

AMERICAN PETRO-HUNTER INC  
Form 10-Q  
May 21, 2013

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**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, 2013**

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)

**90-0552874**  
(I.R.S. Employer  
Identification Number)

**250 N. Rock Rd., Suite 365**  
**Wichita KS, 67206**  
(Address of principal executive offices) (Zip Code)

**(316) 201-1853**  
(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

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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  
(Do not check if 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 May 17, 2013
<u>Common stock, \$.001 par value</u>	<u>56,590,597</u>

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**AMERICAN PETRO HUNTER INC.  
FORM 10-Q**

**March 31, 2013**

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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 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, 2012, filed on April 15, 2013.

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.**  
**Condensed Balance Sheets**

	March 31, 2013 (unaudited)	December 31, 2012
<b>Assets</b>		
<b>Current assets:</b>		
Cash	\$ 9,743	\$ 16,216
Accounts receivable	18,837	13,735
Total current assets	28,580	29,951
Investments in mineral properties, net of accumulated amortization of \$150,087 and \$132,499, respectively	1,564,735	1,582,324
Capitalized financing costs, net of amortization of \$10,974 and \$6,737, respectively	190,527	41,263
<b>Total assets</b>	<b>\$ 1,783,842</b>	<b>\$ 1,653,538</b>
<b>Liabilities and Stockholders' Equity (Deficit)</b>		
<b>Current liabilities:</b>		
Accounts payable and other liabilities	\$ 581,808	\$ 567,629
Short term note from officer	39,200	39,200
Note payable - current, net of discount of \$105,326 and \$0 at March 31, 2013 and December 31, 2012, respectively	44,674	-
Accrued interest	68,887	41,073
Derivative liability	17,396	559
Total current liabilities	751,965	648,461
<b>Long term liabilities:</b>		
Note payable, net of discount of \$186,765 and \$178,471 at March 31, 2013 and December 31, 2012, respectively	431,235	359,529
Convertible debenture	493,306	633,306
Total long term liabilities	924,541	992,835
<b>Total liabilities</b>	<b>1,676,506</b>	<b>1,641,296</b>
<b>Stockholders' equity:</b>		
Common stock, \$0.001 par value, 200,000,000 shares authorized, 50,931,813 and 47,620,406 shares issued and outstanding as of March 31, 2013 and December 31, 2012, respectively	50,932	47,621
Common stock to be issued; 6,433,034 and 6,423,708 shares as of March 31, 2013 and December 31, 2012	6,434	6,424
Additional paid-in capital	14,118,907	13,731,097
Accumulated comprehensive gain (loss)	(12,131)	4,706
Accumulated deficit	(14,056,806)	(13,777,606)
Total stockholders' equity	107,336	12,242
<b>Total liabilities and stockholders' equity</b>	<b>\$ 1,783,842</b>	<b>\$ 1,653,538</b>

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



**American Petro-Hunter, Inc.**  
**Condensed Statements of Operations**

	(Unaudited)	
	March 31,	
	2013	2012
Revenue	\$ 44,239	\$ 114,723
Cost of Goods Sold		
Production and amortization	26,593	72,653
Gross profit	17,646	42,070
General and administrative	122,250	105,791
Executive compensation	51,000	285,000
Impairment expense	-	256,737
Total expenses	173,250	647,528
Net loss before other income (expense)	(155,604)	(605,458)
Other income (expense):		
Gain on forgiveness of debt	-	86,746
Interest expense	(123,596)	(385,589)
Total other income (expense)	(123,596)	(298,843)
Net loss before income taxes	(279,200)	(904,301)
Provision for income taxes	-	-
Net loss	(279,200)	(904,301)
Other comprehensive income (expense)	-	8,114
Comprehensive loss	\$ (279,200)	\$ (896,187)
Weighted average common shares outstanding - basic and fully diluted	48,295,256	33,844,015
Net loss per common share basic and fully diluted	\$ (0.01)	\$ (0.03)

