

AMERICAN PETRO-HUNTER INC
Form 10-Q
November 14, 2011

UNITED STATES SECURITIES AND EXCHANGE COMMISSION
Washington, D.C. 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: September 30, 2011

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 0-22723

AMERICAN PETRO-HUNTER INC.

(Exact name of registrant as specified in its charter)

Nevada
(State or Other Jurisdiction of
Incorporation or Organization)

98-0171619
(I.R.S. Employer
Identification Number)

17470 North Pacesetter Way
Scottsdale, AZ 85255

(Address of principal executive offices) (Zip Code)

(480) 305-2052

(Registrant's telephone number, including area code)

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

Indicate by check mark whether the registrant has submitted electronically and posted on its corporate Web site, if any, every Interactive Data File required to be submitted and posted pursuant to Rule 405 of Regulation S-T (§232.405 of this chapter) during the preceding 12 months (or for such shorter period that the registrant was required to submit and post such files). Yes No

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

Large accelerated filer Accelerated filer Non-accelerated filer Smaller Reporting

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(Do not check if smaller company
reporting company)

Indicate by check mark whether the registrant is a shell company (as defined in Rule 12b-2 of the Exchange Act). "

Yes No

Indicate the number of shares outstanding of each of the issuer's classes of common stock, as of the latest practicable date.

| Class | Outstanding at November 7, 2011 |
|--------------------------------|---------------------------------|
| Common stock, \$.001 par value | 28,303,418 |

AMERICAN PETRO HUNTER INC.
FORM 10-Q

September 30, 2011

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FORWARD-LOOKING STATEMENTS

This Report on Form 10-Q contains forward-looking statements within the meaning of the “safe harbor” provisions of the Private Securities Litigation Reform Act of 1995. Reference is made in particular to the description of our plans and objectives for future operations, assumptions underlying such plans and objectives, and other forward-looking statements included in this report. Such statements may be identified by the use of forward-looking terminology such as “may,” “expect,” “believe,” “estimate,” “anticipate,” “intend,” “continue,” or similar terms, variations of such terms or negative of such terms. Such statements are based on management’s current expectations and are subject to a number of factors and uncertainties, which could cause actual results to differ materially from those described in the forward-looking statements. Such statements address future events and conditions concerning, among others, capital expenditures, earnings, litigation, regulatory matters, liquidity and capital resources, and accounting matters. Actual results in each case could differ materially from those anticipated in such statements by reason of factors such as future economic conditions, changes in consumer demand, legislative, regulatory and competitive developments in markets in which we operate, results of litigation, and other circumstances affecting anticipated revenues and costs, and the risk factors set forth under the heading “Risk Factors” in our Annual Report on Form 10-K for the fiscal year ended December 31, 2010, filed on March 31, 2011.

As used in this Form 10-Q, “we,” “us” and “our” refer to American Petro-Hunter Inc., which is also sometimes referred to as the “Company.”

YOU SHOULD NOT PLACE UNDUE RELIANCE ON THESE FORWARD LOOKING STATEMENTS

The forward-looking statements made in this report on Form 10-Q relate only to events or information as of the date on which the statements are made in this report on Form 10-Q. Except as required by law, we undertake no obligation to update or revise publicly any forward-looking statements, whether as a result of new information, future events, or otherwise, after the date on which the statements are made or to reflect the occurrence of unanticipated events. You should read this report and the documents that we reference in this report, including documents referenced by incorporation, completely and with the understanding that our actual future results may be materially different from what we expect or hope.

Item 1. Financial Statements.

American Petro-Hunter, Inc.
(A Development Stage Company)
Condensed Balance Sheets

| | (Unaudited) September 30, 2011 | December 31, 2010 |
|--|--------------------------------------|----------------------|
| Assets | | |
| Current assets: | | |
| Cash | \$ 40,435 | \$ 3,225 |
| Accounts receivable | 30,361 | 15,620 |
| Prepaid expenses | 101,921 | 8,373 |
| Total current assets | 172,717 | 27,218 |
| Investment in oil and gas properties | 200,000 | - |
| Investments in mineral properties, net of accumulated amortization of \$95,744 and \$16,572, respectively | 1,979,700 | 884,142 |
| Total assets | \$ 2,352,417 | \$ 911,360 |
| Liabilities and Stockholders' (Deficit) | | |
| Current liabilities: | | |
| Accounts payable and other liabilities | \$ 370,195 | \$ 251,391 |
| Note payable and accrued interest | 367,078 | 40,493 |
| Convertible debenture, net of discount of \$466,912 and \$386,453 | 1,162,767 | 1,076,321 |
| Convertible debenture | 633,306 | 633,306 |
| Accrued interest on convertible debenture | 640,800 | 187,331 |
| Royalty interest payable | 15,849 | - |
| Loan guarantee | 94,860 | 94,860 |
| Total current liabilities | 3,284,855 | 2,283,702 |
| Long term liabilities: | | |
| Royalty interest payable - long term | 97,315 | - |
| Convertible debenture - long term | 1,334,783 | - |
| Total long term liabilities | 1,432,098 | - |
| Total liabilities | 4,716,953 | 2,283,702 |
| Stockholders' (deficit): | | |
| Common stock, \$0.001 par value, 200,000,000 shares authorized, 28,303,418 and 27,060,561 shares issued and outstanding as of September 30, 2011 and December 31, 2010 | 28,304 | 27,061 |
| Common stock to be issued; 0 and 542,857 shares as of September 30, 2011 and December 31, 2010 | - | 543 |
| Additional paid-in capital | 7,459,692 | 6,348,559 |

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| | | |
|--|--------------|--------------|
| Accumulated comprehensive gain (loss) | (8,114) | (8,114) |
| (Deficit) accumulated during development stage | (9,844,118) | (7,740,391) |
| Total stockholders' (deficit) | (2,364,236) | (1,372,342) |
| Total liabilities and stockholders' (deficit) | \$ 2,352,717 | \$ 911,360 |

The accompanying notes are an integral part of these financial statements.

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American Petro-Hunter, Inc.
(A Development Stage Company)
Condensed Statements of Operations

| | For the three months ended | | For the nine months ended | | For the Period from January 24, 1996 (inception) to September 30, 2011 |
|---|----------------------------|----------------|---------------------------|----------------|---|
| | September 30, | | September 30, | | |
| | 2011 | 2010 | 2011 | 2010 | |
| Revenue | \$93,873 | \$37,840 | \$214,075 | \$57,963 | \$ 384,557 |
| Cost of Goods Sold | | | | | |
| Production and amortization | 63,408 | 23,463 | 150,749 | 34,834 | 226,838 |
| Gross profit | 30,465 | 14,377 | 63,326 | 23,129 | 157,719 |
| General and administrative | 103,560 | 106,141 | 373,072 | 306,319 | 2,901,135 |
| Executive compensation | 66,000 | 79,000 | 504,000 | 364,000 | 1,507,237 |
| Rent | 8,166 | 12,532 | 25,708 | 33,697 | 127,058 |
| Impairment expense | - | 642,260 | - | 759,160 | 1,859,340 |
| Total expenses | 177,726 | 839,933 | 902,780 | 1,463,176 | 6,394,770 |
| Net loss before other income (expense) | (147,261) | (825,556) | (839,454) | (1,440,047) | (6,237,051) |
| Other income (expense): | | | | | |
| Interest expense | (480,913) | (179,218) | (1,264,273) | (634,076) | (2,417,777) |
| Loan placement fee | - | - | - | - | (238,227) |
| Loss from loan guarantee | - | - | - | - | (84,858) |
| Loss from settlement of debt | - | - | - | - | (14,971) |
| Income from debt forgiveness | - | - | - | - | 85,960 |
| Total other income (expense) | (480,913) | (179,218) | (1,264,273) | (634,076) | (2,669,873) |
| Net loss from continuing operations | (628,174) | (1,004,774) | (2,103,727) | (2,074,123) | (8,906,924) |
| Net loss from discontinued operations | - | - | - | - | (937,194) |
| Net loss | (628,174) | (1,004,774) | (2,103,727) | (2,074,123) | (9,844,118) |
| Foreign currency translation gain | - | - | - | - | (8,114) |
| Comprehensive loss | \$(628,174) | \$(1,004,774) | \$(2,103,727) | \$(2,074,123) | \$ (9,852,232) |
| Weighted average common shares outstanding - basic and fully diluted | 28,303,418 | 27,060,561 | 27,298,606 | 26,170,218 | |
| | (0.022) | (0.037) | \$(0.077) | \$(0.079) | |

