other rights of our other stockholders and could depress the market price of our common stock.

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. Marc A. Bruner, our largest shareholder, is the controlling owner of MAB Resources LLC, the entity with which we have agreements affecting all of our oil and gas properties. Mr. Bruner also serves as the chairman of the board of Gasco Energy, Inc. and chairman of the board, chief executive officer and president of Falcon Oil & Gas Ltd. ("Falcon"), and is involved with other natural resource companies. He is a significant shareholder of Galaxy Energy Corporation ("Galaxy") and the father of Galaxy's President, Marc E. Bruner. He is also a significant shareholder of Exxel Energy Corp., a British Columbia corporation, whose stock is traded on the TSX Venture Exchange. Carmen Lotito, our Executive Vice President, Chief Financial Officer and Treasurer, is the stepfather of Galaxy's President, Marc E. Bruner, a former officer and director of Galaxy, and a director of Gasco Energy, Inc. 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.

In addition to the agreement with MAB Resources LLC, we have an office sharing arrangement with Falcon and have entered into a purchase and sale agreement with Galaxy to purchase its oil and gas interests in the Powder River Basin of Wyoming and Montana.

RESERVE ESTIMATES DEPEND ON MANY ASSUMPTIONS THAT MAY TURN OUT TO BE INCONCLUSIVE, SUBJECT TO VARYING INTERPRETATIONS, OR INACCURATE.

Estimates of natural gas and oil reserves are based upon various assumptions, including assumptions relating to natural gas and oil prices, drilling and operating expenses, capital expenditures, ownership and title, taxes and the availability of funds. The process of estimating natural gas and oil reserves is complex. It requires interpretations of available geological, geophysical, engineering and economic data for each reservoir. Therefore, these estimates are inherently imprecise. Further, potential for future reserve revisions, either upward or downward, is significantly greater than normal because 100% of our reserves are undeveloped.

Actual natural gas and oil prices, future production, revenues, operating expenses, taxes, development expenditures and quantities of recoverable natural gas reserves will most likely vary from those estimated. Any significant variance could materially affect the estimated quantities and present value of future net revenues at any time. A reduction in natural gas and oil prices, for example, would reduce the value of reserves and reduce the amount of natural gas and oil that could be economically produced, thereby reducing the quantity of reserves. At any time, there might be adjustments of estimates of reserves to reflect production history, results of exploration and development, prevailing natural gas prices and other factors, many of which are beyond our control.

Undeveloped reserves, by their nature, are less certain. Recovery of undeveloped reserves requires significant capital expenditures and successful drilling operations. Any reserve data assumes that we will make significant capital expenditures to develop our reserves. To the extent that we have prepared estimates of our natural gas and oil reserves and of the costs associated with these reserves in accordance with industry standards, we cannot assure you that the estimated costs are accurate, that development will occur as scheduled or that the actual results will be as estimated.

MARKET CONDITIONS OR OPERATION IMPEDIMENTS MAY HINDER OUR ACCESS TO NATURAL GAS AND OIL MARKETS OR DELAY OUR PRODUCTION.

The marketability of our production depends in part upon the availability, proximity and capacity of pipelines, natural gas gathering systems and processing facilities. This dependence is heightened where this infrastructure is less developed. Therefore, if drilling results are positive in certain areas of the Properties, a new gathering system would need to be built to handle the potential volume of gas produced. We might be required to shut in wells, at least temporarily, for lack of a market or because of the inadequacy or unavailability of transportation facilities. If that were to occur, we would be unable to realize revenue from those wells until arrangements were made to deliver production to market.

Our ability to produce and market natural gas and oil is affected and also may be harmed by:

- the lack of pipeline transmission facilities or carrying capacity;
- government regulation of natural gas and oil production;
- government transportation, tax and energy policies;
- changes in supply and demand; and
- general economic conditions.

WE MIGHT INCUR ADDITIONAL DEBT IN ORDER TO FUND OUR EXPLORATION AND DEVELOPMENT ACTIVITIES, WHICH WOULD CONTINUE TO REDUCE OUR FINANCIAL FLEXIBILITY AND COULD HAVE A MATERIAL ADVERSE EFFECT ON OUR BUSINESS, FINANCIAL CONDITION OR RESULTS OF OPERATIONS.

If we incur indebtedness, our ability to meet our debt obligations and reduce our level of indebtedness depends on future performance. General economic conditions, oil and gas prices and financial, business and other factors affect our operations and future performance. Many of these factors are beyond our control. We cannot assure you that we will be able to generate sufficient cash flow to pay the interest on our debt or that future working capital, borrowings or equity financing will be available to pay or refinance such debt. Factors that will affect our ability to raise cash through an offering of our capital stock or a refinancing of our debt include financial market conditions, the value of our assets and performance at the time we need capital. We cannot assure you that we will have sufficient funds to make such payments. If we do not have sufficient funds and are otherwise unable to negotiate renewals of our borrowings or arrange new financing, we might have to sell significant assets. Any such sale could have a material adverse effect on our business and financial results.

WE HAVE SIGNIFICANT FUTURE CAPITAL REQUIREMENTS. IF THESE OBLIGATIONS ARE NOT MET, OUR GROWTH AND OPERATIONS COULD BE NON-FUNCTIONAL.

Our future growth depends on our ability to make large capital expenditures for the development of the working interests we have acquired. In addition, we may acquire interests in additional oil and gas leases where we will be required to pay for a specific amount of the initial costs and expenses related to the development of those leases. We intend to finance our foreseeable capital expenditures through additional fundings for which we have no commitments at this time. Future cash flows and the availability of financing will be subject to a number of variables, such as:

- the success of the leases;
- success in locating and producing new reserves; and
- prices of natural gas and oil.

Additional financing sources will be required in the future to fund developmental and exploratory drilling. Issuing equity securities to satisfy our financing requirements could cause substantial dilution to our existing stockholders. Additional debt financing could lead to:

- a substantial portion of operating cash flow being dedicated to the payment of principal and interest;
- the Company being more vulnerable to competitive pressures and economic downturns; and
- restrictions on our operations.

Financing might not be available in the future, or we might not be able to obtain necessary financing on acceptable terms, if at all. If sufficient capital resources are not available, we might be forced to curtail drilling and other activities or be forced to sell some assets on an untimely or unfavorable basis, which would have an adverse affect our business, financial condition and results of operations.

THE LEASES AND/OR FUTURE PROPERTIES MIGHT NOT PRODUCE AS ANTICIPATED, AND WE MIGHT NOT BE ABLE TO DETERMINE RESERVE POTENTIAL, IDENTIFY LIABILITIES ASSOCIATED WITH THE PROPERTIES OR OBTAIN PROTECTION FROM SELLERS AGAINST THEM, WHICH COULD CAUSE US TO INCUR LOSSES.

Although we have reviewed and evaluated the leases in a manner consistent with industry practices, this review and evaluation might not necessarily reveal all existing or potential problems. This is also true for any future acquisitions made by us. Inspections may not always be performed on every

well, and environmental problems, such as groundwater contamination, are not necessarily observable even when an inspection is undertaken. Even when problems are identified, a seller may be unwilling or unable to provide effective contractual protection against all or part of those problems, and we often assume environmental and other risks and liabilities in connection with the acquired properties.

WE DO NOT PLAN TO INSURE AGAINST ALL POTENTIAL OPERATING RISKS. WE MIGHT INCUR SUBSTANTIAL LOSSES AND BE SUBJECT TO SUBSTANTIAL LIABILITY CLAIMS AS A RESULT OF OUR NATURAL GAS AND OIL OPERATIONS.

We do not intend to insure against all risks. We intend to maintain insurance against various losses and liabilities arising from operations in accordance with customary industry practices and in amounts that management believes to be prudent. Losses and liabilities arising from uninsured and underinsured events or in amounts in excess of existing insurance coverage could have a material adverse effect on our business, financial condition or results of operations. Our natural gas and oil exploration and production activities will be subject to hazards and risks associated with drilling for, producing and transporting natural gas and oil, and any of these risks can cause substantial losses resulting from:

- environmental hazards, such as uncontrollable flows of natural gas, oil, brine, well fluids, toxic gas or other pollution into the environment, including groundwater and shoreline contamination;
- abnormally pressured formations;
- mechanical difficulties, such as stuck oil field drilling and service tools and casing collapse;
- fires and explosions;
- personal injuries and death;
- regulatory investigations and penalties; and
- natural disasters.

Any of these risks could have a material adverse effect on our ability to conduct operations or result in substantial losses. We might elect not to obtain insurance if we believe that the cost of available insurance is excessive relative to the risks presented. In addition, pollution and environmental risks generally are not fully insurable. If a significant accident or other event occurs and is not fully covered by insurance, it could have a material adverse effect on our business, financial condition and results of operations.