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



**American Petro-Hunter, Inc.**  
**Condensed Statement of Cash Flows**

	For the three months ended March 31,	
	2013	2012
<b>Cash flows from operating activities</b>		
Net (loss)	\$ (279,200)	\$ (904,301)
Adjustments to reconcile net (loss) to net cash used in operating activities:		
Shares issued for compensation	-	189,000
Amortization of discount	72,306	202,517
Impairment expense	-	256,737
Amortization of mineral properties	17,589	36,342
Amortization of prepaid financing costs	4,237	-
Stock and warrants issued for financing	704	-
Gain on forgiveness of debt	-	(86,746)
Changes in operating assets and liabilities:		
(Increase) decrease in accounts receivable	(5,102)	1,239
(Increase) decrease in prepaid expenses	-	18,110
Increase (decrease) in accounts payable and accrued liabilities	14,179	64,350
Increase (decrease) in accrued interest	27,814	132,604
Net cash used by operating activities	(147,473)	(90,148)
<b>Cash flows from investing activities</b>		
Proceeds from sale of mineral properties	-	65,000
Acquisition of mineral properties	-	(158,400)
Net cash used by investing activities	-	(93,400)
<b>Cash flows from financing activities</b>		
Proceeds from sale of common stock	14,500	-
Proceeds from note payable	126,500	-
Proceeds from convertible debenture	-	188,250
Net cash provided by financing activities	141,000	188,250
Net increase (decrease) in cash	(6,473)	4,702
Cash - beginning	16,216	2,609
Cash - ending	\$ 9,743	\$ 7,311
Supplemental disclosures:		
Interest paid	\$ 18,375	\$ 29,250
Income taxes paid	\$ -	\$ -
Non-cash transactions:		
Shares issued for compensation	\$ -	\$ 189,000
Shares issued for capitalized financing costs	\$ 150,000	\$ -
Accounts payable converted to stock	\$ -	\$ 40,000
Note payable and accrued interest converted to stock	\$ 40,000	\$ 2,778,641

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



**American Petro-Hunter Inc.**  
**Notes to Condensed Financial Statements**  
**March 31, 2013**

**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.

**Basis of presentation**

The accompanying unaudited condensed financial statements contain all adjustments (consisting only of normal recurring adjustments) which, in the opinion of management, are necessary to present fairly the financial position of the Company as of March 31, 2013, and the results of its operations and cash flows for the three months ended March 31, 2013 and 2012. Certain information and footnote disclosures required under accounting principles generally accepted in the United States of America ( U.S. GAAP ) have been condensed or omitted from the following condensed financial statements pursuant to the rules and regulations of the SEC. In the opinion of management, the accompanying financial statements include all adjustments, which are of a normal and recurring nature, necessary to present fairly our financial position and results of operations. Certain reclassifications have been made to prior periods to conform to current presentations.

It is suggested that the following financial statements be read in conjunction with the financial statements and notes thereto included in the Company's annual report on Form 10-K for the year ended December 31, 2012. The Company does not believe there are any recently issued, but not yet effective, accounting standards that would have a significant impact on the Company's financial position or results of operations as of and for the three months ended March 31, 2013.

The results of operations for the three months ended March 31, 2013 and 2012 are not necessarily indicative of the results of the entire fiscal year or for any other period.

**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 has limited assets 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 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.

**2. Significant Accounting Policies**

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

**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. 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.

### **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 three months ended March 31, 2013 and 2012, the denominator in the diluted EPS computation is the same as the denominator for basic EPS due to the anti-dilutive effect of the stock warrants and convertible debt on the Company's net loss.

### **Financial instruments**

The Company's financial instruments consist of cash and cash equivalents, accounts receivable, accounts payable, and notes payable. 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, 2013 and December 31, 2012, 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 estimated 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 proved.