Net (loss) per share - basic and fully
diluted

The accompanying notes are an integral part of these financial statements

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American Petro-Hunter, Inc.
(A Development Stage Company)
Condensed Statement of Stockholder's (Deficit)

| | Common Stock | | Additional | Common Stock owed but not issued be issued | Deficit accumulated during the development stage | Accumulated Comprehensive Loss gain(loss) | Total Stockholder's (deficit) (Deficit) |
|--|--------------|-----------|--------------------|--|--|--|--|
| | Shares | Amount | Paid-in Capital | | | | |
| Shares issued for cash, net of issue costs | 10,497,300 | \$ 10,497 | \$ 296,833 | \$- | \$ - | \$ - | \$ 307,330 |
| Net income | - | - | - | - | 4,856 | - | 4,856 |
| Balance at December 31, 1996 | 10,497,300 | 10,497 | 296,833 | - | 4,856 | - | 312,186 |
| Shares issued for cash, net of issue costs | 187,416 | 187 | 46,850 | - | - | - | 47,037 |
| Net loss | - | - | - | - | (96,386) | - | (96,386) |
| Unrealized foreign exchange gain | - | - | - | - | - | 8,258 | 8,258 |
| Balance at December 31, 1997 | 10,684,716 | 10,684 | 343,683 | - | (91,530) | 8,258 | 271,095 |
| Stock reverse split 3:1 | (7,123,094) | (7,123) | 7,123 | - | - | - | - |
| Shares issued | 7,773,026 | 7,773 | 1,980,833 | - | - | - | 1,988,606 |
| Unrealized foreign exchange loss | - | - | - | - | - | (8,258) | (8,258) |
| Net loss | - | - | - | - | (1,798,830) | - | (1,798,830) |
| Balance at December 31, 1998 | 11,334,648 | 11,334 | 2,331,639 | - | (1,890,360) | - | 452,613 |
| 1998 issuance cancelled | (4,800,000) | (4,800) | (1,339,200) | - | - | - | (1,344,000) |
| Share issue costs | 500,000 | 500 | 85,000 | - | - | - | 85,500 |
| Net loss | - | - | - | - | (307,331) | - | (307,331) |
| Balance at December 31, 1999 | 7,034,648 | 7,034 | 1,077,439 | - | (2,197,691) | - | (1,113,218) |

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| | | | | | | | |
|-------------------------------------|--------------|----------|-----------|---|--------------|-----------|------------|
| Shares issued | 4,435,570 | - | 1,083,791 | - | - | - | 1,083,791 |
| Finders' fees | - | - | 48,000 | - | - | - | 48,000 |
| Share purchase warrants | - | - | 80,000 | - | - | - | 80,000 |
| Net loss | - | - | - | - | (547,097) | - | (547,097) |
| Balance at December 31, 2000 | 11,470,218 | 7,034 | 2,289,230 | - | (2,744,788) | - | (448,524) |
| Stock reverse split 10:1 | (10,323,196) | (5,887) | 5,887 | - | - | - | - |
| Shares issued | 4,253,617 | 4,254 | 552,106 | - | - | - | 556,360 |
| Net loss | - | - | - | - | (297,352) | - | (297,352) |
| Balance at December 31, 2001 | 5,400,639 | 5,401 | 2,847,223 | - | (3,042,140) | - | (189,516) |
| Shares issued | 220,000 | 220 | 21,780 | - | - | - | 22,000 |
| Net loss | - | - | - | - | (29,664) | - | (29,664) |
| Balance at December 31, 2002 | 5,620,639 | 5,621 | 2,869,003 | - | (3,071,804) | - | (197,180) |
| Shares issued | 430,000 | 430 | 25,370 | - | - | - | 25,800 |
| Other comprehensive loss | - | - | - | - | 17,920 | (17,920) | - |
| Net loss | - | - | - | - | (57,652) | - | (57,652) |
| Balance at December 31, 2003 | 6,050,639 | 6,051 | 2,894,373 | - | (3,111,536) | (17,920) | (229,032) |
| Shares issued for services rendered | 475,000 | 475 | 56,525 | - | - | - | 53,774 |
| Other comprehensive loss | - | - | - | - | - | (9,773) | (9,773) |
| Net loss | - | - | - | - | (134,058) | - | (134,058) |
| Balance at December 31, 2004 | 6,525,639 | 6,526 | 2,950,898 | - | (3,245,594) | (27,693) | (319,089) |
| Shares issued for services rendered | - | - | - | - | - | - | 3,226 |
| Shares issued for cash | 1,739,380 | 1,739 | 85,230 | - | - | - | 86,969 |
| Other comprehensive loss | - | - | - | - | - | (6,156) | (6,156) |
| Net loss | - | - | - | - | (70,711) | - | (70,711) |

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| | | | | | | | |
|--|------------|--------|-----------|-----------|--------------|-----------|------------|
| Balance at December 31, 2005 | 8,265,019 | 8,265 | 3,036,128 | - | (3,316,305) | (33,849) | (305,761) |
| Other comprehensive loss | - | - | - | - | - | (6,380) | (6,380) |
| Net loss | - | - | - | - | (72,398) | - | (72,398) |
| Balance at December 31, 2006 | 8,265,019 | 8,265 | 3,036,128 | - | (3,388,703) | (40,229) | (384,539) |
| Other comprehensive loss | - | - | - | - | - | (49,031) | (49,031) |
| Share subscription received in advance | - | - | - | 60,000 | - | - | 60,000 |
| Net loss | - | - | - | - | (107,554) | - | (107,554) |
| Balance at December 31, 2007 ** | 8,265,019 | 8,265 | 3,036,128 | 60,000 | (3,496,257) | (89,260) | (481,124) |
| Share issued for subscription recd in 07 | 1,200,000 | 1,200 | 58,800 | (60,000) | - | - | - |
| Common stock sold at \$0.05 per share | 600,000 | 600 | 29,400 | - | - | - | 30,000 |
| Share subscription received in 2008 | - | - | - | 40,000 | - | - | 40,000 |
| Other comprehensive gain | - | - | - | - | - | 81,146 | 81,146 |
| Net loss | - | - | - | - | (123,823) | - | (123,823) |
| Balance at December 31, 2008 | 10,065,019 | 10,065 | 3,124,328 | 40,000 | (3,620,080) | (8,114) | (453,801) |
| Shares issued that were owed | 800,000 | 800 | 39,200 | (40,000) | - | - | - |
| Shares issued for cash | 2,250,000 | 2,250 | 42,750 | - | - | - | 45,000 |
| Shares issued for accts payable conversion | 8,254,088 | 8,254 | 156,828 | - | - | - | 165,082 |
| Shares issued for notes payable conversion | 879,454 | 880 | 218,984 | - | - | - | 219,864 |

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| | | | | | | | |
|---|------------|----------|--------------|----------|-----------------|-------------|---------------|
| Warrants issued for services | - | - | 238,227 | - | - | - | 238,227 |
| Warrant exercise | 1,500,000 | 1,500 | 223,500 | - | - | - | 225,000 |
| Shares sold for cash, not issued at year-end | - | - | 66,310 | 190 | - | - | 66,500 |
| Warrant exercise, not issued yet at year-end | - | - | 418,883 | 1,641 | - | - | 420,524 |
| Warrants issued with debt | - | - | 581,626 | - | - | - | 581,626 |
| Net loss | - | - | - | - | (1,655,978) | - | (1,655,978) |
| Balance at December 31, 2009 | 23,748,561 | \$23,749 | \$ 5,110,636 | \$1,831 | \$ (5,276,058) | \$ (8,114) | \$ (147,956) |
| Shares issued for compensation | 250,000 | 250 | 169,750 | - | - | - | 170,000 |
| Shares issued that were owed | 1,830,825 | 1,831 | - | (1,831) | - | - | - |
| Exercise of warrants | 231,175 | 231 | 34,445 | - | - | - | 34,676 |
| Convertible debenture converted to stock | 1,000,000 | 1,000 | 349,000 | - | - | - | 350,000 |
| Shares sold for cash | - | - | 154,557 | 443 | - | - | 155,000 |
| Exercise of warrants | - | - | 14,900 | 100 | - | - | 15,000 |
| Beneficial conversion feature issued on convertible debenture | - | - | 515,271 | - | - | - | 515,271 |
| Net loss | - | - | - | - | (2,464,333) | - | (2,464,333) |
| Balance at December 31, 2010 | 27,060,561 | 27,061 | 6,348,559 | 543 | (7,740,391) | (8,114) | (1,372,342) |
| Beneficial conversion feature issued on convertible debenture | - | - | 754,833 | - | - | - | 754,833 |
| Shares issued, not previously issued | 542,857 | 543 | - | (543) | - | - | - |
| Shares issued for compensation | 600,000 | 600 | 305,400 | - | - | - | 306,000 |
| Shares issued for services | 100,000 | 100 | 50,900 | - | - | - | 51,000 |

