

AMERICAN PETRO-HUNTER INC
Form 10-Q
May 12, 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: March 31, 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

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(Do not check if smaller
reporting company)

Smaller 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 April 29, 2011 |
|--------------------------------|-------------------------------|
| Common stock, \$.001 par value | 27,060,561 |

AMERICAN PETRO HUNTER INC.
FORM 10-Q

March 31, 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,” “will,” “expect,” “believe,” “estimate,” “anticipate,” “intend,” “continue,” or similar terms, variations of such terms, or the 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.

PART I—FINANCIAL INFORMATION

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

| | (Unaudited) March 31, 2011 | December 31, 2010 |
|---|----------------------------------|----------------------|
| Assets | | |
| Current assets: | | |
| Cash | \$1,673 | \$3,225 |
| Accounts receivable | 15,216 | 15,620 |
| Other receivable | - | - |
| Prepaid expenses | - | 8,373 |
| Total current assets | 16,889 | 27,218 |
| Investments in mineral properties, net of accumulated amortization of \$23,623 and \$16,572, respectively | 1,186,091 | 884,142 |
| Total assets | \$1,202,980 | \$911,360 |
| Liabilities and Stockholders' (Deficit) | | |
| Current liabilities: | | |
| Accounts payable and other liabilities | \$303,733 | \$251,391 |
| Note payable and accrued interest | 41,691 | 40,493 |
| Convertible debenture, net of discount of \$164,661 and \$386,453 | 1,734,975 | 1,076,321 |
| Convertible debenture | 633,306 | 633,306 |
| Accrued interest on convertible debenture | 277,056 | 187,331 |
| Loan guarantee | 94,860 | 94,860 |
| Total current liabilities | 3,085,621 | 2,283,702 |
| Stockholders' (deficit): | | |
| Common stock, \$0.001 par value, 200,000,000 shares authorized, 27,060,561 shares issued and outstanding as of March 31, 2011 and December 31, 2010 | 27,061 | 27,061 |
| Common stock to be issued; 542,857 as of March 31, 2011 and December 31, 2010 | 543 | 543 |
| Additional paid-in capital | 6,398,321 | 6,348,559 |
| Accumulated comprehensive gain (loss) | (8,114) | (8,114) |
| (Deficit) accumulated during development stage | (8,300,452) | (7,740,391) |
| Total stockholders' (deficit) | (1,882,641) | (1,372,342) |
| Total liabilities and stockholders' (deficit) | \$1,202,980 | \$911,360 |

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

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

| | (Unaudited) March 31, | | For the period from the date of inception on 24-Jan-96 to March 31, 2011 (unaudited) |
|---|--------------------------|--------------|--|
| | 2011 | 2010 | |
| Revenue | \$45,669 | \$9,329 | \$ 216,151 |
| Cost of Good sold: | | | |
| Production and amortization | 25,851 | 10,883 | 101,940 |
| Gross profit | 19,818 | (1,554) | 114,211 |
| Expenses: | | | |
| General and administrative | 95,122 | 73,577 | 2,623,185 |
| Executive compensation | 66,000 | 234,000 | 1,069,237 |
| Rent | 7,530 | 8,636 | 108,880 |
| Impairment expense | - | 116,900 | 1,859,340 |
| Total expenses | 168,652 | 433,113 | 5,660,642 |
| Net loss before other income (expense) | (148,834) | (434,667) | (5,546,431) |
| Other income and (expense): | | | |
| Interest expense | (411,227) | (281,047) | (1,564,731) |
| 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 (expenses) | (411,227) | (281,047) | (1,816,827) |
| Net loss from continuing operations | (560,061) | (715,714) | (7,363,258) |
| Net loss from discontinued operations | - | - | (937,194) |
| Net loss | (560,061) | (715,714) | (8,300,452) |
| Foreign currency translation gain | - | - | (8,114) |
| Comprehensive loss | \$(560,061) | \$(715,714) | \$(8,308,566) |
| Weighted average number of common shares outstanding - basic and fully diluted | 27,060,561 | 25,744,801 | |

| | | | | |
|--|----------|---|----------|---|
| Net (loss) per share - basic and fully diluted | \$ (0.02 |) | \$ (0.03 |) |
|--|----------|---|----------|---|

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

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

| | Common Stock | | Additional | Common | Deficit | Accumulated | Total |
|--|--------------|-----------|-------------|------------|-------------|---------------|---------------|
| | Shares | Amount | Paid-in | Stock | accumulated | Comprehensive | Stockholder's |
| | | | Capital | owed but | during the | Loss | (deficit) |
| | | | | not issued | development | gain(loss) | (Deficit) |
| | | | | be issued | stage | | |
| 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) |
| 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) |

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| | | | | | | | |
|---------------------|--------------|----------|-----------|--------|-------------|-----------|------------|
| 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) |
| 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) |