RISKS RELATING TO THE OIL AND GAS INDUSTRY:

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.

Our revenues, operating results and future rate of growth are substantially dependent upon the prevailing prices of, and demand for, natural gas and oil. Declines in the prices of, or demand for, natural gas and oil may adversely affect our financial condition, liquidity, ability to finance planned capital expenditures and results of operations. Lower natural gas and oil prices may also reduce the amount of natural gas and oil that we can produce economically. Historically, natural gas and oil prices and markets have been volatile, and they are likely to continue to be volatile in the future. A decrease in natural gas or oil prices will not only reduce revenues and profits, but will also reduce the quantities of reserves that are commercially recoverable and may result in charges to earnings for impairment of the value of these assets. If natural gas or oil prices decline significantly for extended periods of time in the future, we might not be able to generate enough cash flow from operations to meet our obligations and make planned capital expenditures. Natural gas and oil prices are subject to wide fluctuations in response to relatively minor changes in the supply of, and demand for, natural gas and oil, market uncertainty and a

variety of additional factors that are beyond our control. Among the factors that could cause this fluctuation are:

- changes in supply and demand for natural gas and oil;
- levels of production and other activities of the Organization of Petroleum Exporting Countries, or OPEC, and other natural gas and oil producing nations;
- market expectations about future prices;
- the level of global natural gas and oil exploration, production activity and inventories;
- political conditions, including embargoes, in or affecting other oil producing activity; and
- the price and availability of alternative fuels.

Lower natural gas and oil prices may not only decrease our revenues on a per unit basis, but also may reduce the amount of natural gas and oil that we can produce economically. A substantial or extended decline in oil or natural gas prices may materially and adversely affect our business, financial condition and results of operations.

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.

Our future success depends on the success of our exploration, development and production activities of our leases. These activities are subject to numerous risks beyond our control, including the risk that we will not find any commercially productive natural gas or oil reservoirs. Our decisions to purchase, explore, develop or otherwise exploit prospects or properties will depend in part on the evaluation of data obtained through geophysical and geological analyses, production data and engineering studies, the results of which are often inconclusive or subject to varying interpretations. The cost of drilling, completing and operating wells is often uncertain before drilling commences. Overruns in budgeted expenditures are common risks that can make a particular project uneconomical. Further, many factors may curtail, delay or prevent drilling operations, including:

- unexpected drilling conditions;
- pressure or irregularities in geological formations;
- equipment failures or accidents;
- pipeline and processing interruptions or unavailability;
- title problems;
- adverse weather conditions;
- lack of market demand for natural gas and oil;
- delays imposed by or resulting from compliance with environmental and other regulatory requirements;
- shortages of or delays in the availability of drilling rigs and the delivery of equipment; and
- reductions in natural gas and oil prices.

Our future drilling activities might not be successful, and drilling success rate overall or within a particular area could decline. We could incur losses by drilling unproductive wells. Although we have identified numerous potential drilling locations, we cannot be sure that we will ever drill them or will produce natural gas or oil from them or from any other potential drilling locations. Shut-in wells, curtailed production and other production interruptions may negatively impact our business and result in decreased revenues.

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.

We operate in the highly competitive areas of oil and gas exploration, development and acquisition with a substantial number of other companies. We face intense competition from independent, technology-driven companies as well as from both major and other independent oil and gas companies in each of the following areas:

- seeking oil and gas exploration licenses and production licenses;
- acquiring desirable producing properties or new leases for future exploration;
- marketing natural gas and oil production;

- integrating new technologies; and
- acquiring the equipment and expertise necessary to develop and operate properties.

Many of our competitors have substantially greater financial, managerial, technological and other resources. These companies might be able to pay more for exploratory prospects and productive oil and gas properties and may be able to define, evaluate, bid for and purchase a greater number of properties and prospects than our financial or human resources permit. To the extent competitors are able to pay more for properties than we are able to afford, we will be at a competitive disadvantage. Further, many competitors may enjoy technological advantages and may be able to implement new technologies more rapidly. Our ability to explore for natural gas and oil prospects and to acquire additional properties in the future will depend upon its ability to successfully conduct operations, implement advanced technologies, evaluate and select suitable properties and consummate transactions in this highly competitive environment.

SHORTAGES OF RIGS, EQUIPMENT, SUPPLIES AND PERSONNEL COULD DELAY OR OTHERWISE ADVERSELY AFFECT OUR COST OF OPERATIONS OR OUR ABILITY TO OPERATE ACCORDING TO OUR BUSINESS PLANS.

In periods of increased drilling activity, shortage of drilling and completion rigs, field equipment and qualified personnel could develop. From time to time, these costs have sharply increased in various areas around the world and could do so again. The demand for and wage rates of qualified drilling rig crews generally rise in response to the increasing number of active rigs in service and could increase sharply in the event of a shortage. Shortages of drilling and completion rigs, field equipment or qualified personnel could delay, restrict or curtail our exploration and development operations, which could in turn harm its operating results.

TO THE EXTENT THAT WE ESTABLISH NATURAL GAS AND OIL RESERVES, WE WILL BE REQUIRED TO REPLACE, MAINTAIN OR EXPAND OUR NATURAL GAS AND OIL RESERVES IN ORDER TO PREVENT OUR RESERVES AND PRODUCTION FROM DECLINING, WHICH WOULD ADVERSELY AFFECT CASH FLOWS AND INCOME.

In general, production from natural gas and oil properties declines over time as reserves are depleted, with the rate of decline depending on reservoir characteristics. If we establish reserves, of which there is no assurance, and are not successful in our subsequent exploration and development activities or in subsequently acquiring properties containing proved reserves, our proved reserves will decline as reserves are produced. Our future natural gas and oil production is highly dependent upon our ability to economically find, develop or acquire reserves in commercial quantities.

To the extent cash flow from operations is reduced, either by a decrease in prevailing prices for natural gas and oil or an increase in finding and development costs, and external sources of capital become limited or unavailable, our ability to make the necessary capital investment to maintain or expand our asset base of natural gas and oil reserves would be impaired. Even with sufficient available capital,

our future exploration and development activities may not result in additional proved reserves, and we might not be able to drill productive wells at acceptable costs.

ACCOUNTING RULES MAY REQUIRE WRITE-DOWNS.

Under full cost accounting rules, capitalized costs of proved oil and gas properties may not exceed the present value of estimated future net revenues from proved reserves, discounted at 10%. Application of the ceiling test generally requires pricing future revenue at the unescalated prices in effect as of the end of each fiscal quarter and requires a write-down for accounting purposes if the ceiling is exceeded. If a write-down is required, it would result in a charge to earnings, but would not impact cash flow from operating activities. Once incurred, a write-down of oil and gas properties is not reversible at a later date.

OUR INDUSTRY IS HEAVILY REGULATED.

Federal, state and local authorities extensively regulate the oil and gas industry. Legislation and regulations affecting the industry are under constant review for amendment or expansion, raising the possibility of changes that may affect, among other things, the pricing or marketing of oil and gas production. State and local authorities regulate various aspects of oil and gas drilling and production activities, including the drilling of wells (through permit and bonding requirements), the spacing of wells, the unitization or pooling of oil and gas properties, environmental matters, safety standards, the sharing of markets, production limitations, plugging and abandonment, and restoration. The overall regulatory burden on the industry increases the cost of doing business, which, in turn, decreases profitability.

OUR OPERATIONS MUST COMPLY WITH COMPLEX ENVIRONMENTAL REGULATIONS.

Our operations are subject to complex and constantly changing environmental laws and regulations adopted by federal, state and local governmental authorities. New laws or regulations, or changes to current requirements, could have a material adverse effect on our business. We will continue to be subject to uncertainty associated with new regulatory interpretations and inconsistent interpretations between state and federal agencies. We could face significant liabilities to the government and third parties for discharges of oil, natural gas, produced water or other pollutants into the air, soil or water, and we could have to spend substantial amounts on investigations, litigation and remediation. We cannot be sure that existing environmental laws or regulations, as currently interpreted or enforced, or as they may be interpreted, enforced or altered in the future, will not have a material adverse effect on our results of operations and financial condition.

RISKS RELATED TO OUR COMMON STOCK.

OUR COMMON STOCK MAY BE THINLY TRADED, AND THEREFORE, AN INVESTOR MAY NOT BE ABLE TO EASILY LIQUIDATE HIS OR HER INVESTMENT.

Although our common stock is currently traded on the OTC Bulletin Board, at any time, it may be thinly traded. To the extent that is true, an investor may not be able to liquidate his or her investment without a significant decrease in price - or at all.

EVEN IF THERE IS AN ACTIVE TRADING MARKET DEVELOPS, STOCK PRICES MAY BE VOLATILE.

