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HYPERDYNAMICS CORP
Form 10-Q
February 21, 2006

United States
Securities and Exchange Commission
Washington, DC 20549

FORM 10-Q

Quarterly report pursuant to Section 13 or 15(d) of the Securities Exchange Act of 1934: For the quarterly period ended: December 31, 2005

or

Transition report pursuant to Section 13 or 15(d) of the Securities Exchange Act of 1934: For the transition period from _____ to _____

Commission file number: 001-32490

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

Delaware
(State or other jurisdiction
of incorporation or organization)

87-0400335
(IRS Employer
Identification No.)

One Sugar Creek Blvd., #125
Sugar Land, Texas 77478

(Address of principal executive offices, including zip code)

713-353-9400
(registrant's principal executive office telephone number)

9700 Bissonnet, Suite 1700
Houston, Texas 77036
(former address)

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

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

Large Accelerated Filer | |
Accelerated Filer | |
Non-Accelerated Filer |X|

Indicate by check mark whether the registrant is a shell company (as defined in Rule 12b-2 of the Exchange Act) YES | | NO |X|

APPLICABLE ONLY TO CORPORATE ISSUERS

As of February 10, 2006, 43,424,577 shares of common stock, \$0.001 par value, were outstanding.

Transitional Small Business Disclosure Format (check one): Yes No

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Part I	Financial Information	
Item 1	Financial Statements	

HYPERDYNAMICS CORPORATION Consolidated Balance Sheets

	December 31, 2005	June 2005
	-----	-----
	(Unaudited)	
ASSETS		
Current Assets		
Cash	\$ 399,049	\$ 259,000
Restricted certificate of deposit	-	65,000
Accounts receivable, net of allowance for doubtful accounts of \$31,242 for both periods	13,426	19,000
Inventory	-	3,000

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Prepaid Expenses	99,427	167
	-----	-----
Total Current Assets	511,902	515
Property and equipment, net of accumulated depreciation of \$400,313 and \$314,171	545,431	599
Other assets		
Unproved oil and gas properties, using full cost method of accounting	4,145,980	4,072
Deposits	2,680	22
	-----	-----
Total other assets	4,694,091	4,693
	-----	-----
TOTAL ASSETS	5,205,993	5,209
	=====	=====
LIABILITIES AND STOCKHOLDERS' EQUITY		
Current Liabilities		
Current portion of installment notes payable	\$ 96,079	\$ 247
Current portion of convertible notes payable, net of discount of \$1,016,284	390,863	
Accounts payable and accrued expenses	810,699	558
Accounts payable seismic data	650,000	650
Deferred gain	463,012	73
Dividends payable	372,398	372
Dividends payable to related party	81,751	27
	-----	-----
Total Current Liabilities	2,864,802	1,929
Long term portion of convertible notes payable, net of discount of \$546,136	-	
Deferred rent	-	134
	-----	-----
TOTAL LIABILITIES	2,864,802	2,063
	-----	-----
Commitments and contingencies		
Stockholders' equity		
Preferred stock, par value \$0.001; 20,000,000 shares authorized		
Series A - 1,945 shares issued and outstanding	2	
Series B - 2,725 shares issued and outstanding	3	
Common stock, \$.001 par value, 250,000,000 shares authorized, 42,409,761 and 42,168,410 shares issued and outstanding, respectively		
Additional paid-in capital	25,085,081	22,915
Accumulated deficit	(22,786,305)	(19,812)
	-----	-----
Total stockholders' equity	2,341,191	3,145
	=====	=====
Total Liabilities and Stockholders' Equity	5,205,993	5,209
	=====	=====

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	Three Months Ended December 31, 2005	2004	Six Months Ended December 31, 2005
Revenues	107,408	54,535	194,818
Operating Expenses			
Cost of revenues	579,914	220,593	1,273,407
Selling	-	9,467	199
General and administration	864,771	1,056,827	1,606,008
Depreciation and amortization	35,475	19,370	72,142
Total Operating Expenses	1,480,160	1,306,257	2,951,756
LOSS FROM OPERATIONS	(1,372,752)	(1,251,722)	(2,756,938)
Other Income (Expense)			
Interest income	1,467	6,120	2,450
Interest expense	(105,876)	(230,593)	(164,904)
NET LOSS	(1,477,161)	(1,476,195)	(2,919,392)
Preferred dividend requirement	(27,250)	(27,250)	(54,500)
Net loss chargeable to common shareholders	(1,504,411)	(1,503,445)	(2,973,892)
Basic and diluted loss per common share	(0.04)	(0.04)	(0.07)
Weighted average shares outstanding	42,212,977	41,445,703	42,190,694