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| | | | | | | | |
|-------------------------------------|------------|----------|--------------|-----|-----------------|-------------|-----------------|
| Net loss | - | - | - | - | (2,103,727) | - | (2,103,727) |
| Balance at September 30, 2011 | 28,303,418 | \$28,304 | \$ 7,459,692 | \$- | \$ (9,844,118) | \$ (8,114) | \$ (2,364,236) |

The accompanying notes are an integral part of these financial statements

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American Petro-Hunter, Inc.
(A Development Stage Company)
Condensed Statement of Cash Flows

| | For the nine months ended September 30, | | For the period from the date of inception on January 24, 1996 to September 30, |
|---|--|-----------------|---|
| | 2011 | 2010 | 2011 |
| Cash flows from operating activities | | | |
| Net (loss) | \$ (2,103,727) | \$ (2,074,123) | \$ (9,844,118) |
| Adjustments to reconcile net (loss) to net cash used in operating activities: | | | |
| (Gain) loss from loan guarantee | - | - | 94,860 |
| Warrants issued for services | - | - | 366,227 |
| Shares issued for services and compensation | 357,000 | 170,000 | 1,519,558 |
| Amortization of discount | 685,649 | 384,022 | 1,396,094 |
| Impairment expense | - | 759,160 | 1,531,889 |
| Amortization of mineral properties | 79,172 | - | 95,744 |
| Changes in operating assets and liabilities: | | | |
| (Increase) decrease in accounts receivable | (14,741) | (7,923) | (30,361) |
| (Increase) decrease in other receivable | - | 13,184 | - |
| (Increase) decrease in prepaid expenses | 5,470 | (2,200) | (2,903) |
| Increase (decrease) in accounts payable and accrued liabilities | 118,804 | 72,822 | 2,148,555 |
| Increase (decrease) in accrued interest | 461,625 | 92,574 | 669,871 |
| Increase (decrease) in due to related parties | - | - | (107,170) |
| Net cash used by operating activities | (410,748) | (592,484) | (2,161,754) |
| Cash flows from investing activities | | | |
| Proceeds from sale of mineral properties | - | - | 80,000 |
| Acquisition of oil & gas properties | (200,000) | - | (200,000) |
| Acquisition of mineral properties | (1,174,730) | (981,689) | (3,679,833) |
| Net cash used by investing activities | (1,374,730) | (981,689) | (3,799,833) |
| Cash flows from financing activities | | | |
| Proceeds from sale of common stock, net of share issuance costs | - | 155,000 | 803,168 |
| Proceeds from warrant exercise | - | 49,676 | 695,200 |
| Proceeds from note payable | 321,000 | - | 564,000 |
| Proceeds from convertible debenture | 1,501,688 | 1,334,783 | 3,964,462 |
| Payments for convertible debenture | - | - | (16,694) |
| Net cash provided by financing activities | 1,822,688 | 1,539,459 | 6,010,136 |

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| | | | |
|---|------------|------------|--------------|
| Foreign currency translation effect on cash | - | - | (8,114) |
| Net increase (decrease) in cash | 37,210 | (34,714) | 40,435 |
| Cash - beginning | 3,225 | 38,021 | - |
| Cash - ending | \$ 40,435 | \$ 3,307 | \$ 40,435 |
| Supplemental disclosures: | | | |
| Interest paid | \$ 97,500 | \$ 88,500 | \$ 266,415 |
| Income taxes paid | \$ - | \$ - | \$ - |
| Non-cash transactions: | | | |
| Warrants issued for services | \$ - | \$ - | \$ 366,227 |
| Shares issued for services and compensation | \$ 357,000 | \$ 170,000 | \$ 1,519,558 |
| Note payable converted to common stock | \$ - | \$ 350,000 | \$ 569,864 |
| Accounts payable converted to common stock | \$ - | \$ - | \$ 165,082 |

The accompanying notes are an integral part of these financial statements

American Petro-Hunter Inc.
(A Development Stage Company)
Notes to Condensed Financial Statements
September 30, 2011

1. Nature and Continuance of Operations

American Petro-Hunter Inc. (the "Company") was incorporated in the State of Nevada on January 24, 1996 as Wolf Exploration Inc. On March 17, 1997, Wolf Exploration Inc. changed its name to Wolf Industries Inc.; on November 21, 2000, they changed its name to Travelport Systems Inc., and on August 17, 2001, changed its name to American Petro-Hunter Inc.

The Company is evaluating the acquisition of certain natural resource projects with the intent of developing such projects. The Company focus is currently in locating and assessing potential acquisition targets, including real property, oil and gas companies.

Going Concern

These financial statements have been prepared in accordance with accounting principles generally accepted in the United States of America ("GAAP") applicable to a going concern, which contemplates the realization of assets and the satisfaction of liabilities and commitments in the normal course of business. The Company is at a development stage and has minimal revenues, has limited assets and has accumulated deficit and comprehensive losses during the development period of \$9,852,232 and requires additional funds to maintain its operations. Management's plan in this regard is to raise equity financing as required. There can be no assurance that sufficient funding will be obtained. The foregoing matters raise substantial doubt about the Company's ability to continue as a going concern. The condensed financial statements do not include any adjustments relating to the recoverability and classification of recorded assets, or the amounts of and classification of liabilities that might be necessary in the event the Company cannot continue in existence.

Development Stage Activities

The Company is in the development stage. We have had minimal revenue from our current operations. To generate revenue, our new business plan is to focus development of our natural resource projects. Based upon our business plan, we are a development stage enterprise. Accordingly, we present our financial statements in conformity with the accounting principles generally accepted in the United States of America that apply in establishing operating enterprises. As a development stage enterprise, we disclose the deficit accumulated during the development stage and the cumulative statements of operations and cash flows from our inception to the current balance sheet date.

2. Significant Accounting Policies

The following is a summary of significant accounting policies used in the preparation of these financial statements.

Principles of accounting

These financial statements have been prepared in accordance with accounting principles generally accepted in the United States of America (GAAP).

Income taxes

The Company accounts for income taxes under FASB Codification Topic 740-10-25 ("ASC 740-10-5"). Under ASC 740-10-25, deferred tax assets and liabilities are recognized for the future tax consequences attributable to differences between the financial statement carrying amounts of existing assets and liabilities and their respective tax bases. Deferred tax assets and liabilities are measured using enacted tax rates expected to apply to taxable income in the years in which those temporary differences are expected to be recovered or settled. Under ASC 740-10-25, the effect on deferred tax assets and liabilities of a change in tax rates is recognized in income in the period that includes the

enactment date. See footnote 8 for further details.

Revenue Recognition

It is our policy that revenues will be recognized in accordance with ASC subtopic 605-10 (formerly SEC Staff Accounting Bulletin (SAB) No. 104, "Revenue Recognition."). Under ASC 605-10, product revenues are recognized when persuasive evidence of an arrangement exists, delivery has occurred, the sales price is fixed and determinable and collectability is reasonably assured.

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Use of estimates

The preparation of financial statements, in conformity with accounting principles generally accepted in the United States, requires management to make estimates and assumptions that affect the reported amount of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates.

Cash Equivalents

The Company maintains cash balances in interest and non-interest bearing accounts. For the purpose of these financial statements, all highly liquid cash and investments with a maturity of three months or less are considered to be cash equivalents.

Net loss per share

In accordance with ASC subtopic 260-10, the basic loss per common share is computed by dividing net loss available to common stockholders by the weighted average number of common shares outstanding. Diluted loss per common share is computed similar to basic loss per common share except that the denominator is increased to include the number of additional common shares that would have been outstanding if the potential common shares had been issued and if the additional common shares were dilutive. For the years ended December 31, 2010 and 2009, the denominator in the diluted EPS computation is the same as the denominator for basic EPS due to the anti-dilutive effect of the warrants and stock options on the Company's net loss.

Financial instruments

The Company's financial instruments consist of cash and cash equivalents, accounts receivable, accounts payable, notes payable and loan guarantee. Unless otherwise noted, it is management's opinion that the Company is not exposed to significant interest, or credit risks arising from these financial instruments. The fair values of these financial instruments approximate their carrying values because of their relatively short-term maturities. See Note 5 for further details.

Fair Value of Financial Instruments

The Company has financial instruments whereby the fair value of the financial instruments could be different from that recorded on a historical basis in the accompanying balance sheets. The Company's financial instruments consist of cash, accounts receivable, accounts payable, and notes payable. The carrying amounts of the Company's financial instruments approximate their fair values as of September 30, 2011 and December 31, 2010 due to their short-term nature. See Note 5 for further details.

Reclassifications

Certain reclassifications have been made to the prior years' financial statements to conform to the current year presentation. These reclassifications had no effect on previously reported results of operations or retained earnings.