Even if the trading volume in our common stock is active, the price of the common stock may be low or volatile. Many brokerage firms may not effect transactions and may not deal with low priced securities as it may not be economical for them to do so. This could have an adverse effect on developing and sustaining a market for our securities. In addition, there is no assurance that an investor will be able to use our securities as collateral.

There is no assurance that our common stock will meet the criteria necessary to qualify for listing on the AIM Stock Exchange, NASDAQ or the American Stock Exchange. Even if our common stock does meet the criteria, there is no assurance that our common stock would be accepted for listing on any of these exchanges.

RAISING ADDITIONAL CAPITAL WOULD DILUTE EXISTING SHAREHOLDERS.

In order to pursue our business plans, we will need to continue to raise additional capital. If we are able to obtain additional funding through the sale of common stock, the financing would dilute the equity ownership of existing stockholders.

WE HAVE NOT AND DO NOT ANTICIPATE PAYING DIVIDENDS ON OUR COMMON STOCK.

We have not paid any cash dividends to date with respect to our common stock. We do not anticipate paying dividends on our common stock in the foreseeable future since we will use all of our earnings, if any, to finance expansion of our operations. However, we are authorized to issue preferred stock and may in the future pay dividends on our preferred stock that may be issued.

ITEM 2. DESCRIPTION OF PROPERTY

Commencing effective July 1, 2005 and continuing through December 31, 2006, we entered into a Management and Development Agreement (the "Development Agreement") and a series of property-specific Exploration and Development Agreements (collectively, the "EDAs") pursuant to the Development Agreement with MAB. Effective January 1, 2007, the Development Agreement and the EDAs were replaced in their entirety by the Acquisition and Consulting Agreement with MAB as discussed in Item 1 above.

The following description of our oil and gas property acquisitions for the period from inception to September 30, 2006 is pursuant to the original Development Agreement and related EDAs. All references to our obligations to pay "project development costs" pertaining to the following properties mean the specified amounts of capital expenditures (for each such property), which were credited against our obligation to carry MAB for MAB's 50% portion of such expenditures.

HEAVY OIL PROPERTIES

As conventional petroleum reservoirs become depleted other unconventional energy sources must supply an increasing proportion of North American energy requirements. We believe that heavy oil and oil sands provide this vitally needed resource increasingly in North America, as evidenced by oil sands development in Alberta, Canada. Potential in heavy oil and oil sands are known to exist in the United States. In California, heavy oil fields in the San Joaquin Valley have demonstrated consistent and large field (reserve) growth for nearly a hundred years. Application of new technology there resulted in significant reserve additions both to recoverable reserves and in place estimates. Most recent heavy oil technology advances have been made in Canada related to development of the Athabasca heavy oil/tar sands. Heavy oil occurrences are extensively developed in Canada but little effort has been directed to U.S. heavy oil reservoirs in the Rocky Mountain region. We have identified three such properties: Great Salt Lake (West Rozel field and Gunnison Wedge Prospect) in Utah, the Fiddler Creek Area in southern Montana, and the Promised Land Prospect in north central Montana. We believe that the economic development of each project requires innovative technology to develop these large potential oil resource plays.

GREAT SALT LAKE -- UTAH. We have 173,851 net mineral acres under lease (covered by approximately 78 leases) on two principal properties, West Rozel Field and Gunnison Wedge prospect in the Great Salt Lake of Utah. Recent developments are mapping of seismic data and recommendation of three drill sites on the West Rozel field. Three vertical pairs of wells have been sited to test the productivity of the field using a dual well strategy. This strategy involves paired wells with one well being a production well and the other a water injection (disposal) well. Seismic and geologic maps have been completed and the permit process has been started for the proposed locations. We anticipate gathering additional seismic data to test the Gunnison Wedge prospect in the northwestern portion of the Great Salt Lake. A significant production component of producing these heavy oils is maintenance of an appropriate gas oil ratio within the reservoir. We have recently identified a new potential gas sand, up to 60 feet in thickness at a depth of about 1500 feet, i.e. about 900 feet above the target reservoir depth, at West Rozel field, which will help to provide in situ gas and increase the economic viability of the project. The gas horizon seems to occur over much of the West Rozel acreage.

Effective November 21, 2005, we entered into an EDA with MAB for the West Rozel Project, under which we have paid $1,250,000 to the assignor and paid reimbursement of estimated costs incurred by the assignor of approximately $180,000 through September 30, 2006. We were obligated to pay MAB monthly project development costs in the amount of $200,000, commencing June 1, 2005, and the first $50 million of project costs.

Pursuant to the terms of each of the leases, we must complete permitting on this project during 2007. One well must be drilled prior to the expiration date of the primary term under each lease. The primary terms of two of the leases where we intend to commence operations end in June 2008, and the primary term of the third lease where we intend to commence operations ends in May 2009. We plan to drill at least one test well on each of the leases prior to the end of each respective primary term. Subsequent drilling and development, as well as any applications to extend the term of one or more of the leases, will be determined as we evaluate the results of the first test well and as we further analyze the results of the seismic surveys.

FIDDLER CREEK, MONTANA. We have acquired a significant acreage position of 20,436 net acres on three anticlines on the northern portion of the Big Horn Basin, which extends from north central Wyoming into southern Montana. These three properties encompass significant portions of Roscoe Dome, Dean Dome and Fiddler Creek structures, which we believe have significant estimated in place oil reserves. These anticlines are large asymmetric anticlines with proven production from several Cretaceous horizons; i.e. the Upper Greybull Sandstone, the Lower Greybull Sandstone and the Pryor Sandstone. There is both oil and gas potential in these sandstones and new technology and techniques have commenced to improve recovery of oil from two previously drilled wells. We have re-entered two wells, the Bar B #1 on Dean Dome and the #1 Eggen well on the Fiddler Creek structure. Additional wells have been selected for additional testing as well on Roscoe Dome, the #4 George and the #6 George wells and the #3 Keller on Dean Dome. Three horizontal tests are planned for the Roscoe and Dean Dome this year as well as a stratigraphically deeper test on the Fiddler Creek structure to test Paleozoic potential in Phosphoria (Permian), Tensleep (Pennsylvanian), and Madison (Mississippian) formations. A small 2-D seismic will be required to site the deeper test.

Effective July 16, 2006, we entered into an EDA with MAB for the Fiddler Creek (Montana) Project, under which we paid $2,000,000 through September 30, 2006, consisting of $300,000 cash to the assignor and the issuance of $1.7 million (3.4 million shares at $0.50 per share) of our common stock as a

finders fee to a third party. We were obligated to pay MAB monthly project development costs of $20,000 per month, commencing April 1, 2006, and the first $100 million of project costs.

Subsequently, we acquired additional acreage in the Fiddler Creek Project area for a purchase price of $11,250,000 (of which $6,039,599 has been paid through September 30, 2006). We have the option to pay said remaining amount of approximately $5.2 million. In the event we elect not to make such payment, we would be required to reassign the properties to the seller, and there would be no other cost or penalty. We were obligated to pay MAB monthly project development costs of $100,000, commencing August 1, 2006, and to pay the first $50 million of project costs on these additional properties.

We are obligated to perform our due diligence investigation on this property before the final payment is due December 31, 2007.

PROMISED LAND, MONTANA. We have acquired 49,120 net acres in a resource play evaluating heavy oil reservoirs in Jurassic Swift Formation and Lower Cretaceous Bow Island and Sunburst sandstone reservoirs in north central Montana. The Swift reservoirs were deposited in a shallow marine to estuarine depositional setting. The Swift sandstones are commonly oil saturated in the area, and most well tests report oil shows in the Swift. The reservoirs are up to 60 feet thick and composed of high quality sandstone, averaging about 20 percent porosity and permeabilities range up to one darcy. The oil gravities range from 10(degree) to 22(degree)API with viscosities of 1500 centipoise to greater than 50,000 centipoise at 125(degree)F. Additional conventional potential is possible in Devonian Duperow grainstones, Nisku, and Madison formations. Following some detailed geologic and geophysical investigations to determine the depositional environment and geometry of the Swift sandstone reservoirs, we anticipate drilling three vertical tests in the coming year offsetting previously drilled wells that encountered oil saturated Swift reservoirs.

Effective May 15, 2006, we entered into an EDA with MAB for the Promised Land Project, under which we have paid $194,250 through September 30, 2006 to the assignor for leases acquired by the assignor. We were obligated to pay MAB monthly project development costs of $50,000, commencing May 1, 2006, and to pay the first $50 million of project costs.

We do not have any drilling commitments with respect to this property.