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HYPERDYNAMICS CORPORATION
Consolidated Statements of Cash Flows
Six Months Ended December 31, 2005 and 2004

	Six Months Ended December 31, 2005	2004
Cash flows from operating activities		
Net loss	(2,919,392)	(2,495,000)
Adjustments to reconcile net loss to cash used by operating activities		
Depreciation and amortization	72,142	56,000
Options and warrants expense	576,873	19,000
Stock issued for services	55,900	965,000
Deferred rent	(134,696)	4,000
Loss on retirement of mandatorily redeemable preferred stock	-	76,000
Accretion of interest and amortization of offering costs of mandatorily redeemable preferred stock	-	209,000
Bad debt expense	-	3,000
Amortization of discount	51,917	
Changes in:		
Accounts receivable	6,209	(19,000)
Inventory	3,637	(42,000)
Other current assets	67,822	71,000
Deposits from customers	-	(3,000)

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Accounts payable and accrued expenses	247,176	123
	-----	-----
Net cash used in operating activities	(1,972,412)	(1,030)
	-----	-----
Cash flows from investing activities		
Decrease in restricted cash	65,445	129
Investment in unproved property	(343,730)	(560)
Purchase of equipment	(32,480)	(105)
Proceeds from disposal of assets	-	8
Refunds of deposits	19,632	
	-----	-----
Net cash provided by (used in) investing activities	(291,133)	(527)
	-----	-----
Cash flows from financing activities		
Proceeds from sale of common stock and warrants, net of \$0 and \$0 offering cost, respectively	25,000	148
Proceeds from installment notes payable	49,858	7
Proceeds from convertible notes payable, net	1,980,872	
Proceeds of sale on working interest, net	726,000	
Payments on convertible notes payable	(186,717)	
Payments on installment debt	(191,867)	(91)
	-----	-----
Net cash provided by financing activities	2,403,146	64
	-----	-----
Net increase (decrease) in cash	139,601	(1,494)
Cash at beginning of period	259,448	3,149
	-----	-----
Cash at end of period	399,049	1,655
	=====	=====
Supplemental Information:		
	Six Months Ended Decemb	
	-----	-----
	2005	200
	-----	-----
Cash paid for interest	\$ 108,963	\$
Cash paid for income taxes	\$ -	\$
Non-cash transactions		
Geological and geophysical work performed on unproved oil and gas properties paid with equity-based compensation	\$ 52,200	\$ 237
Series B preferred shareholder quarterly dividends	54,500	73
Discount related to convertible debt	1,614,337	
Common stock issued to retire mandatorily redeemable preferred stock in subsidiary	-	684

HYPERDYNAMICS CORPORATION
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
(Unaudited)

1. Basis of Presentation

The unaudited consolidated financial statements of Hyperdynamics Corporation ("Hyperdynamics") have been prepared in accordance with accounting principles generally accepted in the United States and the rules of the Securities and Exchange Commission ("SEC"), and should be read in

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conjunction with the audited financial statements and notes thereto contained in Hyperdynamics' latest Annual Report filed with the SEC on Form 10-KSB. In the opinion of management, all adjustments, consisting of normal recurring adjustments, necessary for a fair presentation of financial position and the results of operations for the interim periods presented have been reflected herein. The results of operations for interim periods are not necessarily indicative of the results to be expected for the full year. Notes to the financial statements which would substantially duplicate the disclosures contained in the audited financial statements for the most recent fiscal year 2005 as reported in the Form 10-KSB, have been omitted.

2. Installment Notes Payable

Hyperdynamics' installment notes payable are related to insurance financing. The insurance financing provides for our general and professional liability, D&O insurance, workers compensation insurance, property & equipment and auto insurance.

3. Convertible Notes payable

Convertible Note Payable

In August 2005, Hyperdynamics closed a private financing convertible note payable with Dutchess Private Equities Fund II, LP (Dutchess). The proceeds from the transaction were received in two tranches. The first tranche of \$1,000,000 was received at closing and the second tranche of \$500,000 was received upon the filing of a registration statement with the SEC. The registration statement was filed with the SEC in October 2005. Upon effectiveness of the registration statement, Dutchess may elect to receive loan payments in the form of stock at a conversion price based upon the prevailing market price of Hyperdynamics's common stock but in no event less than \$1.00 per share. In conjunction with the transaction, Hyperdynamics issued a detachable warrant to Dutchess to purchase 500,000 shares of common stock at \$1.00 per share. The relative fair value of the warrants was \$304,631 and the intrinsic value of the conversion feature of the two tranches was \$354,631. Effective February 9, 2006, Hyperdynamics has the option to enter into another debenture with Dutchess for an additional \$1,500,000.