Oil and Gas Properties

We follow the successful efforts method of accounting for oil and gas exploration and production activities. All costs for development wells, related plant and equipment, proved mineral interests in oil and gas properties are capitalized. Costs of exploratory wells are capitalized pending determination of whether the wells found proved reserves. Cost of wells that are assigned proved reserves remain capitalized. All other exploratory wells and costs are expensed.

Depreciation, depletion and amortization of all capitalized costs of proved oil and gas producing properties are expensed using the straight-line method over the life of each well. Period valuation provisions for impairment of capitalized costs of unproved mineral interests are expensed. The costs of unproved properties are excluded from amortization until the properties are evaluated.

Unproved properties are assessed periodically individually when drilling and flow testing results indicate whether there is an economic resource or not. All capitalized costs associated with properties that have been determined to be a “dry-hole” are impaired when that determination is made. Proved properties are assessed periodically for impairment on an individual basis. Events that can trigger the test for possible impairment include significant decreases in the market value of a property, significant change in the extent or manner of use or change in property and the expectation that a property will be sold or otherwise disposed of significantly sooner than the previously estimated useful life. The assessment is done by comparing each property’s carrying value to their associated estimated undiscounted future net cash flows. Impaired properties are written down to their estimated fair values. The resulting impairment would be expensed to operations as impairment expense in the period in which it was determined that the impairment was indicated and calculated.

3. Recent Accounting Pronouncements

The FASB issued ASC subtopic 855-10 (formerly SFAS 165 “Subsequent Events”), incorporating guidance on subsequent events into authoritative accounting literature and clarifying the time following the balance sheet date which management reviewed for events and transactions that may require disclosure in the financial statements. The Company has adopted this standard. The standard increased our disclosure by requiring disclosure reviewing subsequent events. ASC 855-10 is included in the “Subsequent Events” accounting guidance.

In April 2009, the FASB issued ASC subtopic 820-10 (formerly Staff Position No. FAS 157-4, Determining Fair Value When Volume and Level of Activity for the Asset or Liability Have Significantly Decreased and Identifying Transactions That Are Not Orderly”). ASC 820-10 provides guidance on how to determine the fair value of assets and liabilities when the volume and level of activity for the asset/liability has significantly decreased. FSP 157-4 also provides guidance on identifying circumstances that indicate a transaction is not orderly. In addition, FSP 157-4 requires disclosure in interim and annual periods of the inputs and valuation techniques used to measure fair value and a discussion of changes in valuation techniques. The Company determined that adoption of FSP 157-4 did not have a material impact on its results of operations and financial position.

In July 2006, the FASB issued ASC subtopic 740-10 (formerly Interpretation No. (“FIN”) 48, “Accounting for Uncertainty in Income Taxes”). ASC 740-10 sets forth a recognition threshold and valuation method to recognize and measure an income tax position taken, or expected to be taken, in a tax return. The evaluation is based on a two-step approach. The first step requires an entity to evaluate whether the tax position would “more likely than not,” based upon its technical merits, be sustained upon examination by the appropriate taxing authority. The second step requires the tax position to be measured at the largest amount of tax benefit that is greater than 50 percent likely of being realized upon ultimate settlement. In addition, previously recognized benefits from tax positions that no longer meet the new criteria would no longer be recognized. The application of this Interpretation will be considered a change in accounting principle with the cumulative effect of the change recorded to the opening balance of retained earnings in the period of adoption. Adoption of this new standard did not have a material impact on our financial position, results of operations or cash flows.

In April 2008, the FASB issued ASC 815-40 (formerly Emerging Issues Task Force (“EITF”) 07-05, "Determining whether an Instrument (or Embedded Feature) Is Indexed to an Entity’s Own Stock"). ASC815-40 applies to any freestanding financial instruments or embedded features that have the characteristics of a derivative, and to any freestanding financial instruments that are potentially settled in an entity’s own common stock. ASC 815-40 is effective for financial statements issued for fiscal years beginning after December 15, 2008. The adoption of this pronouncement did not have a material impact on its financial position, results of operations or cash flows.

In June 2009, the FASB issued ASC 105 Accounting Standards Codification TM and the Hierarchy of Generally Accepted Accounting Principles. The FASB Accounting Standards Codification TM (the “Codification”) has become the source of authoritative accounting principles recognized by the FASB to be applied by nongovernmental entities in the preparation of financial statements in accordance with Generally Accepted Accounting Principles (“GAAP”). All existing accounting standard documents are superseded by the Codification and any accounting literature not included in the Codification will not be authoritative. Rules and interpretive releases of the SEC issued under the authority of federal securities laws, however, will continue to be the source of authoritative generally accepted accounting principles for SEC registrants. Effective September 30, 2009, all references made to GAAP in our consolidated financial statements will include references to the new Codification. The Codification does not change or alter existing GAAP and, therefore, will not have an impact on our financial position, results of operations or cash flows.

In June 2009, the FASB issued changes to the consolidation guidance applicable to a variable interest entity (VIE). FASB ASC Topic 810, "Consolidation," amends the guidance governing the determination of whether an enterprise is the primary beneficiary of a VIE, and is, therefore, required to consolidate an entity, by requiring a qualitative analysis

rather than a quantitative analysis. The qualitative analysis will include, among other things, consideration of who has the power to direct the activities of the entity that most significantly impact the entity's economic performance and who has the obligation to absorb losses or the right to receive benefits of the VIE that could potentially be significant to the VIE. This standard also requires continuous reassessments of whether an enterprise is the primary beneficiary of a VIE. FASB ASC 810 also requires enhanced disclosures about an enterprise's involvement with a VIE. Topic 810 is effective as of the beginning of interim and annual reporting periods that begin after November 15, 2009. The adoption of this pronouncement did not have a material impact on its financial position, results of operations or cash flows.

In June 2009, the FASB issued Financial Accounting Standards Codification No. 860 - Transfers and Servicing. FASB ASC No. 860 improves the relevance, representational faithfulness, and comparability of the information that a reporting entity provides in its financial statements about a transfer of financial assets; the effects of a transfer on its financial position, financial performance, and cash flows; and a transferor's continuing involvement, if any, in transferred financial assets. FASB ASC No. 860 is effective as of the beginning of each reporting entity's first annual reporting period that begins after November 15, 2009, for interim periods within that first annual reporting period and for interim and annual reporting periods thereafter. The adoption of this pronouncement did not have a material impact on its financial position, results of operations or cash flows.

International Financial Reporting Standards

In November 2008, the Securities and Exchange Commission ("SEC") issued for comment a proposed roadmap regarding potential use of financial statements prepared in accordance with International Financial Reporting Standards ("IFRS") as issued by the International Accounting Standards Board. Under the proposed roadmap, the Company would be required to prepare financial statements in accordance with IFRS in fiscal year 2014, including comparative information also prepared under IFRS for fiscal 2013 and 2012. The Company is currently assessing the potential impact of IFRS on its financial statements and will continue to follow the proposed roadmap for future developments.

4. Investments in Mineral Properties

During the nine months ended September 30, 2011, the Company made five investments totaling \$1,174,730. During the year ended December 31, 2010, the Company made eight investments totaling \$1,031,440. Several of those investments produced "dry holes" and were therefore fully impaired. During the nine months ended September 30, 2011, impairment expense related to these "dry holes" was \$0 and during the year ended December 31, 2010, impairment expense related to these "dry holes" was \$765,229. As of September 30, 2011, the Company has investments, valued at cost, of \$2,075,444; \$1,165,714 in proved wells and \$909,730 in unproved wells. As of December 31, 2010, the Company has investments, valued at cost, of \$900,714; \$305,964 in proved wells and \$594,750 in unproved wells. Capitalized costs of proved properties are amortized and expensed using the straight-line method over the estimated useful life of each well. Unproved properties are excluded from amortization. Amortization expense for the nine months ended September 30, 2011 and year ended December 31, 2010 was \$79,172 and \$16,572, respectively. A summary of investments follows:

S&W Oil & Gas, LLC - Poston Prospect

On May 4, 2009, the Company entered into a binding Letter of Intent ("LOI") with S&W Oil & Gas, LLC ("S&W") to participate in the drilling for oil in the Poston Prospect #1 Lutters in Southwest Trego County, Kansas (the "Poston Prospect"). Pursuant to the LOI, the Company paid S&W \$64,500 in exchange for a 25% working interest in the 81.5% net revenue interest in the Poston Prospect. During the year ended December 31, 2009, an additional \$44,624 was paid for completion of the oil well and for the purchase of necessary equipment. During the year ended December 31, 2010, the Company paid an additional \$106,167 for drilling and completion costs of a second well on this property. Amortization expense was \$16,863 and 16,572 on this prospect for the nine months ended September 30, 2011 and year ended December 31, 2010, respectively.