PICEANCE BASIN, COLORADO PROPERTIES

The Cretaceous Mesaverde Group, which includes the Williams Fork and Iles formations, has long been known to hold vast reserves of natural gas. The gas is sourced primarily from thick coals in the lower Williams Fork formation, with additional contribution from thinner coals in portions of the Iles formation. While the coals hold large volumes of gas, attempts at completions in the coal have not proven economic. The sandstone reservoirs have been charged by the coals and account for virtually all the gas being produced from the Mesaverde Group.

Early attempts to complete wells resulted in low rates with no noticeable decline. With the advent of advanced artificial fracturing techniques and completion fluids in the late 1990s, operators began economic exploitation of the play. Based on publicly-available data (IHS Energy PI/Dwights PLUS(R) Well Data, July 2006), approximately 3,500 producing wells have been completed to date. Total production from the play is 947 mmcf/day and 95 mbo/day, with cumulative volumes produced from the play of over 1,534 bcf and 4.8 mmbo. The play is active in Garfield, Mesa, and Rio Blanco counties in Colorado, with approximately 50 to 60 rigs drilling at any given time (Rocky Mountain Oil Journal, v. 86 no. 52).

BUCKSKIN MESA PROJECT. We have leased approximately 20,000 net acres in Rio Blanco County, Colorado. Effective September 17, 2005, we entered into an EDA with MAB for the Buckskin Mesa Project, under which we have paid, through September 30, 2006, $5,362,500 to the assignor and $1,961,460 in Federal lease payments for Federal leases acquired by the assignor on November 10, 2005. As consideration for extending the final payment due on closing, we agreed to pay a monthly extension fee of $200,000 for each 30-day period commencing January 6, 2006 of which all were paid as of June 30, 2006. We were obligated to pay MAB monthly project development costs of $20,000, commencing July 1, 2005, and the first $50 million of project costs. We charged all property development costs incurred to MAB under the related EDAs to operations.

Effective July 18, 2006, we entered into an EDA with MAB related to the Buckskin Mesa Project in the Piceance Basin, Colorado, under which we received an undivided 50% working interest in the properties for $765,000. If we elect to accept certain leases which are subject to additional title curative work, we will pay up to a maximum of an additional $1.1 million payable to a third party for bonus payments related to such properties. We were obligated to pay MAB monthly project development costs of $20,000, commencing August 1, 2006 and to pay the first $50 million of project costs.

We have applied for and received six approved drilling permits to test targets in the Cretaceous Mesaverde Group. A 26-square mile 3-D seismic survey has been licensed, re-processed, and interpreted to focus initial drilling in areas of thickest pay and enhanced fracturing. We have spudded our first well at Buckskin Mesa, the Anderson 6-16. As of January 9, 2007, the Bronco #4 rig was drilling ahead at 6900 feet in the Williams Fork Formation. Planned total depth of the well is 10,270 feet. The well is on prognosis with seismic interpretations, and gas shows have been noted. If results from this well are favorable, we plan to initiate a multi-well production program. Depending on observed reservoir drainage of the wells, we believe there is potential for 1,000 to 2,000 additional well locations.

We are obligated to drill four wells to test the Rawlings Formation by November 30, 2007, in addition to the one well being drilled as described above.

PICEANCE II PROJECT. We have leased approximately 1,000 net acres contiguous to Parachute, Rulison, and Grand Valley fields in Garfield County, Colorado. Effective December 29, 2005, we entered into an EDA with MAB for the Piceance II Project, under which we agreed to pay up to $4,000,000 to the assignor (of which $3,898,793 has been paid through September 30, 2006) and issued $1 million of our common stock (2,000,000 shares at $0.50 per share). We were obligated to pay MAB monthly project development costs of $20,000 per month, commencing November 1, 2005, and the first $50 million of project costs.

As of January 10, 2007, we had interests in 12 producing wells, 15 wells waiting on completion, and 4 wells being drilled. Average daily production net to us from these wells for the week ending December 17, 2006 (the most recent available) was 2,656 mcf/day (including MAB's share of production). Initial production rates varied from 1,000 to 2,023 mcf/day.

Production is from frac-stimulated perforations in stacked sands of the fluvial Williams Fork formation.

We have signed a purchase and sale agreement to purchase leases covering approximately 2,000 additional net acres within close proximity or contiguous to our other Piceance II properties. We are not certain whether additional acreage will be obtained under this agreement.

We are obligated to drill eight wells on these leases during 2007.

22

AUSTRALIA PROPERTIES

BEETALOO BASIN. The Beetaloo Basin property in the Northern Territory of Australia currently consists of approximately 7 million acres. We have applied for permits covering an additional 1.5 million acres that is contiguous to the currently-owned permits. Located about 600 kilometers south of Darwin, the Beetaloo Basin is a large basin, comparable in size to the Williston Basin in the U.S. or the entire southern North Sea basin. Structurally it has been viewed as a relatively simple intracratonic, passive margin basin, with minor extension (strike-slip), filled with sediments ranging from Cambrian to Mesoproterozoic rocks. However, interpretation of new 2D seismic data acquired by us in 2006 requires modification of the structural and tectonic history of the basin. The broad, low relief structures previously recognized in the basin, probably related to strike-slip movement, represent only a portion of its history. Significant and possibly multiple compressional events are observed in the basin. Ongoing geophysical evaluation has identified a more recent compressional history along the western margin of the basin resulting in a series of westerly verging, imbricate thrust faults in contrast to easterly verging, thrust faults discovered in the central basin. All identified structures are untested and prospective.

The Basin has many thousands of meters of sediments, but the reservoirs of interest to us are within 4000 meters of the surface, most less than 3000 meters. The sedimentary rocks include thick (hundreds of meters), rich source rocks, namely the Velkerri Shale with Total Organic Carbon ("TOC") contents as high as 12%, and the Kyalla Shale with typical TOC contents of 2-3%. There is also a number of sandstone reservoirs interbedded with the rich source rocks. These formations, from stratigraphically youngest to oldest, include the Cambrian Bukalara Sandstone, and the Neoproterozoic Jamison, Moroak, and Bessie Creek sandstones. A number of even deeper sandstones are expected to be very tight and were not prospective in the single well where they were tested east of the Basin.

Three primary plays have been recognized within the basin. The first is a conventional structural, shallow sweet oil play of 35(degree) API gravity. The Bukalara, Jamison, and Moroak sands (and perhaps the Bessie Creek sand along the western margin) have potential for oil accumulations in trapped and sealed geometries. Most of the eleven previous wells drilled within the basin had oil and gas shows, and the Jamison #1 well tested oil on a Drill Stem Test. Detailed petrophysical analyses have been performed on all wells and have identified significant potential in some of these tests.

The second play is an unconventional fractured shale play within the Kyalla and Velkerri formations, not unlike the Barnett Shale play in Texas. It is unknown whether the hydrocarbons will be gas or oil (or possibly both) for this exploration target; however, the Barnett Shale model and algorithms in our petrophysical analyses of these shales suggest they are viable targets.

Finally, the Moroak and Bessie Creek sandstones offer a Basin Centered Gas Accumulation (BCGA) play at the center of the basin. It is an unconventional resource play characterized by a lack of a gas/water contact. Petrophysical analyses of several wells previously drilled in the basin demonstrate the presence of a BCGA in the basin.

Effective March 17, 2006, we entered into an EDA with MAB for the Beetaloo Project representing exploration permits in the Northern Territory, Australia. Under the terms of the EDA, we have paid $1,000,000 to the assignor and have funded the $3 million seismic work commitment. We were obligated to pay monthly project development costs of $100,000 per month, commencing March 1, 2006, and the first $100 million of project costs.

The current 7 million acres are represented by four exploration permits. Depending on the permit, we are in the second or third year of an initial five-year exploration period that can be extended.

23

As part of the work commitment plan submitted to the Northern Territory Department of Primary Industry, Fisheries and Mines, approximately 700 kilometers of 2D seismic data were acquired during 2006 to delineate the previously defined exploration leads. The data are being processed, interpreted, and mapped in anticipation of a five to ten well drilling program in 2007 including both shallow offset wells to potential bypassed wells and tests of the undrilled structural features seen throughout the basin.

We are required to drill four wells by August 31, 2007.