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 or uneconomic 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**

Management has reviewed recent accounting pronouncements issued by the FASB (including its Emerging Issues Task Force), the AICPA, and the SEC and they do not or are not believed by management to have a material impact on the Company's present or future financial statements

**4. Investments in Mineral Properties**

During the three months ended March 31, 2013, the Company did not make any further investments in mineral properties. During the year ended December 31, 2012, the Company invested a total of \$355,242 in four mineral properties and exchanged a Poston Prospect well with a book value of \$41,000 plus cash in the amount of \$6,500 for partial payment on a well located in the Oklahoma prospect. Management reviewed the carrying amount of the Company's investments in its oil and gas properties as of the balance sheet date and recognized an impairment expense in the amount of \$0 and \$256,737 for the three months ended March 31, 2013 and 2012, respectively. As of March 31, 2013 and December 31, 2012, the estimated fair value of mineral properties totaled \$1,564,735 and \$1,582,324, net of accumulated amortization of \$150,087 and \$132,499, respectively. As of March 31, 2013 and December 31, 2012, the Company has total capitalized costs of mineral properties (gross) of \$1,714,822; \$1,103,205 in proved properties and \$611,617 in unproved properties. Capitalized costs of proved properties are amortized 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, 2013 and 2012 was \$17,589 and \$36,342, respectively. A summary of investments follows:

**S&W Oil & Gas, LLC - Poston Prospect**

On May 4, 2009, the Company entered into an Agreement 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 agreement, the Company paid \$64,500 in exchange for a 25% working interest in the 81.5% net revenue interest in the Poston Prospect. Subsequent to acquiring the working interest, the Company paid \$138,615 in capitalized development costs necessary for completion of the initial well and the drilling and completion of a second well in the Poston Prospect. In 2011, the Company recognized an impairment of the investment in the amount of \$93,879. During the year ended December 31, 2012, the Company sold its interest in the Poston Prospect for cash in the amount of \$69,500, resulting in a gain of \$2,621. This well contributed approximately 5% of the Company's 2012 revenue and 0% of the revenue for the three months ended March 31, 2013.

**Oklahoma prospects**

During 2010 and 2011, the Company acquired various working interest percentages ranging from 5% to 50%, from Bay Petroleum for mineral properties located in Oklahoma in exchange for cash totaling \$1,992,330. During the year ended December 31, 2011, one well was determined to be a dry hole and its full \$80,000 carrying value was impaired. During the year ended December 31, 2012, the Company acquired additional working interests in the Oklahoma prospects for cash in the amount of \$355,242 and property valued at \$41,000. During the year ended December 31, 2012, two of the wells were determined to be uneconomic and \$565,737 of impairment was taken to reduce the properties to their fair value. The Oklahoma prospects wells contributed approximately 95% of the Company's 2012 revenue and 100% of the revenue for the three months ended March 31, 2013.

**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:



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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 following table presents a reconciliation of all assets and liabilities measured at fair value on a recurring basis as of:

	Level 1	Level 2	Level 3	Total
<b>March 31, 2013:</b>				
Cash	\$ 9,743	\$ -	\$ -	\$ 9,743
Accounts receivable	-	18,837	-	18,837
Accounts payable and other liab.	-	(650,695)	-	(650,695)
Derivative liability	-	(17,396)	-	(17,396)
Notes payable, net of discount	-	(1,008,415)	-	(1,008,415)
<b>December 31, 2012:</b>				
Cash	\$ 16,216	\$ -	\$ -	\$ 16,216
Accounts receivable	-	13,735	-	13,735
Accounts payable and other liab.	-	(608,702)	-	(608,702)
Derivative liability	-	(559)	-	(559)
Notes payable, net of discount	-	(1,032,035)	-	(1,032,035)

## 6. Debt and Debt Guarantee

### Short term note from Officer

During the year ended December 31, 2012, the Company issued a promissory note in the amount of \$39,200 for cash advances received from an officer of the Company. The note is non-interest bearing, unsecured and due on demand. As of March 31, 2013, no payments have been made to the officer and the note is still outstanding.