S&W Oil & Gas, LLC - Rooney Prospect

On June 19, 2009, the Company entered into a binding LOI with S&W to participate in the drilling for oil and natural gas in the Rooney Prospect located in southwestern Ford County, Kansas. Pursuant to the LOI, the Company paid S&W a total of \$113,333 for land acquisition and leasing costs, \$216,697 for the 3D seismic shoot costs, and \$392,231 for completion of the oil well and the purchase of necessary equipment in exchange for a 50% working interest in the 81.5 net revenue interest of the project. During the year ended December 31, 2010, this prospect was determined to be a "dry hole" and an impairment charge of \$642,260 was taken on this property to bring the total

capitalized costs in-line with its market value. The property was sold for \$80,000 October 15, 2010.

Shelor 23-3 Prospect

During the year ended December 31, 2009, the Company entered into an agreement with S&W to participate in the drilling for oil. Pursuant to the agreement, the Company paid S&W \$116,900 for a 50% working interest in the project. During the year ended December 31, 2010, the well was determined to be a “dry hole” and the full \$116,900 was written off to impairment expense.

Oklahoma prospects

During the year ended December 31, 2010, the Company entered into an agreement with Bay Petroleum to purchased working interests in several properties in Oklahoma and advanced funds for lease purchases. The Company paid Bay Petroleum \$697,600 in exchange for 25% to 50% working interest in the net revenue of the project. Additional properties were purchased during the nine month period ending September 30, 2011 of \$1,174,730. As of September 30, 2011, amortization expense was \$62,309. As of December 31, 2010, these prospects are unproved wells and were not being amortized.

5. Investments in Oil and Gas Properties

On September 30, 2011, the Company made a \$200,000 investment in working interests in five existing wells. The investments are for working interests ranging from 10% to 50% which carry net revenue interests ranging from 7.5% to 37.5%.

6. Fair Value Measurements

The Company adopted ASC Topic 820-10 at the beginning of 2009 to measure the fair value of certain of its financial assets required to be measured on a recurring basis. The adoption of ASC Topic 820-10 did not impact the Company's financial condition or results of operations. ASC Topic 820-10 establishes a fair value hierarchy that prioritizes the inputs to valuation techniques used to measure fair value. The hierarchy gives the highest priority to unadjusted quoted prices in active markets for identical assets or liabilities (Level 1 measurements) and the lowest priority to unobservable inputs (Level 3 measurements). ASC Topic 820-10 defines fair value as the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants on the measurement date. A fair value measurement assumes that the transaction to sell the asset or transfer the liability occurs in the principal market for the asset or liability. The three levels of the fair value hierarchy under ASC Topic 820-10 are described below:

Level 1 – Valuations based on quoted prices in active markets for identical assets or liabilities that an entity has the ability to access.

Level 2 – Valuations based on quoted prices for similar assets and liabilities in active markets, quoted prices for identical assets and liabilities in markets that are not active, or other inputs that are observable or can be corroborated by observable data for substantially the full term of the assets or liabilities.

Level 3 – Valuations based on inputs that are supportable by little or no market activity and that are significant to the fair value of the asset or liability.

The Company has no level 3 assets or liabilities.

The following table presents a reconciliation of all assets and liabilities measured at fair value on a recurring basis as of September 30, 2011:

| | Level 1 | Level 2 | Level 3 | Fair Value |
|--------------------------------------|-----------|-----------|---------|------------|
| Cash | \$ 40,435 | \$ - | \$ - | \$ 40,435 |
| Accounts & other receivables | - | 30,361 | - | 30,361 |
| Accounts payable | - | 370,195 | - | 370,195 |
| Notes payable | - | 367,078 | - | 367,078 |
| Convertible debentures, net of disc. | - | 3,130,856 | - | 3,130,856 |
| Accrued interest | - | 640,800 | - | 640,800 |
| Royalty interest payable | - | 113,164 | - | 113,164 |
| Loan Guarantee | - | 94,860 | - | 94,860 |

The following table presents a reconciliation of all assets and liabilities measured at fair value on a recurring basis as of December 31, 2010:

| | Level 1 | Level 2 | Level 3 | Fair Value |
|------------------------------|----------|---------|---------|------------|
| Cash | \$ 3,225 | \$ - | \$ - | \$ 3,225 |
| Accounts & other receivables | - | 15,620 | - | 15,620 |
| Prepaid expenses | - | 8,373 | - | 8,373 |

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| | | | | |
|--------------------------------------|---|-----------|---|-----------|
| Accounts payable | - | 251,391 | - | 251,391 |
| Notes payable | - | 40,493 | - | 40,493 |
| Convertible debentures, net of disc. | - | 1,709,627 | - | 1,709,627 |
| Accrued interest | - | 187,331 | - | 187,331 |
| Loan Guarantee | - | 94,860 | - | 94,860 |

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7.

Debt and Debt Guarantee

Notes Payable

As of September 30, 2011 and December 31, 2010, the Company has a note payable of \$25,000 bearing interest at 12% per annum collateralized by a general security arrangement over all of the Company's assets. The note was payable in full on May 18, 2007 and is therefore in default as of September 30, 2011 and December 31, 2010. During nine months ended September 30, 2011 and year ended December 31, 2010, the Company accrued interest expense of \$3,744 and \$4,516, respectively. As of September 30, 2011 and December 31, 2010, the balance of the note payable, including accrued interest, is \$44,237 and \$40,493, respectively.

Convertible Debentures - 2009

In August and September of 2009, the company received \$1,000,000 from an investor to issue a convertible debenture, bearing interest at a rate of 18% per annum paid monthly on any unpaid principal balance to the investor, secured by the assets of the Company. \$500,000 of the debenture was due on August 13, 2010 and the other \$500,000 was due on September 15, 2010. During the year ended December 31, 2010, the Company amended the promissory note to extend the repayment date of the first to August 13, 2011 and the second to September 15, 2011. On August 13, 2011, the Company entered into a second amendment to extend the repayment date of the first note to August 13, 2012 and the second note to September 15, 2012. The debenture calls for monthly interest payments to the investor until the debenture is fully paid. The holder of the convertible debenture has the right to convert any portion of the unpaid principal and/or accrued interest at any time at the lower of \$0.35 per share or a 25% discount to the average closing price of the five preceding days. With the debentures, the Company issued 2,857,142 warrants to purchase common shares of the Company for \$0.50 per share. The warrants have a term of two years. Interest payments continue to be made. During the year ended December 31, 2010, the Company and Holder agreed to reduce the initial conversion price from the lower of \$0.35 per share or a 25% discount to the average closing price of the five preceding days to the lower of \$0.25 per share or a 25% discount to the average closing price of the five preceding days. At the time of this adjustment the 25% discount to the average closing price of the five preceding days was \$0.25.

The warrants issued and beneficial conversion feature associated with the above convertible debentures were valued using the black-scholes option pricing model and bifurcated out of the debenture proceeds and recorded as additional paid in capital in the amount of \$581,626. A discount on the convertible debenture was recorded in the same amount and was amortized into interest expense over the life of the debenture using the interest method. For the nine months ended September 30, 2011 and year ended December 31, 2010, \$0 and \$384,021, respectively, was amortized into interest expense in relation to these discounts.

In March of 2010, \$350,000 of the debenture balance was converted at a conversion rate of \$0.35 per share to 1,000,000 shares of stock. As of September 30, 2011 and December 31, 2010, the balance due on the convertible debentures, net of the discount of \$0 and \$0, was \$633,306 and \$633,306, respectively.

Convertible Debentures - 2010

During the year ended December 31, 2010, the company received \$1,462,774 from an investor to issue a convertible debenture, bearing interest at a rate of 24% per annum. The note was due May 17, 2011. The holder of the convertible debenture had the right to convert any portion of the unpaid principal and/or accrued interest at any time at the conversion price of \$0.90, which was the market value at the time.

In November of 2010, the Company amended the agreement to reduce the conversion price applicable to the conversion from \$0.90 per share to \$0.25 per share. The amendment made no other changes to the terms of the original debenture. The Company determined and recorded a beneficial conversion feature in relation to this amendment. The beneficial conversion feature was valued at \$515,271 and recorded as additional paid in capital. A

discount on the convertible debenture was recorded in the same amount and will be amortized into interest expense over the remaining life of the debenture using the interest method. For the year ended December 31, 2010, \$128,818 was amortized into interest expense in relation to these discounts.

During the nine months ended September 30, 2011, the Company received additional funds of \$1,501,688. The beneficial conversion feature was valued at \$754,833 and recorded as additional paid in capital. A discount on the convertible debenture was recorded in the same amount and will be amortized into interest expense over the remaining life of the debenture using the interest method. For the nine months ended September 30, 2011, \$674,374 was amortized into interest expense in relation to these discounts.