GIPPSLAND AND OTWAY BASINS. On November 14, 2006, we entered into an agreement with Lakes Oil N.L. ("Lakes Oil"), under which we will jointly develop Lakes Oil's on-shore petroleum prospects (focusing on unconventional gas resources) in the Gippsland and Otway basins in Victoria, Australia. The arrangement is subject to various conditions precedent, including completion of satisfactory due diligence, and the satisfactory processing of certain retention lease applications. Under the agreement, we or our subsidiary company, Sweetpea Petroleum Pty. Ltd., will initially farm into 33-1/3% of Lakes Oil's permits by spending $7 million in Lakes Oil's permits. In addition, we will subscribe for $3 million in new shares in Lakes Oil at 1.5 cents (Australian). We will also have the right to increase our position in Lakes Oil's permits with two further 16-2/3% farm-in tranches of $10 million each, exercisable within 12 months and 24 months respectively. Under the agreement, we have the right to participate in the same proportion in any permits which are non-contiguous to existing permits acquired by Lakes Oil within two years, and any contiguous permits acquired by Lakes Oil moving forward, and we have a first right of refusal in other permits acquired by Lakes Oil within five years. We are to assume Lakes Oil's position as operator of the permits.

PRODUCTION AND PRICES

During the fiscal year ended September 30, 2006, we received nominal revenues of $35,656 from the 5,822 mcf of natural gas resulting from the initial testing and production from our interest in eight gross wells. The average price per mcf was $6.12. We did not have any production during the fiscal year ended September 30, 2005.

PRODUCTIVE WELLS

The following table summarizes information at September 30, 2006, relating to the productive wells in which we owned a working interest as of that date. Productive wells consist of producing wells and wells capable of production. Gross wells are the total number of producing wells in which we have an interest, and net wells are the sum of our fractional working interests owned in gross wells.

	GROSS				
LOCATION	OIL	GAS	TOTAL	OIL	
Colorado	--	7	7	--	2
Utah	--	--	--	--	
Montana	--	--	--	--	
Australia	--	--	--	--	
TOTAL	--	7	7	--	2

OIL AND GAS DRILLING ACTIVITIES

During the fiscal year ended September 30, 2006, our drilling activities were limited to Colorado. We drilled 2.14 net productive exploratory wells and no dry exploratory wells. We did not drill any development wells. We did not drill any wells during the fiscal year ended September 30, 2005.

24

OIL AND GAS INTERESTS

As of September 30, 2006, we owned interests in the following developed and undeveloped acreage positions. The "Net Acres As Adjusted" columns give effect to the new agreement with MAB, under which MAB relinquishes its working interest in the leases, permits, and licenses that were previously owned 50/50. Undeveloped acreage refers to acreage that has not been placed in producing units.

	DEVELOPED			UNDEV	
LOCATION	GROSS ACRES	NET ACRES	NET ACRES AS ADJUSTED	GROSS ACRES	NET A
Colorado	0	0	0	26,239.0	9
Utah	0	0	0	177,445.0	88
Montana	0	0	0	90,236.0	34

Australia	0	0	0	7,000,000.0	3,500
TOTAL	0	0	0	7,293,920.0	3,633

OFFICES

We lease approximately 13,595 square feet of office space at 1875 Lawrence Street, Suite 1400, Denver, Colorado, pursuant to the terms of a lease that expires June 30, 2011. We share the offices with Falcon Oil & Gas Ltd., an affiliate, and share the costs of the office space, cost of equipment, furniture, office operating costs, administrative staff, and related expenses on a 50/50 basis.

We also lease approximately 2,400 square feet of office space at 170 South Main Street, Suite 170, Salt Lake City, Utah, pursuant to the terms of a lease that expires May 31, 2011.

ITEM 3. LEGAL PROCEEDINGS

There are no legal proceedings pending against us. To the best of our knowledge, there are no legal proceedings threatened or contemplated against us.

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

Holders of approximately 117,566,000 of the then outstanding 225,373,000 shares of common stock (approximately 52%) approved the following actions by means of a written consent to action effective as of August 11, 2006:

- The election of Dr. Anthony K. Yeats, Kelly H. Nelson and Carmen J. Lotito as directors of the Company;
- The change of our state of incorporation from Nevada to Maryland;
- The approval of an amendment to our Articles of Incorporation to change the name of the Company from "Digital Ecosystems Corp." to "PetroHunter Energy Corporation"; and
- The adoption of our 2005 Stock Option Plan.

25

PART II

ITEM 5. MARKET FOR COMMON EQUITY, RELATED STOCKHOLDER MATTERS AND SMALL BUSINESS 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. The following prices reflect inter-dealer prices, without retail mark-up, mark-down or commission, and may not represent actual transactions.

QUARTER ENDED	HIGH	LOW
June 30, 2005	$ 0.53	$ 0.06
September 30, 2005	1.50	0.06
December 31, 2005	1.79	0.05
March 31, 2006	3.36	1.10
June 30, 2006	4.23	1.45
September 30, 2006	2.98	1.31
December 31, 2006	2.30	1.50

We have neither declared nor paid any cash dividends on our capital stock and do not anticipate paying cash dividends in the foreseeable future. Our current policy is to retain any earnings in order to finance the expansion of our operations. Our board of directors will determine future declaration and payment of dividends, if any, in light of the then-current conditions they deem relevant and in accordance with applicable corporate law.

On January 13, 2007, the last sale price for the common stock was $1.72.

HOLDERS AND DIVIDENDS

As of December 31, 2006, there were 258 record holders of our common stock. Since our inception, no cash dividends have been declared on our common stock.

RECENT SALES OF UNREGISTERED SECURITIES

During the quarter ended September 30, 2006, we issued and sold unregistered securities set forth in the table below.

DATE	PERSONS OR CLASS OF PERSONS	SECURITIES	CONSI
9/15/06	Majedie Investments	1,000,000 shares of common stock	$1,000,000 purs exercise

No underwriters, placement agents or finders were used in the above stock transactions. We relied upon Regulation S for sales made outside the United States without registration under the Securities Act of 1933 or the exemption from registration contained in Section 4(2) and/or Rule 506 under the Securities Act of 1933 as to all of the transactions, as the investors with either non-U.S. persons or deemed to be sophisticated with respect to the investment in the securities due to their financial condition and involvement in our business or accredited investors. Restrictive legends were placed on the certificates evidencing the securities issued in all of the above transactions.

ITEM 6. MANAGEMENT'S DISCUSSION AND ANALYSIS OR PLAN OF OPERATION

The following discussion and analysis of our financial condition and results of operations should be read in conjunction with our Consolidated Financial Statements and related notes appearing elsewhere in this Form 10-KSB.

BACKGROUND

As a result of the stock exchange transaction by which the stockholders of what was then GSL Energy Corporation received more than 85% of the outstanding stock of our Company, GSL, now known as PetroHunter Operating Company, became a wholly owned subsidiary of our Company. Since this transaction resulted in the former shareholders of GSL acquiring control of our Company, for financial reporting purposes the business combination was accounted for as an additional capitalization of the Company (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 the Company was acquired effective May 12, 2006 for no consideration.

PetroHunter Operating Company (formerly GSL) was incorporated under the laws of the State of Maryland on June 20, 2005 for the purpose of acquiring, exploring and developing oil and gas properties. PetroHunter Operating Company is considered a development stage company as defined by Statement of Financial Accounting Standards ("SFAS") No. 7, and its principal activities since inception have been raising capital through the sale of common stock and convertible notes and the acquisition of oil and gas properties in the Western United States and Australia.

LIQUIDITY AND CAPITAL RESOURCES

The Company at September 30, 2006 is vastly different from its existence at September 30, 2005. At September 30, 2005, we had been operating for only a few months, had no employees, and had acquired an interest in two properties, West Rozel and Buckskin Mesa, aggregating approximately 12,400 net mineral acres. During the 2006 fiscal year, we added 16 employees, moved to offices in Denver, Colorado, and acquired an interest in properties aggregating approximately 7,207,000 acres.

We funded the acquisition of these properties and the increased level of activity primarily through the sale of debt and equity securities for cash. We also issued 6,400,000 shares, valued at $0.50 per share, as partial consideration for the acquisition of oil and properties and as consideration for a finder's fee on

an oil and gas prospect. At September 30, 2006, we had working capital of $1,275,531 and cash of $10,631,776, but we will need to raise additional funds for our planned operations and acquisitions.

Prior to the acquisition of PetroHunter Operating Company in May 2006, we entered into five separate loan agreements, aggregating $400,000, due one year from issuance, commencing October 11, 2006. The loans bear interest at 12% per annum, are unsecured, and are convertible, at the option of the lender at any time during the term of the loan or upon maturity, at a price per share equal to the closing price of our common stock on the OTC Bulletin Board on the day preceding notice from the lender of its intent to convert the loan. As of January 10, 2007, we were in default on payment of an aggregate of $200,000 of notes, which matured October 11, 2006 as to $100,000 and December 5, 2006 as to $100,000.

CASH USED IN OPERATING ACTIVITIES. Primarily as a result of our net loss of $20,692,014, we used cash of $10,545,806 for fiscal 2006. See "Results of Operations" below for the discussion of our operating expenses. The principal adjustments to reconcile the net loss to net cash used in operating activities were stock based compensation of $9,189,334, as a result of stock options issued to employees and consultants, and $1,422,701 of financing costs, resulting from finder's fees paid in common stock in connection with the private placement of convertible promissory notes. In comparison, we used only $222,158 of cash for operating activities in fiscal 2005.