Short Term Note Payable

In December 2005, Hyperdynamics issued 127,000 shares of stock with a market value of \$240,030 and a non-interest bearing note to Dutchess in exchange for \$640,000. Upon effectiveness of the aforementioned registration statement, Dutchess may elect to receive loan payments in the form of stock at a conversion price based upon the prevailing market price of Hyperdynamics's common stock.

The carrying value of the notes at December 31, 2005 is as follows:

Face value of notes payable	\$2,140,000
Less: discount related to warrants	(304,631)
discount related to conversion feature	(1,219,631)
discount related to financing costs	(90,075)
principal payments	(186,717)
Add: amortization of discount	51,917

Carrying value of notes at December 31, 2005	\$ 390,863
	=====

4. Segment Information

Reportable segments

Hyperdynamics has two reportable segments: SCS Corporation ("SCS") and its Louisiana operations ("HYDR"). SCS is engaged in oil and gas exploration activities offshore Guinea, West Africa. Additionally, it provides seismic data transcription and management services to support its activities and to external customers. The seismic data work is performed in the USA. HYDR is engaged in oil and gas exploration and production activities in Louisiana, USA; it also provides oilfield services to external customers. Hyperdynamics evaluates performance based on profit or loss from operations. The reportable segments are managed by separate management teams who are evaluated based on their segment's performance.

The following tables summarize certain balance sheet and income statement data about Hyperdynamics' reportable segments and corporate overhead for the three and six months ended December 31, 2005 and 2004:

	SCS	HYD
	-----	-----
As of December 31, 2005:		
Segment assets	\$ 4,212,746	\$ 596
Six months ended December 31, 2005		
Revenues from external customers	-	194
Depreciation, depletion and amortization	13,720	49
Loss from operations	(336,129)	(1,194)
Expenditures for long-lived assets	73,477	350
Three months ended December 31, 2005		
Revenues from external customers	-	107
Depreciation, depletion and amortization	6,860	25
Loss from operations	(175,624)	(507)
Expenditures for long-lived assets	44,213	55
As of December 31, 2004:		
Segment assets	3,947,182	764
Six months ended December 31, 2004		
Revenues from external customers	3,140	117
Depreciation, depletion and amortization	14,028	32
Loss from operations	(317,514)	(422)
Expenditures for long-lived assets	712,388	184
Three months ended December 31, 2004		
Revenues from external customers	2,840	51
Depreciation, depletion and amortization	5,632	9
Loss from operations	(133,207)	(266)
Expenditures for long-lived assets	704,697	167

Product and services information

	Quarter Ended December	2005	2004
	-----	-----	-----
Revenues from:			
Seismic data management	\$	-	\$ 2
Computer-related sales		-	
Oilfield services		-	51
Oil and gas production		107,408	
		-----	-----

Totals

\$ 107,408

\$ 54

=====

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CAUTIONARY STATEMENT ON FORWARD-LOOKING INFORMATION

We are including the following cautionary statement to make applicable and take advantage of the safe harbor provision of the Private Securities Litigation Reform Act of 1995 for any forward-looking statements made by us, or on our behalf. This prospectus contains forward-looking statements. Forward-looking statements include statements concerning plans, objectives, goals, strategies, expectations, future events or performance and underlying assumptions and other statements, which are other than statements of historical facts. Certain statements contained herein are forward-looking statements and, accordingly, involve risks and uncertainties, which could cause actual results or outcomes to differ materially from those expressed in the forward-looking statements. Our expectations, beliefs and projections are expressed in good faith and we believe them to have a reasonable basis, including without limitations, management's examination of historical operating trends, data contained in our records and other data available from third parties, but there can be no assurance that management's expectations, beliefs or projections will result or be achieved or accomplished. In addition to other factors and matters discussed elsewhere herein, the following are important factors that, in our view, could cause actual results to differ materially from those discussed in the forward-looking statements: our ability to respond to changes in the information system environment, competition, the availability of financing, if available, on terms and conditions acceptable to us, and the availability of personnel in the future. We have no obligations to update or revise these forward-looking statements to reflect future events.

Item 2. Management's Discussion and Analysis of Financial Condition and Results of Operations

Hyperdynamics has two reportable segments: Our operations in Guinea and our Louisiana operations ("HYDR"). SCS is engaged in oil and gas exploration activities pertaining to offshore Guinea, West Africa. Additionally, it provides seismic data transcription and management services to support its activities and to external customers. The seismic data work is performed in the USA. HYDR is engaged in oil and gas exploration and production activities in Louisiana, USA. HYDR also provides some oilfield services to external customers.