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| | | | | | | | |
|--|------------|-----------|--------------|----------|----------------|-------------|---------------|
| ** | | | | | | | |
| 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 |
| 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 |

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| | | | | | | | |
|---|------------|-----------|--------------|--------|----------------|-------------|----------------|
| 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 | - | - | 49,762 | - | - | - | 49,762 |
| Net loss | - | - | - | - | (560,061) | - | (560,061) |
| Balance at March 31, 2011 | 27,060,561 | \$ 27,061 | \$ 6,398,321 | \$ 543 | \$ (8,300,452) | \$ (8,114) | \$ (1,882,641) |

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

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

| | For the three months ended March 31, | | For the period from the date of inception on January 24, 1996 to March 31, 2011 |
|---|---|--------------|--|
| | 2011 | 2010 | |
| Cash flows from operating activities | | | |
| Net (loss) | \$(560,061) | \$(715,714) | \$ (8,300,452) |
| 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 | - | 170,000 | 1,162,558 |
| Amortization of discount | 271,555 | 240,232 | 982,000 |
| Impairment expense | - | 116,900 | 1,531,889 |
| Amortization of mineral properties | 7,051 | - | 23,623 |
| Changes in operating assets and liabilities: | | | |
| (Increase) decrease in accounts receivable | 404 | 1,330 | (15,216) |
| (Increase) decrease in other receivable | - | 13,184 | - |
| (Increase) decrease in prepaid expenses | 8,373 | (2,379) | - |
| Increase (decrease) in accounts payable and accrued liabilities | 52,342 | 133,140 | 2,082,093 |
| Increase (decrease) in accrued interest | 90,923 | 1,065 | 299,169 |
| Increase (decrease) in due to related parties | - | - | (107,170) |
| Net cash used by operating activities | (129,413) | (42,242) | (1,880,419) |
| Cash flows from investing activities | | | |
| Proceeds from sale of mineral properties | - | - | 80,000 |
| Acquisition of mineral properties | (309,000) | (199,650) | (2,814,103) |
| Net cash used by investing activities | (309,000) | (199,650) | (2,734,103) |
| 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 | - | - | 243,000 |
| Proceeds from convertible debenture | 436,861 | - | 2,899,635 |
| Payments for convertible debenture | - | - | (16,694) |
| Net cash provided by financing activities | 436,861 | 204,676 | 4,624,309 |
| Foreign currency translation effect on cash | - | - | (8,114) |
| Net increase (decrease) in cash | (1,552) | (37,216) | 1,673 |
| Cash - beginning | 3,225 | 38,021 | - |
| Cash - ending | \$ 1,673 | \$ 805 | \$ 1,673 |

Supplemental disclosures:

| | | | |
|-------------------|----------|----------|------------|
| Interest paid | \$48,750 | \$39,750 | \$ 217,665 |
| Income taxes paid | \$- | \$- | \$ - |

Non-cash transactions:

| | | | |
|---|-----|-----------|--------------|
| Warrants issued for services | \$- | \$- | \$ 366,227 |
| Shares issued for services and compensation | \$- | \$170,000 | \$ 1,162,558 |
| 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
March 31, 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, it changed its name to Travelport Systems Inc., and on August 17, 2001, it 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 \$8,300,452 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.

8

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 March 31, 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”). ASC 815-40 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 three months ended March 31, 2011, the Company made two investments totaling \$309,000. 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 three months ended March 31, 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 March 31, 2011, the Company has investments, valued at cost, of \$1,209,714; \$305,964 in proved wells and \$903,750 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 three months ended March 31, 2011 and year ended December 31, 2010 was \$7,051 and \$16,572, respectively. Amortization expense was not taken in the year ended December 31, 2009 because it was immaterial to the overall financials. 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 \$5,642 and 16,572 on this prospect for the three months ended March 31, 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 purchase 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 three month period ending March 31, 2011 of \$309,000. As of March 31, 2011, amortization expense was \$1,409. As of December 31, 2010, these prospects are unproved wells and were not being amortized.

5. 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 March 31, 2011:

| | Level 1 | Level 2 | Level 3 | Fair Value |
|--------------------------------------|----------|-----------|---------|------------|
| Cash | \$ 1,673 | \$ - | \$ - | \$ 1,673 |
| Accounts & other receivables | - | 15,216 | - | 15,216 |
| Accounts payable | - | 303,733 | - | 303,733 |
| Notes payable | - | 41,691 | - | 41,691 |
| Convertible debentures, net of disc. | - | 2,368,281 | - | 2,368,281 |
| Accrued interest | - | 277,056 | - | 277,056 |
| 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 |
| 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 |

6. Debt and Debt Guarantee

Notes Payable

As of March 31, 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 March 31, 2011 and December 31, 2010. During three months ended March 31, 2011 and year ended December 31, 2010, the Company accrued interest expense of \$1,198 and \$4,516, respectively. As of March 31, 2011 and December 31, 2010, the balance of the note payable, including accrued interest, is \$41,691 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. 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 proceeding 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 proceeding days to the lower of \$0.25 per share or a 25% discount to the average closing price of the five proceeding days. At the time of this adjustment the 25% discount to the average closing price of the five proceeding 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 three months ended March 31, 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 March 31, 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 is due May 17, 2011. 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 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 three months ended March 31, 2011, the Company received additional funds of \$436,861. The beneficial conversion feature was valued at \$49,762 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 three months ended March 31, 2011, \$271,555 was amortized into interest expense in relation to these discounts.