CASH USED IN INVESTING ACTIVITIES. We used cash of $32,692,402 in fiscal 2006, primarily for our additions to our oil and gas properties ($31,062,398). We also used $553,211 for property and equipment and $1,076,793 for restricted cash, which are certificates of deposit underlying letters of credit for exploration permits, state and local bonds and guarantees to vendors. During fiscal 2005, we used only $1,564,600 for additions to oil and gas properties.

We currently anticipate our capital budget will be approximately between $107 and $175.5 million for the period ending December 31, 2007, which we plan to use for a diverse portfolio of development and exploration wells in our core areas of operation. If we are unable to obtain capital through the sale of our securities or a credit facility or otherwise, our ability to execute our development plans could be greatly limited. We may consider selling down a portion of our interests in some of our exploration and development projects to industry partners to generate additional funds to finance our 2007 capital budget.

CASH PROVIDED BY FINANCING ACTIVITIES. We sold convertible promissory notes in 2005 and 2006, raising a total of $20,831,667, of which $17,794,667 was raised in fiscal 2006 and $3,037,000 was raised in fiscal 2005. Upon completion of the share exchange between the Company and GSL, the notes were converted to 44,063,334 shares of common stock. We also sold 35,442,500 shares for gross proceeds of $35,442,500. Total cash provided by financing activities was $52,619,742, resulting in cash of $10,631,776 at September 30, 2006.

It is anticipated that the continuation and future development of our business will require additional, substantial, capital expenditures. We have no reliable source for additional funds for administration and operations to the extent our existing funds have been utilized. In addition, our capital expenditure budget for the period ending December 31, 2007 will depend on our success in selling additional prospects for cash, the level of industry participation in our exploration projects, the availability of debt or equity financing, and the results of our activities. We anticipate spending approximately between $107 and $175.5 million on exploration and development activities during the period ending December 31, 2007. To limit capital expenditures, we may form industry alliances and exchange an appropriate portion of our interest for cash and/or a carried interest in our exploration

projects. We may need to raise additional funds to cover capital expenditures. These funds may come from cash flow, equity or debt financings, a credit facility, or sales of interests in our properties, although there is no assurance additional funding will be available or that it will be available on satisfactory terms.

RESULTS OF OPERATIONS

OIL AND GAS REVENUES. We generated our first revenues during the last quarter of our fiscal year ending September 30, 2006 from initial testing and production of natural gas wells in the Piceance Basin of Colorado. Revenues are expected to increase significantly for the 2007 fiscal year, since we have 12 producing wells, 15 wells awaiting completion, and 4 wells being drilled in the Piceance II Project as of January 15, 2007.

GENERAL AND ADMINISTRATIVE. Due to the substantially increased level of activity during fiscal 2006 as compared to fiscal 2005, operating expenses increased by $16,148,819 or 771%. The most significant increases occurred with respect to general and administrative expenses, particularly with respect to stock based compensation and salaries, consulting fees and services. We incurred stock based compensation expenses of $9,189,334 in 2006, as compared to $822,710 in 2005, and expenses for salaries, consulting fees and services of $2,035,366 in 2006, as compared to $286,666 in 2005. We expect that we may continue to incur stock based compensation expenses of this magnitude due to the "mark-to-market" effect of SFAS No. 123(R), and that salaries, consulting fee and services will likely remain at current levels or increase with our expected increased level in activity. Other significant components of general and administrative expenses were travel-related expenses ($759,261), investor relations ($553,807), legal ($550,584), and directors' and officers' liability insurance ($209,000).

PROPERTY DEVELOPMENT - RELATED. We also incurred $4,530,000 in property development costs to MAB in 2006, as compared to $860,000 in 2005. As a result of the new Acquisition and Consulting Agreement with MAB, which is effective January 1, 2007, these property development costs will be reduced to $1,765,000 for the fiscal year ending September 30, 2007.

OPERATING EXPENSES. Total operating expenses for 2006 were $18,244,610, as compared to $2,095,791 in 2005.

INTEREST EXPENSE. We incurred interest expense of $2,485,693 for 2006, as compared to $23,029 for 2005. We expect that interest expense will increase for the fiscal year ending September 30, 2007, due to the credit facility we obtained in January 2007, which is described below in "Plan of Operations," and due to the interest to be paid to MAB under the terms of the new Acquisition and Consulting Agreement.

NET LOSS. As a result of the expenses described above, we incurred a loss of $20,692,014 for 2006, as compared to $2,118,820 for 2005, increasing the loss accumulated since inception to $22,810,834.

GOING CONCERN

The report of our independent registered public accounting firm on the financial statements for the year ended September 30, 2006, includes an explanatory paragraph relating to the uncertainty of our ability to continue as a going concern. We have incurred a cumulative net loss $22,810,834 for the period from inception to September 30, 2006. We require significant additional funding to sustain our operations and satisfy our contractual obligations for our planned oil and gas exploration and development operations. Our ability to establish the Company as a going concern is dependent upon our

ability to obtain additional financing, in order to fund our planned operations and ultimately, to achieve profitable operations.

PLAN OF OPERATION

COLORADO. We expect that the development of our Colorado properties will include: (i) continued drilling of wells in our 1,000-acre holdings in Piceance Basin, where we expect to complete approximately 15 to 18 wells and have additional gas production and (ii) exploration of our 20,000-acre lease near Buckskin Mesa/Powell Park discovery wells in the northern Piceance Basin. We have applied for and received six approved permits to drill to an estimated depth of 10,000 to 12,000 feet, to test the Williams Fork, Cameo, and Fort Union formations.

Associated with the development of our Colorado properties, we anticipate that, over the next twelve months, we will incur the following costs:

- $30,000,000 to $50,000,000 in connection with the Piceance II project, to include seismic, drilling, completion and production facilities; and

- $20,000,000 to $40,000,000 in connection with the Buckskin Mesa project, to include seismic, and drilling.

To fund these costs and certain commitments totaling approximately $2,700,000 for the fiscal year ended September 30, 2007 for operating leases, delay rentals, property development fees and consulting fees and note payments to MAB, we are engaging in financing activities. On November 6, 2006, we commenced an offering of up to $125,000,000 pursuant to a private placement of units at $1.50 per unit. Each unit consists of one share of our common stock and one-half common stock purchase warrant. A whole common stock purchase warrant entitles the purchaser to acquire one share of our common stock at an exercise price of $1.88 per share through December 31, 2007. We may pay a commission of up to 5% to a broker or agent in conjunction with the sale. As of January 12, 2007, we had received $1,887,500 from the sale of units pursuant to the private placement.

In addition, on January 9, 2007, we entered into a Credit and Security Agreement (the "Financing") with Global Project Finance AG, a Swiss company, for mezzanine financing in the amount of $15 million. The loan provides for an interest rate of 6.75% over prime, and is to be secured by a first perfected lien on our assets, limited to the specific portion of the assets to which the loan proceeds are applied by us. We plan to apply most of the proceeds of this loan to our drilling and development operations in the Piceance Basin, Colorado. The terms of the Financing also provide for the issuance of warrants to purchase one million of our shares upon execution of the Credit Agreement, and warrants to purchase up to an additional three million shares, tied on a pro rata basis to each draw down of the credit facility up to $15 million - that is, warrants for 600,000 shares for each $3 million advanced. The warrants will be exercisable for five years after the date of the Credit Agreement. The exercise price of the warrants will be equal to 120% of the weighted average price of our stock for the 30 days immediately prior to each warrant issuance date. Global Project Finance AG and its controlling shareholder, Christian Russenberger, were shareholders of the Company prior to the Credit Agreement. As of January 10, 2007, we had drawn down $5,000,000 on the credit facility.

HEAVY OIL. The development of our heavy oil prospects in Montana and Utah will include (i) the development of 15,000 acres of prime heavy oil acreage in Montana and (ii) the development of 173,000 acres owned or under contract in the Great Salt Lake. We anticipate that, over the next twelve months, we will incur the following costs related to our heavy oil prospects in Montana and Utah:

- $7,000,000 to $12,500,000 to add land in Montana in areas where we have already completed acquisitions;

- $8,000,000 to $15,000,000 in connection with the Fiddler Creek project, to include drilling, completion and production facilities; and

- $12,000,000 to $18,000,000 in connection with the Great Salt Lake project, to include project design, project equipment procurement, site infrastructure development and initial drilling.