During the quarter ended December 31, 2005, we continued the work we started in August of 2005. We maintained our intense focus to rectify our issues with the Republic of Guinea, West Africa so that we could continue our plans to drill exploration wells offshore Guinea, make discoveries, and begin major production operations. During the quarter, based on months of effort by our Chief Executive and our Vice President for Guinea Affairs, including trips to Guinea, numerous meetings with government officials, and consistent in-country efforts of our new subsidiary, SCS Guinea SARL, the government of Guinea began to communicate with us on a very positive basis. The Guinea government explained to us that they want to continue working with us and they desired to develop an open and transparent business relationship going forward. This resulted next in an invitation from the Prime Minister for our Chief Executive, Kent Watts to join our VP of Guinea Affairs, Mr. Famourou Kourouma and hold a series of meetings held in January 2006. The two executives met with the Head of State, President Lansana Conté. During our meeting with him, he arranged for an immediate meeting with the Minister of the Mines and of the Geology, Minister Ahmed Tidiane Souaré. The President further stated that we were his guests there in Guinea and he wanted action taken on our case. The two executives had several meetings with Minister Souaré. We explained that we could continue our work under the 2002 Production and Sharing Agreement. It was suggested and we agreed that a better approach would be to execute a new 2006 Production Sharing Agreement, so we began working on it while, at the same time, we maintained the assertion of our rights under the 2002 Agreement. Based on the Minister's

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desires to move forward we brought our Executive Vice President, Harry Briers and Robert Bearnth, the Vice President and Chief Geologist for SCS Corporation to Guinea for a technical review. Dr. Bangoura and Mr. Diallo headed up the technical team for the government and we had two lengthy meetings with them, updating them on our work since we began in 2002. It was discovered that Mr. Diallo had been on the platform of the offshore well drilled in 1977. We had plenty of discussion surrounding our evaluation of the well logs from that well and explained the significance of it to our work. In short, the technical team gave us a very positive review. We continue to work to finalize a new agreement. In the meantime, we have met with the US Ambassador to Guinea, Jackson McDonald and have brought him up to date on our work and meetings with the government. He expressed a strong willingness to help us succeed in Guinea.

During the quarter HYDR also completed an installation of its gas gathering system on its Norris and Kelly leases located in Jena, Louisiana. There have been numerous unanticipated problems in putting our production on line and we are currently still working on connecting our wells, separating the oil from the gas, and getting to a point where we can maintain a steady flow of production. Based on the problems we have incurred, the President, Sam Spears, Jr. resigned and we readily accepted his resignation. We have been working to rectify all production issues since. Mr. Jeremy Driver has taken over as the President for HYD Resources Corporation. In December, the company completed its payments for its operations center in Jena and has received the title to the property. Mr. Driver has been very active in reducing operational costs with a primary focus towards maximizing production from the producing properties we currently have. Once we get to the point of determining the optimum production levels from our production facilities installed, we will then reevaluate our drilling programs going forward in light of our need to hire new professionals. We anticipate the search and hiring of a professional drilling and production manager to continue our growth of production from low volume, low cost wells in proven zones.

Hyperdynamics evaluates performance based on profit or loss from operations. The reportable segments are managed by separate management teams who are evaluated based on their segment's performance.

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During the quarter we realized increasing oil production revenues of \$107,408 for the quarter ended December 2005 with \$0 service revenue compared to \$0 oil production revenue for the quarter ended December 2004 and \$54,535 in service revenue. Thus, revenues are not directly comparable as the focus of the company over the last year has shifted towards building production revenue and away from service revenue. The increase in cost of revenue for December 2005 is primarily attributed to an increase in cost of maintaining and repairing our production facilities in preparation for bringing newly anticipated oil and natural gas production online. Cost of revenues increased to \$579,914 for the three months ended December 2005 compared to \$220,593 for December 2004. This was an increase of \$359,321 or 163%. General and administrative expenses were \$864,771 during the three months ended December 31, 2005, a decrease of \$192,056 from \$1,056,827 recorded in the three months ended December 31, 2004. The decrease is primarily due to the settlement of a dispute with our former landlord which resulted in a reduction in deferred rent and a corresponding reduction in rent expense of \$128,000 and a payroll tax refund of approximately \$46,000.