### Miscellaneous Notes Payable

On October 18, 2006, the Company issued a promissory note in the amount of \$25,000. The note bears interest at a rate of 12% per annum, is unsecured and matured on May 18, 2007. On March 26, 2012, the holder of the note elected to convert the entire principal balance together with accrued interest of \$21,819 into 187,277 shares of the Company's common stock at a conversion rate of \$0.25 per share. As of December 31, 2012, there was no balance due on this note.

In August 2011, the Company issued a promissory note in the amount of \$71,000. The note bears interest at a rate of 24% per annum, is unsecured and due on demand. On April 30, 2012, the holder of the note elected to convert the entire principal balance together with accrued interest of \$12,140 into 332,561 shares of the Company's common stock at a conversion rate of \$0.25 per share. As of December 31, 2012, there was no balance due on this note.

In December, 2011, the Company issued a promissory note in the amount of \$79,980 to Centennial Petroleum Partners LLC ( CPP ). The note bears interest at a rate of 6% per annum, is unsecured and due on demand. On April 30, 2012, the holder of the note elected to convert the entire principal balance together with accrued

interest of \$2,688 into 330,671 shares of the Company's common stock at a conversion rate of \$0.25 per share. As of December 31, 2012, there was no balance due on this note.

In 2011, CPP was assigned the 6% royalty interest originally granted to Maxum Overseas Fund. The royalty interest was valued at \$113,164 utilizing the present value of estimated future payments due over the remaining life of the wells. The liability was recorded with corresponding prepaid financing costs to be amortized over the remaining term of the debt. For the years ended December 31, 2012 and 2011, \$42,436 and \$35,364, respectively, was amortized into interest expense in relation to this prepaid. During the year ended December 31, 2012, in connection with the royalty termination agreement discussed below, the Company has recorded a gain of \$77,800 on the forgiveness of future royalty payments of \$108,746 net of the unamortized financing costs of \$30,946.

On July 3, 2012 in connection with the Purchase Agreement between the Company and ASYM Energy Opportunities, LLC, CPP agreed to enter into a royalty termination agreement, resulting in the elimination of their 6% royalty interest in exchange for anti-dilution protection with respect to the shares issued in the conversion of their note payable at a conversion rate of \$0.25. The anti-dilution protection provides that in the event the Company issues warrants to a third party with an exercise price less than the conversion rate of \$0.25, the Company will issue additional shares for the previous conversions equal to the difference between the number of shares calculated utilizing the variable ASYM warrant exercise price less the number of shares previously issued subject to a ceiling of 4.99% of the total outstanding shares of the Company. On July 3, 2012, the Company estimated the potential future number of anti-dilution share issuances required pursuant to the agreements to be 2,385,311 and recorded a derivative liability and corresponding comprehensive income (loss) in the amount of \$333,943 representing the fair value of the potential anti-dilution shares on that date. As of December 31, 2012, the Company has authorized the issuance of 3,003,104 shares as a result of the anti-dilution provision and recorded a financing expense in the amount of \$406,615, the fair value of the shares on the date of grant. As of December 31, 2012, CPP there were an additional 4,633 additional anti-dilution shares potentially issuable to meet the beneficial ownership ceiling as a result; the Company recorded a decrease in derivative liability of \$333,664 and a corresponding change in comprehensive gain (loss). During the three months ended March 31, 2013, the Company authorized the issuance of an additional 4,633 shares as a result of the anti-dilution provision and recorded a financing expense in the amount of \$233; the fair value of the shares on the date of the grant. During the three months ended March 31, 2013, the Company recorded an increase in derivative liability of \$8,418 and a corresponding change in accumulated comprehensive gain (loss) on the balance sheet. As of March 31, 2013, the Company has not issued any of the shares discussed above and CPP is owed 3,007,767 shares. These shares are recorded as owed but not issued on the balance sheet.