We formed a subsidiary, PetroHunter Heavy Oil Ltd., in September 2006 ("PetroHunter Heavy Oil"), for the purpose of holding and developing our heavy oil assets. We anticipate that PetroHunter Heavy Oil will engage in a private placement of debt securities, similar to the offering of PetroHunter Energy NT described below in the near future.

AUSTRALIA. In Australia we plan to explore and develop portions of the 7,000,000 acres of the project area in northwestern Australia (Beetaloo Basin). During 2007, we plan to drill a minimum of eight wells in the exploration permit blocks. We anticipate that, over the next twelve months, we will incur $30,000,000 to $40,000,000 in costs related to drilling and well completion.

Under the agreement with Lakes Oil, we or our subsidiary company, Sweetpea Petroleum Pty. Ltd., will initially farm into 33-1/3% of Lakes Oil's permits by spending $7 million in Lakes Oil's permits. In addition, we will subscribe for $3 million in new shares in Lakes Oil at 1.5 cents (Australian).

DEVELOPMENT STAGE COMPANY. We had not commenced principal operations nor earned significant revenue as of September 30, 2006, and are considered a development stage company. During the period from inception to September 30, 2006, we incurred a cumulative net loss of $22,810,834. In order to fund our planned exploration and development of oil and gas properties, we will require significant additional funding. We have sold approximately $56.3 million of convertible notes and common stock through September 30, 2006, and our management believes that we will be successful in raising additional funding to have sufficient capital to meet our obligations for our planned operations for at least the next twelve months.

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.

OIL AND GAS PROPERTIES. We utilize the full cost method of accounting for oil and gas activities. Under this method, subject to a limitation based on estimated value, all costs associated with property acquisition, exploration and development, including costs of unsuccessful exploration, are capitalized within a cost center. 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 is 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. As of September 30, 2006, the Company has no proved reserves and all oil and gas property costs are considered to be unevaluated and are recorded at the lower of cost or fair market value.

ASSET RETIREMENT OBLIGATION. We apply SFAS 143, "Accounting for Asset Retirement Obligations," which addresses financial accounting and reporting for obligations associated with the retirement of tangible long-lived assets and the associated asset retirement costs. This statement requires companies to record the present value of obligations associated with the retirement of tangible long-lived assets in the period in which it is incurred. The liability is capitalized as part of the related long-lived asset's carrying amount. Over time, accretion of the liability is recognized as an operating expense and the capitalized cost is depreciated over the expected useful life of the related asset. Asset retirement obligations ("ARO") relate primarily to the plugging, dismantlement, removal, site reclamation and similar activities of its oil and gas properties. At September 30, 2006, we had recorded an ARO of $522,054 for our initial wells under progress.

SHARE BASED COMPENSATION. On October 1, 2006, we adopted SFAS 123(R), "Accounting for Stock-Based Compensation," using the modified prospective method, which results in the provisions of SFAS 123(R) being applied to the consolidated financial statements on a going-forward basis. Prior periods have not been restated. SFAS 123(R) requires companies to recognize share-based payments to employees as compensation expense on a fair value method. Under the fair value recognition provisions of SFAS 123(R), stock-based compensation cost is measured at the grant date based on the fair value of the award and is recognized as expense over the service period, which generally represents the vesting period. The expense recognized over the service period is required to include an estimate of the awards that will be forfeited. Previously, no such forfeitures have occurred. We are assuming no forfeitures going forward based on our historical forfeiture experience. The fair value of stock options is calculated using the Black-Scholes option-pricing model.

RECENTLY ISSUED ACCOUNTING PRONOUNCEMENTS

In February 2006, the Financial Accounting Standards Board (FASB) issued SFAS No. 155, "Accounting for Certain Hybrid Financial Instruments-an amendment of FASB Statements No. 133 and 140." SFAS No. 155 amends SFAS No. 133, "Accounting for Derivative Instruments and Hedging Activities" and SFAS No. 140, "Accounting for Transfers and Servicing of Financial Assets and Extinguishments of Liabilities," and also resolves issues addressed in SFAS No. 133 Implementation Issue No. D1, "Application of Statement 133 to Beneficial Interests in Securitized Financial Assets." SFAS No. 155 was issued to eliminate the exemption from applying SFAS No. 133 to interests in securitized financial assets so that similar instruments are accounted for in a similar fashion, regardless of the instrument's form. The Company does not believe that its financial position, results of operations or cash flows will be impacted by SFAS No. 155 as the Company does not currently hold any hybrid financial instruments.

In June 2006, the FASB issued FASB Interpretation No. 48 (FIN 48), "Accounting for Uncertainty in Income Taxes." The interpretation clarifies the accounting for uncertainty in income taxes recognized in a company's financial statements in accordance with Statement of Financial Accounting Standards No. 109, Accounting for Income Taxes. Specifically, the pronouncement prescribes a recognition threshold and a measurement attribute for the financial statement recognition and measurement of a tax position taken or expected to be taken in a tax return. The interpretation also provides guidance on the related derecognition, classification, interest and penalties, accounting for interim periods, disclosure and transition of uncertain tax positions. The Company will be required to adopt FIN 48 for the fiscal year ended September 30, 2008. The Company is reviewing and evaluating the effect, if any, of adopting FIN 48 on its financial position and results of operations.

ITEM 7. FINANCIAL STATEMENTS

The financial statements required by this Item begin on Page F-1 of this Form 10-KSB.

ITEM 8. CHANGES IN AND DISAGREEMENTS WITH ACCOUNTANTS ON ACCOUNTING AND FINANCIAL DISCLOSURE

On August 21, 2006, our Board of Directors approved the termination of Telford Sadovnick, P.L.L.C. ("Telford") as our independent accountants and the appointment of Hein & Associates LLP ("Hein") to serve as our independent accountants for the year ending September 30, 2006. The change was effective August 21, 2006.

Telford's reports on our financial statements for each of the years ended March 31, 2006 and 2005 did not contain, with the exception of a going concern disclaimer in each such report, an adverse opinion or disclaimer of opinion, nor were such reports qualified or modified as to uncertainty, audit scope, or accounting principles.

During the years ended March 31, 2006 and 2005, and the period ended August 21, 2006, there were no disagreements with Telford on any matter of accounting principle or practice, financial statement disclosure, or auditing scope or procedure which, if not resolved to Telford's satisfaction, would have caused them to make reference to the subject matter of the disagreement in connection with the audit reports on our financial statements for such years; and there were no events as set forth in Item 304(a)(1)(iv) of Regulation S-B.

We provided Telford with a copy of the foregoing disclosures. We filed as an exhibit to a report on Form 8-K a letter from Telford relating to the disclosure included in the Form 8-K.

During the years ended March 31, 2006 and 2005 and through August 21, 2006, we did not consult Hein with respect to the application of accounting principles to a specified transaction, either completed or proposed, or the type of audit opinion that might be rendered on our consolidated financial statements, or on any other matters or reportable events as set forth in Items 304(a)(2)(i) and (ii) of Regulation S-B. Hein was the independent accountants for our subsidiary, PetroHunter Operating Company from its inception (June 2005) until we acquired substantially all of its outstanding common stock (May 12, 2006).

ITEM 8A. CONTROLS AND PROCEDURES

EVALUATION OF DISCLOSURE CONTROLS AND PROCEDURES

As of the end of the period covered by this report, our management carried out an evaluation, under the supervision and with the participation of our principal executive officer and principal financial officer, of the effectiveness of the design and operation of our disclosure controls and procedures (as defined in Rules 13a-15(e) and 15d-15(e) under the Exchange Act). Based on this evaluation, our principal executive officer and principal financial officer have concluded that our disclosure controls and procedures lack adequate staff and procedures in order to be effective. Subsequent to the end of the period covered by this report we have implemented procedures to remediate this control deficiency by completing the implementation of an accounting system designed for oil and gas producing companies and will be hiring additional staff.

CHANGES IN INTERNAL CONTROLS OVER FINANCIAL REPORTING

In connection with the evaluation of our internal controls during our last fiscal quarter, our principal executive officer and principal financial officer have determined that there have been no changes to our internal controls over financial reporting that has materially affected, or is reasonably likely to materially affect, our internal controls over financial reporting.

ITEM 8B. OTHER INFORMATION

None.

PART III

ITEM 9. DIRECTORS, EXECUTIVE OFFICERS, PROMOTERS, CONTROL PERSONS AND CORPORATE GOVERNANCE; COMPLIANCE WITH SECTION 16(a) OF THE EXCHANGE ACT

EXECUTIVE OFFICERS AND DIRECTORS

Our executive officers and directors are:

NAME	AGE	POSITION
Kelly H. Nelson	50	Chairman and Chief Executive Officer
Carmen J. Lotito	62	Executive Vice President, Chief Financial Officer, Treasurer, Secretary and Director
Garry Lavold	61	President and Chief Operating Officer
Dr. Anthony K. Yeats	60	Director

Our shareholders elect our directors annually and our board of directors appoints our officers annually. Vacancies in our board are filled by the board itself. Set forth below are brief descriptions of the recent employment and business experience of our executive officers and directors.