	SCS	HYD
As of December 31, 2005:		
Segment assets	\$ 4,212,746	\$ 596
Six months ended December 31, 2005		
Revenues from external customers	-	194
Depreciation, depletion and amortization	13,720	49

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Loss from operations	(336,129)	(1,194)
Expenditures for long-lived assets	73,477	350
Three months ended December 31, 2005		
Revenues from external customers	-	107
Depreciation, depletion and amortization	6,860	25
Loss from operations	(175,624)	(507)
Expenditures for long-lived assets	44,213	55
As of December 31, 2004:		
Segment assets	3,947,182	764
Six months ended December 31, 2004		
Revenues from external customers	3,140	117
Depreciation, depletion and amortization	14,027	32
Loss from operations	(317,514)	(422)
Expenditures for long-lived assets	712,388	184
Three months ended December 31, 2004		
Revenues from external customers	2,840	51
Depreciation, depletion and amortization	5,632	9
Loss from operations	(133,207)	(266)
Expenditures for long-lived assets	704,697	167

Product and services information

	Quarter Ended December 2005	December 2004
	-----	-----
Revenues from:		
Seismic data management	\$ -	\$ 2
Computer-related sales	-	
Oilfield services	-	51
Oil and gas production	107,408	
Totals	\$ 107,408	\$ 54
	=====	=====

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Geographical Information

All revenues are currently derived from domestic sources. All long-lived assets are located in the USA, except for our oil and gas exploration and exploitation rights, which are located offshore Guinea, West Africa.

Louisiana Operations ("HYDR")

Revenue for the three months ended December 31, 2005 and 2004 was \$107,408 and \$51,695, respectively, which includes \$107,408 from oil production in 2005 and \$51,695 of oilfield service revenue in 2004.

Our depreciation and amortization for the three months ended December 2005 and December 2004 was \$25,015 and \$9,293, respectively.

Our loss from operations for the three months ended December 31, 2005 from this segment was (\$507,617) in comparison to (\$266,889) in December 2004. The decrease is primarily due to increased maintenance and repairs costs, tools and equipment cost, as well as an increase in payroll expenses.

Our expenditure for long lived assets in the three months ended December 2005 was \$55,761 compared to \$ 167,194 in December 2004. The decrease is due to less capital improvements on gas production facilities and our gas gathering system.

Guinea and Seismic Data Management ("SCS")

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We had revenues of \$0 and \$2,840 from this segment during the three months ended December 31, 2005 and 2004, respectively. The lack of revenues is attributable to the amount of internal seismic data processing work during these two periods: we have focused on the acquisition of seismic data for our concession in Guinea.

We have processed a portion of some data that we have the right to market in order to provide samples of the data to our prospects. When we sell the right to use this data, we will receive a fee and we will also be compensated for processing the data that we sell.

Our depreciation and amortization was \$6,860 and \$5,632 for the three months ended December 31, 2005 and 2004, respectively.

Based on the factors discussed above, our loss from operations for the three months ended December 2005 from this segment was (\$175,624) and (\$133,207) at the end of 2004.

Expenditures for long lived assets were \$44,213 and \$704,697 for the three months ended December 2005 and December 2004, respectively. The decrease is primarily due to reduction in consulting services.

Corporate Overhead

Revenue was \$0 for the three months ended December 31, 2005 and 2004, respectively. We do not actively pursue revenues in this segment.

Our depreciation and amortization expense was comparable at \$3,600 and \$4,445 for the three months ended December 31, 2005 and 2004, respectively.

The loss from operations attributable to corporate overhead was (\$689,511) and (\$851,626) for the three months ended December 31, 2005 and 2004, respectively.

Our expenditures for long lived assets was comparable at \$424 and \$0 for the three months ended in December 31, 2005 and 2004, respectively.

Other Items

Selling, General and Administrative.

Our selling, general and administrative expenses decreased \$192,056 or 18% in December 2005. selling, general and administrative expenses were \$864,771 and \$1,056,827 for the three months ended December 31, 2005 and December 31, 2004, respectively. The decrease is due to the settlement of a dispute with our former landlord which resulted in a reduction in deferred rent and a corresponding reduction in rent expense of \$128,000 and a payroll tax refund of approximately \$46,000.

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Interest Expense.

Interest expense decreased by \$124,717 or 54% in December 2005. The expense was \$105,876 and \$230,593 for the three months ended December 31, 2005 and December 31, 2004, respectively.

Net Loss.

Based on the factors discussed for each segment, the Net Loss chargeable to common shareholders is comparable at (\$1,504,411) or (\$0.04) for the three months ended December 31, 2005 and \$(1,503,445), or \$(0.04) per share in December 2004. The net loss chargeable to common shareholders includes a

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provision for preferred stock dividends of \$27,250 for both three months ended December 2004 and 2005. The negative results are due to the factors discussed above.