As of March 31, 2011, the balance due on the convertible debentures, net of the discount of \$164,661, was \$1,734,975. 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.

Interest expense

Interest expense related to all of the above items for the three months ended March 31, 2011 and year ended December 31, 2010 was \$411,227 and \$888,064, respectively.

7. 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.

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.

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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.

As of March 31, 2011 and December 31, 2010 there are 27,060,561 shares of common stock issued and outstanding and 542,857 shares of common stock owed but not issued.

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.

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As of March 31, 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.

8. **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.

9. **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 California, Kansas and Oklahoma. As of April 25, 2011, we had no producing wells in California, two producing wells in Kansas and two producing wells in Oklahoma, and rights for the exploration and production of oil and gas on an aggregate of approximately 4,900 acres in those states. This includes rights to explore on 2,000 acres in Oklahoma, near the town of Ripley, which we recently acquired, and the recent disposition of certain rights to explore for gas in California. 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, for a purchase price of \$64,536 which we have paid. 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. The oil was excellent quality 35 degree light oil and tests resulted in 65% oil cut with 10% gas and mud with no water. Oil production on the #1 Lutters Well began on June 18, 2009. Current production for the #1 Lutters Well is 20 barrels per day. The next well planned for the Poston Project was designated as the #2 Lutters Well, which was drilled to a total depth of 4,320 feet where we encountered good oil shows during drilling and in initial drill stem tests from a target zone. After further drilling, we encountered good oil shows but we did not complete drilling of the well for commercial production because of the oil's permeability and porosity. However, management believes the project itself remains viable as there are additional offset opportunities for this project. 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 20 barrels per day. Collectively, 40 barrels per day is going into the tanks for sale. Production is being reviewed and may increase in the future as production stabilizes. 2 offset locations are available and we plan to drill additional wells in 2011. A #4 Lutters Well is being considered for summer 2011.

Yale Prospect (formerly the "North Oklahoma Oil Project") - 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 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 17 barrels per day level, with water in the 120 barrel range or approximately 8% oil cut. Dewatering is expected to increase the cut and barrels per day. A water disposal well has been permitted and we are disposing water to the well. 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. 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. 2 well is currently not producing commercial quantities of hydrocarbons. 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 current daily rate of the NOJ26 Well is approximately 15 barrels per day and as the water level has dropped from 400 to 125 barrels per day, we anticipate a stable rate of 40 to 50 barrels per day. 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 has been categorized as commercially viable. We are currently in the process of completing the well for commercial production. On May 2, 2011, we announced that NOS122, a re-entry project where the well bore and casing was opened and cleaned, had been deemed ready for commercial production with an expected production in excess of 120 barrels per day. Commercial sales are expected to begin immediately upon completion of the equipment installation and at such point we will evaluate commercial production rates and we believe the acreage is amenable to up to 5 offset locations. We plan one additional well on the Yale Prospect during the second and third fiscal quarters, in addition to offsets of the NOS227 well. A total of three to five wells are being conceived on the Yale Prospect.

Exploration

Ripley Prospect - On March 25, 2011, we announced that we had acquired a majority working interest in an additional 2,000 acres located in Payne County in northern Oklahoma, nearby the Company's Yale Prospect. We are currently evaluating the Ripley Prospect, and believe that there may be the opportunity to drill as many as five horizontal wells at the location, the first of which is currently being planned.

Colby Prospect - On August 25, 2009, we entered into a binding Letter of Intent with S&W to participate in the drilling for oil in the Colby Prospect located in Thomas County, Kansas. The 500 acre block has a well defined 3D seismic anomaly that includes seven potential zones to be tested. We agreed to pay S&W cash in an amount to be determined for dry-hole cased drilling costs as well as 25% of all further going forward costs such as completion and related infrastructure costs. If a successful commercial well is established, S&W will assign 25% of the working interest and 81.5% net revenue interest in the Prospect to us. On October 20, 2009, we began drilling operations at the #1 Keck Well, and on November 4, 2009, drilling operations at this well ended. While the well successfully encountered oil and gas in the target horizons, there were no adequate reservoirs in order to complete the well as a commercial producer. Management believes that Colby remains a viable prospect, and further work and analysis will be required in order to fully develop the Colby lease.