During the quarter ended September 30, 2011, the Company amended the agreement to increase the credit line from \$1,800,000 to \$2,000,000, for a 3% royalty interest from the proceeds of the Company's oil, gas and mineral sales. The Company entered into a second amendment to extend the repayment date for all advances before September 30, 2010 to November 17, 2012; and all other advances after September 30, 2010 due one year from date of advance. Additionally the credit line increased from \$2,000,000 to \$3,000,000 for an additional 3% royalty interest to a total of 6%. The 6% royalty interest was valued at estimated future payments over the life of the wells, discounted back to present value. The value was \$113,164 and has been included in prepaid expenses and a corresponding royalty interest payable. The prepaid expense will be amortized over the extension period of the loan. For the nine months ended September 30, 2011, \$14,145 was amortized into interest expense in relation to this prepaid. The royalty interest payable will be lowered by royalty payments made. \$0 and \$4,418 royalties were paid and earned, respectively, in the quarter ended September 30, 2011.

As of September 30, 2011, the balance due on the convertible debentures, net of the discount of \$466,912, was \$2,497,550. As of December 31, 2010, the balance due on the convertible debentures, net of the discount of \$386,453, was \$1,076,321.

Loan Guarantee

In 2004, the Company received a demand for payment from Canadian Western Bank ("CWB") pursuant to a guarantee provided by the Company in favor of Calgary Chemical, a former subsidiary. The Company divested itself of Calgary Chemical in 1998 under an agreement with a former president and purchaser. The agreements included an indemnity guarantee from the purchaser of Calgary Chemical, whereby the purchaser would indemnify and save harmless the Company from any and all liability, loss, damage or expenses. Upon receipt of the demand, the Company accrued the amount of the claim since in the opinion of legal counsel it is more likely than not that CWB would prevail in this action.

Demand Note Payable

During the quarter ended September 30, 2011, the Company has a demand note of \$71,000 bearing interest at 24% per annum. During the nine months ended September 30, the Company accrued interest expense of \$1,541. As of September 30, 2011, the balance of the note payable, including accrued interest, is \$72,541.

Note Payable - other

During the quarter ended September 30, 2011, the Company acquired mineral properties in exchange for \$300,000. A down payment of \$50,000 was paid and the remainder of \$250,000 is to be paid in three payments starting in October of 2011. The last payment is due December 15, 2011. As of September 30, 2011, the balance due on the payment agreement was \$250,000.

Interest expense

Interest expense related to all of the above items for the nine months ended September 30, 2011 and 2010 was \$1,264,273 and \$634,076, respectively.

8. Stockholders' Equity Transactions

Common Stock

As of December 31, 2008, the Company had 10,065,019 shares of common stock issued and outstanding and 800,000 shares owed but not issued.

During the year ended December 31, 2009, the Company issued 800,000 shares of common stock that was owed but not issued as of December 31, 2008.

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During the year ended December 31, 2009, the Company issued 2,250,000 units at a price of \$0.02 per share for cash for a total of \$45,000.

During the year ended December 31, 2009, the Company issued 8,254,088 shares at a price of \$0.02 per share to convert \$165,082 of accounts payable.

During year ended December 31, 2009, the Company issued 879,454 shares at a price of \$0.25 per share to convert a note payable balance of \$219,864. See Note 6 for further details.

During year ended December 31, 2009, the Company issued 1,500,000 shares of common stock in an exercise of 1,500,000 warrants at a price of \$0.15 for total proceeds of \$225,000.

During the year ended December 31, 2009, the Company sold 190,000 shares of common stock for \$66,500 cash. As of December 31, 2009, these shares have not been issued and are shown as common stock owed but not issued.

During the year ended December 31, 2009, the Company received \$420,524 for the exercise of 1,640,825 warrants to purchase 1,640,825 shares of common stock. As of December 31, 2009, these shares have not been issued and are shown as common stock owed but not issued.

As of December 31, 2009, the Company had 23,748,561 shares of common stock issued and outstanding and 1,830,825 shares owed but not issued.

During the year ended December 31, 2010, the Company issued 1,830,825 shares of common stock that was owed but not issued as of December 31, 2009.

During the year ended December 31, 2010, the Company issued 250,000 shares to Directors in lieu of executive compensation. The shares were valued at \$170,000 which was market value on the day of the grant.

During the year ended December 31, 2010, the Company issued 231,175 shares of common stock in an exercise of 231,175 warrants at a price of \$0.15 for total proceeds of \$34,676.

During the year ended December 31, 2010, the Company issued 1,000,000 shares of common stock in exchange for \$350,000 of convertible debt. See Note 6 for further details.

During the year ended December 31, 2010, the Company received \$155,000 for the purchase of 442,857 shares of common stock and 442,857 warrants with an exercise price of \$0.50. As of December 31, 2010, these shares have not been issued and are shown as common stock owed but not issued.

During the year ended December 31, 2010, the Company received \$15,000 for the exercise of 100,000 warrants to purchase 100,000 shares of common stock. As of December 31, 2010, these shares have not been issued and are shown as common stock owed but not issued.

During the quarter ending June 30, 2011, the Company issued 542,857 shares of common stock that were owed but not issued as of December 31, 2010.

During the quarter ended June 30, 2011, the Company issued 600,000 shares to Directors in lieu of executive compensation. The shares were valued at \$306,000 which was market value on the day of the grant.

During the quarter ended June 30, 2011, the Company issued 100,000 shares of common stock for services. The shares were valued at \$51,000, which was market value on the day of the grant.

As of September 30, 2011 and December 31, 2010 there are 28,303,418 and 27,060,561 shares of common stock issued and outstanding, respectfully and 0 and 542,857 shares of common stock owed but not issued, respectfully.

Warrants

As of December 31, 2008, there were 2,600,000 warrants outstanding at an exercise price of \$0.15.

During the year ended December 31, 2009, the Company issued 2,857,142 warrants with a convertible debenture. These warrants have 2 year terms expiring in August and September of 2011 and an exercise price of \$0.50. See Note 6 for further details.

During the year ended December 31, 2009, the Company issued 1,672,000 warrants for services. The warrants had two-year terms and an exercise price of \$0.35. The warrants were valued using the black scholes option pricing model and valued at \$238,227. 800,000 of these warrants were cancelled during the year when the service was not performed.

During year ended December 31, 2009, a total of 3,140,825 warrants were exercised into common shares of the Company at a price of \$0.15 and \$0.35 per share to a total of \$645,524.

As of December 31, 2009, there were 331,175 and 2,857,142 warrants outstanding at an exercise price of \$0.15 and \$0.50, respectively.

During the year ended December 31, 2010, a total of 331,175 warrants were exercised into common shares of the Company at a price of \$0.15 per share to a total of \$49,676.

During the year ended December 31, 2010, the Company issued 442,857 warrants with an exercise price of \$0.50 in relation to a stock sale.

As of September 30, 2011 there are 2,857,142 warrants outstanding at an exercise price of \$0.50. At December 31, 2010, there are 3,299,999 warrants outstanding at an exercise price of \$0.50. These warrants will expire in the year ending December 31, 2011.

9. Income Taxes

The Company follows ASC subtopic 740-10 (formerly Statement of Financial Accounting Standard No. 109, "Accounting for Income Taxes") for recording the provision for income taxes. ASC 740-10 requires the use of the asset and liability method of accounting for income taxes. Under the asset and liability method, deferred tax assets and liabilities are computed based upon the difference between the financial statement and income tax basis of assets and liabilities using the enacted marginal tax rate applicable when the related asset or liability is expected to be realized or settled. Deferred income tax expenses or benefits are based on the changes in the asset or liability each period. If available evidence suggests that it is more likely than not that some portion or all of the deferred tax assets will not be realized, a valuation allowance is required to reduce the deferred tax assets to the amount that is more likely than not to be realized. Future changes in such valuation allowance are included in the provision for deferred income taxes in the period of change.

Deferred income taxes may arise from temporary differences resulting from income and expense items reported for financial accounting and tax purposes in different periods. Deferred taxes are classified as current or non-current, depending on the classification of assets and liabilities to which they relate. Deferred taxes arising from temporary differences that are not related to an asset or liability are classified as current or non-current depending on the periods in which the temporary differences are expected to reverse.

The Company's effective income tax rate is higher than would be expected if the federal statutory rate were applied to income before tax, primarily because of expenses deductible for financial reporting purposes that are not deductible for tax purposes during the year ended December 31, 2009 and 2010. The Company's operations for the years ended December 31, 2010 and 2009 resulted in losses. Accordingly, no provision for current income taxes have been reflected in the accompanying statements of operations.