KELLY H. NELSON has been the Chairman and Chief Executive Officer of the Company since May 2006, and President and Director of PetroHunter Operating Company since its inception. Mr. Nelson is the cofounder of Equistar Capital, LLC, a Merchant Banking firm with offices in Salt Lake City, Utah and Zurich, Switzerland, and has served as Equistar's Managing Partner since its inception in 1999. While with Equistar, Mr. Nelson has been actively involved in raising investment capital and financing for Equistar's energy sector portfolio companies. Since August 2003, Mr. Nelson has also served as chief financial officer and director of BioComposites International, Inc., one of Equistar's portfolio companies. Mr. Nelson also is a director for two non-profit organizations, The Center for Ancient American Culture and the Utah Spiders, Women's Professional Soccer League. Mr. Nelson earned his Bachelor's degree in Business Administration from the University of Utah and has completed management seminars and courses through the University of Southern California and Wharton School of Business.

CARMEN J. LOTITO has been the Executive Vice President, Chief Financial Officer, Treasurer, Secretary and a director of the Company since May 2006. Mr. Lotito has also been the Executive Vice President, Chief Financial Officer, Treasurer, Secretary and Director of PetroHunter Operating Company since its inception. Mr. Lotito has been a director and chairman of the audit and compensation committees of Gasco Energy, Inc. since April 2001, and a director of Galaxy Energy Corporation from November 2002 to August 2006 He served as chief financial officer and treasurer of Galaxy Energy Corporation from November 2002 to July 2005, and as executive vice president from August 2004 to July 2005. Both Gasco Energy and Galaxy Energy are subject to the reporting requirements of the Securities Exchange Act of 1934. Mr. Lotito served as vice president, chief financial officer, and director of Coriko Corporation, a private business development company, from November 2000 to August 2002. Prior to joining Coriko, Mr. Lotito was self-employed as a financial consultant. Mr. Lotito holds a B.S. degree in accounting from the University of Southern California.

GARRY LAVOLD has been the President and Chief Operating Officer of the Company since June 2006. Mr. Lavold has also served as the Chief Operating Officer of PetroHunter Operating Company since its inception. Mr. Lavold was the chief operating officer of BioComposites International from January 2003 to July 2005, where he assisted in the development of biocomposite plants to produce composite materials. From August 2001 until December 2002, Mr. Lavold was the director of engineering at Coach House, developing composite material projects. From October 2000 to July 2001, Mr. Lavold was chief operating officer of Alpha Fibre, developing petroleum-based composite materials. Prior to working for Alpha Fibre, Mr. Lavold worked for 18 years for Nova , an Alberta Corporation (and affiliated companies), serving in the latter years as a vice president involved in design, construction and project management of large diameter gas pipelines for a Nova subsidiary, and from 1969 to 1974 was employed as a process engineer involved in start up and operations of an 80,000 BPD refinery for Gulf Oil Canada. Mr. Lavold composed a chapter in PROJECT MANAGEMENT HANDBOOK, eds. David Cleland and William King, N.Y: Van Rostrand Reinhold, 1983. Mr. Lavold received a B.S. in Chemical Engineering and an MBA from the University of Alberta, and is a registered Professional Engineer in Alberta and Ontario, Canada.

DR. ANTHONY K. YEATS has been a director of the Company since February 2006. Dr. Yeats has participated in the development of numerous exploration ventures in oil and gas opportunities around the world as well as identifying some mineral projects. His career has included the role of Chief Geologist, Geophysicist and Team Leader for Royal Dutch Shell in the Middle East, Africa and the Far East; Exploration Coordinator for BP's Global Basin Group, and Chief Geologist for a number of regional acquisitions undertaken by British Petroleum at a variety of locations throughout the Middle East, Africa, Canada and Europe. Before joining the Company, in 1999 Dr. Yeats started Cambridge Earth Sciences Limited, which provides private research and consulting services for companies engaging in geology and exploration management, which Dr. Yeats continues to run. In addition, Dr. Yeats has been active as both the Vice President of a resource investment company in Canada with exploration interests in gravel, titanium, and kimberlite. Prior to 1999, Dr. Yeats was Co-coordinator for World Wide New Ventures for Total in Paris and finally Exploration Manager for Total in the Former Soviet Union where he managed teams undertaking hydrocarbon exploration in Kazakhstan, Azerbaijan, and Russia. In this post he was responsible for the generation of new ventures, including the acquisition of already existing discoveries. Over the years he has developed extensive contacts with the financial community in Edinburgh and London, which specialize in the raising of capital for oil and gas ventures particularly from UK, French, Canadian and Middle East sources.

COMMITTEES OF THE BOARD OF DIRECTORS

We currently do not have an audit committee, compensation committee, or nominating committee, primarily since we previously did not have any significant operations. The entire Board of Directors is acting as the Company's audit committee.

AUDIT COMMITTEE FINANCIAL EXPERT

The Board of Directors currently has not determined whether the company has a designated audit committee financial expert, primarily since we previously did not have any significant operations.

FAMILY RELATIONSHIPS

There is no family relationship between any director, executive or person nominated or chosen by us to become a director or executive officer of our Company. Please see Item 12. Certain Relationships and Related Transactions, and Director Independence for a discussion of related party transactions.

CONFLICTS OF INTEREST

Members of our management are associated with other firms involved in a range of business activities. Consequently, there are potential inherent conflicts of interest in their acting as officers and directors of our company. While the officers and directors are engaged in other business activities, we

anticipate that such activities will not interfere in any significant fashion with the affairs of our business, in terms of having adequate time to devote to the business of the Company.

Our officers and directors are now and may in the future become shareholders, officers or directors of other companies, which may be formed for the purpose of engaging in business activities similar to us. Accordingly, additional direct conflicts of interest may arise in the future with respect to such individuals acting on behalf of us or other entities. Moreover, additional conflicts of interest may arise with respect to opportunities which come to the attention of such individuals in the performance of their duties or otherwise. Currently, we do not have a right of first refusal pertaining to opportunities that come to their attention and may relate to our business operations.

Our officers and directors are, so long as they are our officers or directors, subject to the restriction that all opportunities contemplated by our plan of operation which come to their attention, either in the performance of their duties or in any other manner, will be considered opportunities of, and be made available to us and the companies that they are affiliated with on an equal basis. A breach of this requirement will be a breach of the fiduciary duties of the officer or director. If we or the companies with which the officers and directors are affiliated both desire to take advantage of an opportunity, then said officers and directors would abstain from negotiating and voting upon the opportunity. However, all directors may still individually take advantage of opportunities if we should decline to do so. Except as set forth above, we have not adopted any other conflict of interest policy with respect to such transactions.

CODE OF ETHICS

We have not yet adopted a code of ethics that applies to our principal executive officers, principal financial officer, principal accounting officer or controller, or persons performing similar functions, since we have been focusing our efforts on obtaining financing for the Company. We expect to adopt a code by the end of the current fiscal year.

SECTION 16(a) BENEFICIAL OWNERSHIP REPORTING COMPLIANCE

Officers and directors, and persons who own more than 10% of a registered class of our equity securities are required to file reports of ownership and changes in ownership with the Securities and Exchange Commission pursuant to Section 16(a) of the Securities Exchange Act of 1934. The following table sets forth reports that were not filed on a timely basis during the most recently completed fiscal year:

REPORTING PERSON	DATE REPORT DUE	DATE RE

Garry Lavold	Form 3 due 06/12/06	06/
Marc A. Bruner	Form 3 due 05/22/06	12/
Kelly H. Nelson	Form 4 due 08/15/06	01/
Carmen J. Lotito	Form 4 due 08/15/06	01/
Garry Lavold	Form 4 due 08/15/06	01/
Anthony K. Yeats	Form 4 due 08/15/06	01/

37

ITEM 10. EXECUTIVE COMPENSATION

The following table summarizes the annual compensation paid to our Chief Executive Officer and two most highly compensated executive officers for the two fiscal years ended September 30, 2006:

SUMMARY COMPENSATION TABLE

					LONG TERM COMPENSATION		
		ANNUAL COMPENSATION			AWARDS		PAY
		SALARY ($)	BONUS	OTHER		SECURITIES	
NAME AND PRINCIPAL POSITION	YEAR	SALARY ($)	($)	ANNUAL COMPENSA- TION	RESTRICTED STOCK AWARD(S)	UNDERLYING OPTIONS/ SARS(#)	L PAY
Kelly H.	2006	230,000 (1)					