Our ratio of current assets to current liabilities (current ratio) was 0.14 to 1 at December 31, 2005 and 0.93 to 1 at December 31, 2004. A deeper analysis of the current ratio reveals several current obligations that reduce the current ratio but for which there is no requirement to use cash to satisfy them or for which the payment is deferred until we receive cash inflows sufficient to pay the obligation. These items include Deferred gain, Accounts payable Seismic Data, Dividends payable, and Dividends payable to related party. While the company continues to work toward generating positive cash flow from domestic operations altogether, including corporate overhead, it is expecting to report positive cash flow from its HYDR operations very soon.

Our financing activities and strategy over the last several months have put us in very good condition to meet and exceed minimum requirements for exploration offshore in West Africa. As explained below, we are now prepared to perform on our most valuable asset offshore Guinea. As discussed hereunder we expect our liquidity ratios to improve directly from our equity financing and with the success of putting our drilling operations back online in Guinea, we expect to have plenty of financial partnering opportunities that will allow us to far exceed minimum exploration and drilling requirements. This will allow us to drill more wells faster in quality locations. The more we drill in quality locations, the more chances we have to realize a viable commercial discovery for Guinea and for us. Once we receive our drilling permits as expected, we will be able to implement our additional strategy to bring on working interest partners to share in the risk on some of our more expensive wells to be drilled sooner rather than later.

Currently, in anticipation of receiving our permits to drill in Guinea, we are prepared and our financing is in place to drill at least one well offshore Guinea. Partners that have contacted us with verbal indications of interest could provide the ability for us to drill many more wells and at a very fast pace.

During the quarter the company continued to process its filing and responded to comments for its S-1 registration pursuant to a financing transaction that we entered into in August 2005. In August 2005, we closed a private financing transaction with Dutchess Private Equities Fund II, LP. The financing included a subscription for a \$1,500,000, two (2) year debenture that was funded \$1,000,000 upon closing and \$500,000 upon the filing of a registration statement. Now with the registration statement effective, Dutchess may elect to convert the payments coming due on the debenture at a stock price determined as the fixed floor conversion price of \$1 per share adjusted down to \$.90 per share as a result of a penalty.

To help the company bridge its need for capital, while waiting on the process of its registration to complete, in December 2005, the Company borrowed \$640,000 from Dutchess as a short term loan. Additionally during the quarter and subsequent to the quarter, as it has been able to do in past periods, funds have been raised by the exercise of outstanding warrants and options by various shareholders. More details of these funds can be found below in ITEM 2. Unregistered Sales of Equity Securities and Use of Proceeds.

After responding to a series of comments on the initial filing of the company's S-1 filing, it became necessary in order to be compliant with certain rules for the company to withdraw its S-1 filed in November and re-file it on January 12, 2006, with amended financing contracts that comply more clearly with the rules of such financings. Once SEC comments were received the company immediately responded and filed yet another S-1/A on February 6, 2006. The company was then notified that the SEC had no more comments and the registration statement became effective on February 9, 2006. This puts critical financing in place necessary for the company to meet its business objectives with regard to oil and gas exploration and to help it better manage its liquidity and improve its financial position.

As part of the S-1 that became effective on February 9, 2006, we have an investment agreement in place and have a commitment from Dutchess to fund up to \$20,000,000 in equity at 95% of the market price of our common stock. The puts against the equity line are made at the company's discretion. The agreement limits the number of shares to be registered and to be used for the equity line under the financing agreement to 6,400,000 shares. Coupled with the 2,000,000 shares registered for conversion of the aforementioned debenture and associated warrant, this limits the entire stock issuance to a total of 8,400,000 shares unless a shareholder vote is held to approve more shares. This insures that the number of shares to be issued will not exceed 20% of the outstanding common stock as is required by the rules of the American Stock Exchange. The amount ultimately raised by the financing will be determined by the stock price and trading volumes at each point in time the equity line is used. Additionally, management believes that the better the company performs, the easier it will be for the company to access this capital and at the same time minimize any share issuance.

During February 2006, investors exercised warrants to purchase restricted shares of common stock for gross proceeds of approximately \$400,000. On February 9, 2005, Dutchess exercised a warrant to purchase 500,000 shares of common stock for gross proceeds of \$450,000. As a result, the company's liquidity and cash position is increasingly positive and with its financing in place we are ready to continue to perform the work required of us.

At this point it is our understanding that we will be operating under a new agreement with Guinea. Such agreement will dictate requirements for capital which we believe we will be able to easily meet. Should the Guinea government change its mind and want us to proceed under the 2002 PSA, we are prepared to ramp back up under the 2nd exploration phase under that agreement and after an adjustment to required time frames due to delays associated with a case for Force Majeure under that contract, we will expect that we will be able to meet the obligation of the second exploration phase estimated to be approximately \$10,000,000 to drill one exploration well.