As of December 31, 2010 and 2009, the Company has total losses of approximately \$7,750,000 and \$5,250,000, respectively, since inception which may or may not be used to reduce future income taxes payable. Current Federal Tax Law limits the amount of loss available to offset against future taxable income when a substantial change in ownership occurs. Therefore, the amount of these losses available to offset future taxable income may be limited. A valuation allowance has been recorded to reduce the net benefit recorded in the financial statements related to this deferred asset to \$0. The valuation allowance is deemed necessary as a result of the uncertainty associated with the ultimate realization of these deferred tax assets. Accordingly, no provision for deferred income taxes have been reflected in the accompanying statements of operations.

10. Subsequent Events

In preparing these financial statements, the Company has evaluated events and transactions for potential recognition or disclosure through the date the financial statements were issued.

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

The following discussion should be read in conjunction with our financial statements and notes thereto included elsewhere in this quarterly report. Forward-looking statements are statements not based on historical information and which relate to future operations, strategies, financial results, or other developments. Forward-looking statements are based upon estimates, forecasts, and assumptions that are inherently subject to significant business, economic, and competitive uncertainties and contingencies, many of which are beyond our control and many of which, with respect to future business decisions, are subject to change. These uncertainties and contingencies can affect actual results and could cause actual results to differ materially from those expressed in any forward-looking statements made by us, or on our behalf. We disclaim any obligation to update forward-looking statements.

Background

We are an oil and natural gas exploration and production (E&P) company with current projects in Kansas, Oklahoma and California. As of November 7, 2011, we have two producing wells in Kansas, five producing wells in Oklahoma and no producing wells in California. We also have rights for the exploration and production of oil and gas on an aggregate of approximately 6,230 acres in those states. This includes our core assets with rights to explore on 2,000 acres in Oklahoma, near the town of Ripley on the North Oklahoma Mississippi Project and our recent acquisition of a forty percent (40%) working interest in 3,000 acres in south-central Oklahoma (the "South Oklahoma Lease"). Typically, our interest in a well arises from a contract with another entity pursuant to which we provide financial support for certain costs incurred in the exploration and development of a project, which may include land costs, seismic or other exploration, and test drilling. In exchange, we typically receive an interest in the proceeds from the project's production.

We were formed on January 24, 1996 pursuant to the laws of the State of Nevada under the name Wolf Exploration, Inc. In August 2001, we changed our name to American Petro-Hunter Inc. and began focusing our business on the exploration and eventual exploitation of oil and gas.

Producing Wells

Poston Oil Project - On May 4, 2009, we entered into a binding Letter of Intent with S&W Oil & Gas, LLC ("S&W") to acquire a 25% working interest and 81.5% net revenue interest on all commercial production in the 750-acre Poston Prospect #1 Lutters oilfield in Southwest Trego County, Kansas. On June 16, 2009, the #1 Lutters Well was completed at a total depth of 4,400 feet, encountering both oil and gas over a 46 foot interval. Oil production on the #1 Lutters Well began on June 18, 2009. Current production for the #1 Lutters Well is 8 barrels per day. On July 1, 2010 we announced completion of the #3 Lutters Well, at a depth of 4,328 feet, as a direct-offset to the #1 Lutters Well. On July 14, 2010, we announced that the #3 Lutters Well had begun production. The current daily rate of the #3 Lutters Well is 7 barrels per day. Collectively, 15 barrels per day is going into the tanks for sale. Two offset locations are available and we plan to drill additional wells in 2012. A #4 Lutters Well is being considered for spring 2012.

North Oklahoma Project (North Oklahoma Woodford "Yale" and North Oklahoma Mississippi "Ripley" Projects) - On April 21, 2010, we entered into an operating agreement with Bay Petroleum Corp. ("Bay") to participate in the drilling for oil in northern Oklahoma (the "Prospect"). Pursuant to such operating agreement, we agreed to pay to Bay \$52,125 for all costs in connection with the acquisition and operation of the Prospect, up to the drilling of an initial test well, in exchange for a 25% working interest and 80% net revenue interest in the Prospect. We are also responsible for 25% of all expenditures in connection with the development and operation of the Prospect for drilling. On June 1, 2010, we announced that the No. 1 well had been put into production. The current daily rates are at the 8 barrels per day level, with water in the 100 barrel range or approximately 8% oil cut. On June 5, 2010 drilling commenced on the No. 2

well and on June 14, 2010, we announced that we had begun work on completion of the well. The No. 2 well is currently not producing commercial quantities of hydrocarbons. On June 23, 2010, we announced that drilling had commenced on the No. 3 well. On that date we also announced the acquisition of 3 additional blocks increasing our overall working interest participation up to 7 lease blocks currently. The No. 3 well on down hole analysis revealed perforated casing in more formations than reported and was immediately turned into a disposal well. On September 21, 2010, we announced that drilling commenced on the NOJ26 well at the Prospect. On July 14, 2010, we announced that the NOJ26 Well had begun production. The cost of water haulage became prohibitive and the well was shut in for a period of 2 months while a disposal well was permitted. The well is now back on pump and we expect a return to the approximate 16 barrels of per day rate of production shortly. On January 4, 2011, we announced plans to drill the NOS227 Well as a direct offset to the NOJ26 Well. On March 15, 2011, we announced that the well had reached a total depth of 3,820 feet and was to be completed as an oil well. After testing and a large, multi-stage surge frack, the well did not respond favorably as we believe we fracked into a fault containing considerable water. The future of the well is being analyzed and plans to attempt additional work are being discussed. On June 29, 2011, we announced that NOS122, a re-entry project where the well bore and casing was opened and cleaned, had begun commercial production. Inaugural loads of oil began shipping in July and current production at the NOS122 is 15 barrels per day. As a frack is required to maximize the oil production, engineering has deemed it to be risky to do so in a 30 year old well bore. It has been decided to drill an 80 acre offset with a new well bore and undertake the frack test in the new well. This well is planned for the fourth quarter of 2011.

On March 25, 2011, we announced that we had acquired a varied working interest in an additional 2,000 acres located in Payne County in northern Oklahoma, near the Company's Yale Prospect. The project has been named "North Oklahoma Mississippi Lime Project". On May 16, 2011, we announced that drilling operations had commenced at the Company's first horizontal well, NOM1H. On June 29, 2011, we announced that NOM1H had begun commercial production. After a flush, and initial production rates over 200 barrels per day, the well declined to 25 barrels per day and it was deemed that a frack was required. This occurred in September 2011 and the frack load has been 50% recovered and we see a double to the daily rate to 60 barrels per day. The target for this well is between 100 and 150 barrels per day once the frack fluids have been 100% recovered. On July 18, 2011, we announced drilling plans for a total of 11 horizontal wells at the North Oklahoma Project.

The drilling schedule, which includes direct offsets to the NOM1H well, involves drilling one horizontal well every 30 to 60 days, beginning in early September.

On July 27, 2011 we announced plans to drill two new wells at the North Oklahoma Project, NOS222, a direct offset to NOS122, and NOW2H, an 80 acre offset to NOM1H. On September 6, 2011, we announced the spud of the NOW2H well. Following a successful drilling of 800 feet of horizontal lateral, excellent oil and gas shows warranted well completion. On November 7, 2011, we announced that the well had commenced commercial oil and gas production and would be evaluated over a period of time to determine whether a future frack is required. The upper pay sand behind pipe will be perforated and co-mingled with the Mississippi production after this testing period is complete.

In addition, on July 5, 2011, we began selling natural gas from the North Oklahoma Project. Current daily rates are approximately 16 barrels of oil equivalent (BOE), based upon a 6:1 ratio of MCF gas to barrels of oil.

Exploration

South Oklahoma Project - On July 20, 2011, we announced the acquisition of a forty percent (40%) working interest in the South Oklahoma Lease, a minimum of 3,000 acres of land in south-central Oklahoma. Our engineers have identified five key areas which, if developed on 160 acre spacing, could allow future development of 18 additional locations for horizontal wells. Over the next several months, targets will be refined and prioritized with plans to spud the first well in the first or second quarter of 2012.

Customers

Our crude oil production is sold to N.C.R.A. in MacPherson Kansas and Sunoco in Oklahoma which are the buyers which then send oil to refineries. We receive Kansas common pricing and Oklahoma spot prices for our oil.

We have begun commercial sales of natural gas at our Yale Prospect through our connection to nearby pipeline infrastructure. We sell natural gas through such pipeline to DCP Midstream, LP of Tulsa, Oklahoma and receive a premium to the NYMEX spot natural gas prices due to the higher BTU content of the gas produced.

Critical Accounting Policies

The preparation of financial statements in conformity with United States generally accepted accounting principles ("U.S. GAAP") requires management of our Company to make estimates and assumptions that affect the reported amounts of assets and liabilities, the disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting periods.