Rooney Prospect - On June 19, 2009, we entered into a binding Letter of Intent with S&W to participate in the drilling for oil and natural gas in the Rooney Prospect located in southwestern Ford County, Kansas. During 2010, we drilled 3 wells in the Rooney Prospect. On January 4, 2010, the #24-1 Double H well at the Rooney Prospect commenced oil production. However, the #24-1 Double H Oil Well required re-completion due to casing separation that allowed fresh water to enter the well bore and which adversely impacted the reservoir. In February 2010, we drilled the Shelor 23-2 Well at the Rooney Prospect, which encountered a fault that cut off the reservoir at this easterly location and, although geological information was gained, did not result in any reservoir being identified. In May 2010, the #2 Double H well encountered oil shows in several formations down-hole including the targeted Morrow sand and Mississippian, however it was not deemed commercially viable to complete. The Company deemed the prospect to have limited potential and has no plans for any future work at the Rooney Prospect.

Brinkman Prospect - On June 11, 2009, we entered into a binding Letter of Intent with S&W to participate in the drilling for oil and natural gas in the 1,760-acre Brinkman Prospect located in Clark County, Kansas, approximately 20 miles south of Dodge City. The project is proximal to historic oil production primarily from Marmaton Limestone with secondary objectives in the Morrow Sand. Of significance, over 49,000 barrels have been produced from a seismic anomaly to the northeast of the chosen drilling location as well as Langdon Sands that has produced cumulative gas production in excess of 1 BCF. We paid S&W a total of \$22,833.28 for land acquisition, leasing, and seismic costs for a 25% working interest in the prospect. In addition, we agreed to pay \$56,466.66 to cover dry-hole cased drilling costs associated with the first exploratory oil well and 25% of all further going forward costs such as completion and related infrastructure costs. If a successful commercial well is established, we will receive an 81.5% net revenue interest in the prospect. On July 28, 2009, drilling on the Brinkman Prospect commenced and by August 14, 2009, drilling was completed. Several oil and gas shows in the well were tested and deemed not commercially viable and were plugged and abandoned.

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.

Although we do not yet have any commercial sales of natural gas, the NOJ26 well has begun producing natural gas at commercial rates and the Company is working to connect the well to nearby infrastructure. A successful connection to such infrastructure would enable the Company to begin selling natural gas from the NOJ26 well to Scissortail Energy.

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 March 31, 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 three month periods ended March 31, 2011 and March 31, 2010

For the three month periods ended March 31, 2011 and March 31, 2010, we incurred a comprehensive loss of \$560,061 and \$715,714, respectively. The decrease was largely attributed to an increase in revenue from \$9,329 for the three month period ended March 31, 2010 to \$45,669 for the three month period ended March 31, 2011.

General and administration expenses for the three month period ended March 31, 2011 amounted to \$95,122 compared to \$73,577 in the same period of 2010. Executive compensation for the three month period ended March 31, 2011 was \$66,000 compared to \$234,000, in the same period of 2010.

We had no foreign currency gain or loss during the three month period ended March 31, 2011 or during the same period of 2010.

Period from inception, January 24, 1996 to March 31, 2011

We have an accumulated deficit during the development stage of \$8,300,452.

As a development stage company, we currently have limited operations, principally directed at potential acquisition targets and revenue-generating opportunities.

Liquidity and Capital Resources

As of March 31, 2011, we had cash of \$1,673 and working capital deficiency of \$3,068,762. During the three month period ended March 31, 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 11 wells in Kansas and Oklahoma in 2011 which will cost approximately \$2,450,000 and which will include several horizontal wells in Oklahoma and 5 vertical wells, as well as 1 well in Kansas. 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 three month period ended March 31, 2011, we used net cash of \$129,413 in operations. Net cash used in operating activities increased from \$42,242 in the three month period ended March 31, 2010.

During the three month period ended March 31, 2011, we raised \$436,861 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. We did not raise any capital through equity offerings during the three month period ended March 31, 2011.

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 March 31, 2011 that have materially affected, or are reasonably likely to materially affect, our internal controls over

financial reporting.

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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.

None.

Item 6. Exhibits.

| Exhibit Number | Name |
|----------------|--|
| 3.1(1) | Amended and Restated Articles of Incorporation |
| 3.2(1) | Bylaws |
| 10.1(2) | Amended and Restated Debenture |
| 31.1 | Rule 13a-14(a)/15d-14(a) Certification (Principal Executive Officer) |
| 31.2 | Rule 13a-14(d)/15d-14(d) Certification (Principal Financial Officer) |
| 32 | Section 1350 Certifications |

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 May 10, 2011.

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: May 12, 2011

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

Date: May 12, 2011

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