So, with our financing established, management is highly confident in our ability to proceed and perform under either scenario. Also, under the old agreement, the second exploration period expires sometime during the later part of this decade depending on initial periods and extension provisions. Although we have several years to complete this work, we wish to initiate a drilling program as soon as possible. Thus, we are considering all of our options or any combination of these options to: a) increase revenues from operations; b) raise additional capital to support at least the minimum required drilling program; c) negotiate one or more transactions with oil company partners who share in the required work and financing risk; and d) negotiate work program related deals with oil industry vendors such as seismic acquisition companies. We believe that our ability to manage and affect one or more of these options will determine our significant current ratio and financial position in the future.

Our cash from operations was a deficit this last year based on our asset appreciation based plan. We have taken overhead reduction steps to minimize non productive expenditures. We are spending the bulk of the capital raised directly or indirectly on enhancing the value of our offshore oil and gas concession. These expenditures, however, do not improve cash flow from operations. In order to improve our operating cash flow situation for future periods, management has budgeted certain amounts of capital and has started to build up our production revenues for HYDR.

Because our subsidiary, SCS Corporation ("SCS") is looking to increase its exploration activities, we are beginning to look at more than one option to raise additional funds. Management is confident in its ability to raise additional capital under more conventional financing structures, but we also believe that ultimately we will be able to secure oil and gas working interest partners to fund and carry significant portions of the capital investment burden. As we have discussed in the press, we are formulating plans and moving

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forward towards drilling our first exploration well offshore West Africa. We feel that we can successfully finance such a work program either ourselves through an equity financing plan, through working interest partners, or a combination of both.

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We have been successful in raising our necessary capital and management is very confident in our ability to continue to raise capital. Based on our relatively low overhead in comparison to the rather large task at hand, the lion's share of all capital raised is going to improve our drilling prospects.

We expect to exploit our leases in Louisiana by operating numerous low volume wells that produce 20 barrels a day or less. We believe the relatively high price of oil will help make these wells more economically viable.

Because of the geological features of this lease and our oil production to date, we considered HYDR's production plans as an attractive prospect for oil and gas investors. Therefore, we made the decision in April of 2005 to begin selling working interest units in our Norris and Kelly leases. We sold a total of 35% of our working interest. Recently, management decided to make an offer to the non-operator working interest owners to buy back their working interest for stock. We were willing to take the risk on the production coming in later than not at all and so we offered to buy back all of the working interest we sold by issuing stock. If the working interest non-operators agree on the buy-back, this should enhance our production revenues and cash position at some time in the future as well.

Thus, management believes that we have a very good vehicle in place now to timely raise additional capital as needed. This capital will continue to substantially enhance our asset value in our oil and gas concession. This will yield greatly enhanced shareholder value, and make additional capital easier to come by at ever increasing stock prices.

We have a contingent \$350,000 note payable that is payable with 25% of the profits of SCS Corporation. We have the right to pay this note off using common stock.

Additionally, in conjunction with our purchase of HYD, we entered into three notes payable to two individuals totaling \$856,000. The notes are to be paid quarterly over the five years ended June 30, 2009. Payments will be due only if HYD has net income according to accounting principles generally accepted in the United States of America. Payment amount will be 25% of the net income for the period, unless there was a net loss in previous period(s). If there is a net loss, subsequent net income must completely offset the losses before any amounts are due. After the loss is offset, payment of 25% of the remaining net income will be due.

In January 2006 we entered into a new lease for office space with a term of five years. The new lease will become effective upon the completion of tenant improvements specified in the lease agreement. This lease will cost us approximately \$16,000 per month less in rent and approximately another \$5,000 less in electricity. Currently we are in temporary space that is being provided by our landlord at no cost to the Company while our new space is being readied for occupancy. Once the new lease begins, the base monthly rent is \$0 for months 1-6, and we have paid three months of rent in advance so once we move into the new space we will not be required to pay rent for nine months. We have put up a \$75,000 Letter of Credit to secure our build-out costs. We will get this money back after 18 months.

Off-Balance Sheet Arrangements

We have a contractual arrangement and now a lawsuit against USOil Corporation. The original agreements provide for us to pay USOil \$1,600,000 if SCS obtains third party financing for the Guinea development project. Also

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USOil will receive a 3% royalty if oil and gas is produced on this project and depending on the outcome of our legal claims against them. We also have a contingent \$350,000 note payable that is only payable with 25% of the profits of SCS Corporation. We have the right to pay this note off using common stock. In conjunction with our purchase of HYD Resources Corporation in April 2004, we have three contingent obligations to pay \$856,000. These obligations are payable over the five years ending in April 2009 and they are payable only in the event that HYD Resources is profitable and has paid back all of its accumulated losses first. The determination of net income will be made quarterly and the pay down of the obligations is 25% of the net income per quarter. We do not plan on using significant debt financing except for the possibility of financing income-producing assets in the future.