The discussion and analysis of our financial condition and results of operations are based upon our financial statements, which have been prepared in accordance with U.S. GAAP. We believe certain critical accounting policies affect our more significant judgments and estimates used in the preparation of the financial statements. A description of our critical accounting policies is set forth in our Annual Report on Form 10-K for the year ended December 31, 2010. As of, and for the three months ended September 30, 2011, there have been no material changes or updates to our critical accounting policies.

Results of Operations

The following discussion of the financial condition, results of operations, cash flows, and changes in our financial position should be read in conjunction with our audited consolidated financial statements and notes included in our Annual Report on Form 10-K for the fiscal year ended December 31, 2010.

The financial statements mentioned above have been prepared in conformity with U.S. GAAP and are stated in United States dollars.

Comparison of nine month periods ended September 30, 2011 and September 30, 2010

For the nine month periods ended September 30, 2011 and September 30, 2010, we incurred a comprehensive loss of \$2,103,727 and \$2,074,123, respectively. The increase was largely attributed to an increase in interest expense on debt from \$634,076 for the nine month period ended September 30, 2010 to \$1,264,273 for the nine month period ended September 30, 2011.

General and administration expenses for the nine month period ended September 30, 2011 amounted to \$373,072 compared to \$306,319 in the same period of 2010. Executive compensation for the nine month period ended September 30, 2011 was \$504,000 compared to \$364,000, in the same period of 2010.

We had no foreign currency gain or loss during the nine month period ended September 30, 2011 and 2010.

Comparison of three month periods ended September 30, 2011 and September 30, 2010

For the three month periods ended September 30, 2011 and September 30, 2010, we incurred a comprehensive loss of \$628,174 and \$1,004,774, respectively. The decrease was largely attributed to a decrease in impairment expense from \$642,260 for the three month period ended September 30, 2010 to \$0 for the three month period ended September 30, 2011. Additionally, there was an increase in interest expense from \$179,218 for the three month period ended September 30, 2010 to \$480,913 for the three month period ended September 30, 2011.

General and administration expenses for the three month period ended September 30, 2011 amounted to \$103,560 compared to \$106,141 in the same period of 2010. Executive compensation for the three month period ended September 30, 2011 was \$66,000 compared to \$79,000, in the same period of 2010.

We had no foreign currency gain or loss during the three month period ended September 30, 2011 and 2010.

Liquidity and Capital Resources

As of September 30, 2011, we had cash of \$40,435 and working capital deficiency of \$3,112,138. During the nine month period ended September 30, 2011, we funded our operations from revenue received and proceeds of private sales of equity and convertible notes and the exercise of warrants. Our current cash requirements are significant due to planned exploration and development of current projects. We anticipate drilling eight additional wells in Kansas and Oklahoma in the next twelve months which will cost approximately \$2,200,000 and which will include six horizontal wells in Oklahoma. Accordingly, we expect to continue to primarily use debt and equity financing to fund operations for the next twelve months, as we look to expand our asset base and fund exploration and development of our properties. Changes in our operating plans, increased expenses, acquisitions, or other events may cause us to seek even greater equity or debt financing in the future.

For the nine month period ended September 30, 2011, we used net cash of \$410,748 in operations. Net cash used in operating activities increased from \$592,484 in the nine month period ended September 30, 2010.

During the three month period ended September 30, 2011, we raised \$269,500 from the issuance of convertible debentures. The convertible debentures bear interest at the rate of 24% per annum and are secured by certain assets of the Company. The holder of the convertible debentures has the right to convert any portion of the unpaid principal and/or accrued interest at any time into our common stock at a conversion price of \$0.25 per share. The terms of the convertible debenture allow us to borrow an aggregate principal amount of \$3,000,000, of which \$2,964,462 has been drawn to date, excluding borrowings in the aggregate principal amount of approximately \$317,000 which are to be converted into Common Stock of the Company. As a condition to the issuance of the convertible debentures, the Company granted to Centennial Petroleum Partners, LLC, a perpetual six percent (6%) overriding royalty interest in all receivables of the Company from any extracted oil, gas or other minerals. We are currently reliant on short term financing arrangements to meet our short-term and long-term obligations. In addition, during the three month period ended September 30, 2011, we raised \$71,000 through the issuance of a promissory note. The promissory note bears interest at the rate of 24% and is payable upon demand.

Our management believes that we will be able to generate sufficient revenue or raise sufficient amounts of working capital through debt or equity offerings, as may be required to meet our short-term and long-term obligations. However, there are no assurances that we will be able to raise the required working capital on terms favorable, or that such working capital will be available on any terms when needed.

Off-Balance Sheet Arrangements

There are no off-balance sheet arrangements.

Item 3. Quantitative and Qualitative Disclosures About Market Risk.

Not applicable.

Item 4. Controls and Procedures.

Our management with the participation and under the supervision of our Principal Executive Officer and Principal Financial Officer reviewed and evaluated the effectiveness of the design and operation of our disclosure controls and procedures (as defined by Rule 13a-15(e) or 15d-15(e)) of the Exchange Act Rule 13a-15 as of the end of the period covered by this report. Based upon their evaluation, our Principal Executive Officer and Principal Financial Officer concluded that, as of the end of such period, our disclosure controls and procedures are effective and sufficient to ensure that we record, process, summarize, and report information required to be disclosed in the reports we filed under the Exchange Act within the time periods specified in the Securities and Exchange Commission's rules and regulations, and that such information is accumulated and communicated to our management, including our Principal Executive Officer and Principal Financial Officer, as appropriate, to allow timely decisions regarding required disclosure.

There were no changes in our internal controls over financial reporting that occurred during the quarterly period ended September 30, 2011 that have materially affected, or are reasonably likely to materially affect, our internal controls over financial reporting.

PART II—OTHER INFORMATION

Item 1. Legal Proceedings.

None.

Item 1A. Risk Factors.

None.

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

None.

Item 3. Defaults Upon Senior Securities.

None.

Item 4. Reserved.

Not applicable.

Item 5. Other Information.

Amendment to South Oklahoma Lease Payment Terms

On September 30, 2011, we agreed to amend the payment terms for the working interest associated with the South Oklahoma Lease. Pursuant to such amendment, we are to pay \$80,000 to Bay Petroleum Corp. on October 15, 2011, \$80,000 on November 15, 2011 and \$90,000 on December 15, 2011, in addition to our \$50,000 initial deposit, in full satisfaction of all payment obligations for our working interest in the South Oklahoma Lease.

Item 6. Exhibits.

| Exhibit Number | Name |
|----------------|--|
| 3.1(1) | Amended and Restated Articles of Incorporation |
| 3.2(1) | Bylaws |
| 10.1(2) | Purchase Agreement with Bay Petroleum Corp. |
| 10.2 | Working Interest Agreement with Bay Petroleum Corp. |
| 10.3(2) | Amendment to Amended and Restated Convertible Debenture |
| 10.4(2) | Royalty Agreement |
| 10.5(3) | Second Amendment to Amended and Restated Convertible Debenture |
| 10.6(3) | Amendment to Royalty Agreement |

10.7(4) Notes Amendment

31.1 Rule 13a-14(a)/15d-14(a) Certification (Principal Executive Officer)

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| | |
|----------|--|
| 31.2 | Rule 13a-14(d)/15d-14(d) Certification (Principal Financial Officer) |
| 32 | Section 1350 Certifications |
| 101.INS* | XBRL Instance Document |
| 101.SCH* | XBRL Taxonomy Extension Schema |
| 101.CAL* | XBRL Taxonomy Extension Calculation Linkbase |
| 101.DEF* | XBRL Taxonomy Extension Definition Linkbase |
| 101.LAB* | XBRL Taxonomy Extension Label Linkbase |
| 101.PRE* | XBRL Taxonomy Extension Presentation Linkbase |

Footnotes to Exhibits Index

- (1) Incorporated by reference to Form 10-SB12G dated June 19, 1997.
- (2) Incorporated by reference to Form 8-K dated July 19, 2011.
- (3) Incorporated by reference to Form 10-Q/A dated August 12, 2011.
- (4) Incorporated by reference to Form 8-K dated August 16, 2011.

* Pursuant to Rule 406T of Regulation S-T, these interactive data files are deemed not filed or part of a registration statement or prospectus for purposes of Sections 11 or 12 of the Securities Act of 1933 or Section 18 of the Securities Exchange Act of 1934 and otherwise are not subject to liability.

SIGNATURES

Pursuant to the requirements of the Securities Exchange Act of 1934, the registrant caused this report to be signed on its behalf by the undersigned thereunto duly authorized.

AMERICAN PETRO-HUNTER INC.

Date: November 14, 2011 By: /s/ Robert B McIntosh
Robert B, McIntosh, President and Chief Executive Officer
(Principal Executive Officer)

Date: November 14, 2011 By: /s/ John J. Lennon
John J. Lennon, Chief Financial Officer
(Principal Financial Officer and Principal Accounting Officer)