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Item 3. Quantitative and Qualitative Disclosures About Market Risk

Our functional currency is the US dollar. Our revenue is directly related to the price of oil and gas. Assuming that we sell one barrel of oil, then a one dollar decrease in the price that we get for that barrel of oil will lower our revenue by one dollar, and correspondingly so for a one dollar increase in price. The same is true for changes in the price of natural gas. We intend to sell oil and gas immediately upon lifting to the wellhead. We do not contemplate retaining any oil and gas inventory. We do not hedge any market risk. Although the prices of oil and gas have recently increased substantially, there is no assurance that the price of oil and gas will not fall dramatically in the future.

Item 4. Controls and Procedures

Our Chief Executive Officer and Chief Financial Officer have concluded that our disclosure controls and procedures are effective. They have evaluated these controls and procedures as of the end of the fiscal quarter ended December 31, 2005. There were no changes in our internal controls that occurred during the fiscal quarter ended December 31, 2005 that materially affected or are reasonably likely to materially effect our control over financial reporting.

Part II Other Information

ITEM 2. Unregistered Sales of Equity Securities and Use of Proceeds

We have effected the following transactions in reliance upon exemptions from registration under the Securities Act of 1933 as amended (the "Act") as provided in Section 4(2) thereof. Each certificate issued for unregistered securities contained a legend stating that the securities have not been registered under the Act and setting forth the restrictions on the transferability and the sale of the securities. No underwriter participated in, nor did we pay any commissions or fees to any underwriter in connection with any of these transactions. None of the transactions involved a public offering. We believe that each person had knowledge and experience in financial and business matters which allowed them to evaluate the merits and risks of our securities. We believe that each person was knowledgeable about our operations and financial condition.

In February 2006, Hyperdynamics issued 555,000 shares of restricted common stock to various individuals who have exercised their options. We received an aggregate of \$277,500 in exercise proceeds. This was a private placement made in reliance of Section 4 (2) of the Act.

In February 2006 Hyperdynamics issued 30,000 shares of common stock to a consultant for services rendered under Hyperdynamics Employee Stock and Stock Option Plan. This was a private placement made in reliance of Section 4 (2) of the Act.

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In December 2005 Hyperdynamics issued 127,000 shares of restricted common stock to Dutchess Private Equities Fund, II L.P. as part of the financing cost on the Dutchess Note 12/08/05. The financing cost is valued at \$240,030. This was a private placement made in reliance of Section 4 (2) of the Act.

In November 2005, Hyperdynamics issued 24,351 shares of restricted common stock to the directors for services performed. The cost is valued at \$42,000. This was a private placement made in reliance of Section 4 (2) of the Act.

In November 2005, Hyperdynamics issued 30,000 shares of restricted common stock to a consultant for services rendered. The cost is valued at \$52,200. This was a private placement made in reliance of Section 4 (2) of the Act.

Item 6 Exhibits

Exhibit Number	Description
31.1 -	Certification of Chief Executive Officer of Hyperdynamics Corporation required by Rule 13a-14(1) or Rule 15d-14(a) of the Securities Exchange Act of 1934, as adopted pursuant to Section 302 of the Sarbanes-Oxley Act of 2002.
31.2 -	Certification of Chief Financial Officer of Hyperdynamics Corporation required by Rule 13a-14(1) or Rule 15d-14(a) of the Securities Exchange Act of 1934, as adopted pursuant to Section 302 of the Sarbanes-Oxley Act of 2002.
32.1 -	Certification of Chief Executive Officer of Hyperdynamics Corporation pursuant to Section 906 of the Sarbanes-Oxley Act of 2002 and Section 1350 of 18 U.S.C. 63.
32.2 -	Certification of Chief Financial Officer of Hyperdynamics Corporation pursuant to Section 906 of the Sarbanes-Oxley Act of 2002 and Section 1350 of 18 U.S.C. 63.

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Signature

Pursuant to the requirements of the Securities Exchange Act of 1934, the Registrant has duly caused this Report to be signed on its behalf by the undersigned thereunto duly

Hyperdynamics Corporation
(Registrant)

(signed) By: /s/ Kent Watts

Kent Watts, Chairman of the Board,
Chief Executive Officer

Dated: February 21, 2006

(signed)
By: /s/ Steven M. Plumb

Steven Plumb,
Chief Financial Officer

Dated: February 21, 2006

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