#### **Convertible Debentures - 2009**

In August and September of 2009, the issued two Secured Convertible Promissory Notes in the amount of \$500,000 each to an investor for total proceeds of \$1,000,000. The notes bear interest at a rate of 18% per annum, are secured by the assets of the Company, and matured on August 13 and September 15, 2010, respectively. In accordance with the agreement, the Company is required to make monthly interest payments until the principal balances are paid in full. Additionally, the Company issued warrants to purchase up to 2,857,142 shares of the Company's common stock at an exercise price of \$0.50. The warrants expired in 2011 and were unexercised. In March 2010, the holder elected to convert \$350,000 of the notes into 1,000,000 shares of the Company's common stock at a conversion rate of \$0.35 per share. In December 2010 and August 2011, the debentures were subsequently amended whereby extending the original maturity date to August 13 and September 15, 2012 and reducing the conversion rate from the lower of \$0.35 or a 25% discount to the five day average trading price to the lower of \$0.25 or a 25% discount to the five day average.

On July 3, 2012, in connection with the Purchase Agreement between the Company and ASYM Energy Opportunities, LLC, the Company entered into a third amendment whereby the holder agreed to terminate his security interest in the assets of the Company, reduce the interest rate from 18% to 10% per annum upon receipt of the initial financing tranche of \$1,000,000 and to revise the repayment terms, whereby the entire unpaid principle together with accrued interest will be payable in two equal installments upon successful financing obtained by the Company, but in no event later than December 31, 2014.

On March 4, 2013, \$140,000 of the outstanding convertible debt was assigned to Magna Group, LLC. See Notes Payable Magna Group below for further details.

As of March 31, 2013 and December 31, 2012, the principal balance related to this note totaled \$493,306 and \$633,306, respectively, and is shown as a long term liability on the balance sheet.

#### **Convertible Debentures - 2010**

In 2010, the company entered into a Convertible Line of Credit Agreement with Maxum Overseas Fund ( Maxum ) in the amount of \$1,500,000 and received an initial advance in the amount of \$1,462,774. The line of credit bears interest at a rate of 24% per annum, is convertible at \$0.90, and was secured by certain assets of the Company and due in full on May 17, 2011. In November of 2010, the Company amended the line of credit agreement to reduce the conversion price to \$0.25 per share. In May and July of 2011, the Company entered into a third and fourth amendment to the line of credit whereby increasing the line of credit to \$2,000,000 in exchange for a 3% royalty interest in production revenue generated by the Company. The Company was advances additional proceeds of \$1,700,918. In August 2011, the agreement was further amended to extend the maturity date to November 17, 2012 and increase the line to \$3,000,000 in exchange for an additional 3% royalty interest. The royalty interest was subsequently assigned by Maxum to Centennial Petroleum Partners, LLC ( CPP ). See CPP information above for further details on the royalty interest and its termination in 2012.

In December 2011, the holder elected to convert \$1,090,902 of the balance owed into 4,363,611 shares of the Company s common stock at a conversion rate of \$0.25 per share. In the first quarter of 2012, the Company was advanced an additional \$198,000 against the line of credit and In March and April of 2012; the holder elected to convert the entire unpaid principle balance and accrued interest in the amount of \$3,163,218 into 12,652,869 shares of the Company s common stock at a conversion rate of \$0.25. As of December 31, 2012 there is no balance on this note. Additionally, in 2012, Maxum agreed to forgive the finders fee and the Company recorded debt forgiveness of \$158,185. As of December 31, 2012 and 2011, the Company recorded amortization expense related to the beneficial conversion feature in the amount of \$212,070 and \$646,760, respectively.

On July 3, 2012 in connection with the Purchase Agreement between the Company and ASYM Energy Opportunities, LLC, the investor group agreed to enter into a lien termination agreement, resulting in the termination of their security interest in certain assets of the Company in exchange for anti-dilution protection with respect to the shares issued in the conversion of the line of credit at a conversion rate of \$0.25 The anti-dilution protection provides that in the event the Company issues warrants to a third party with an exercise price less than the conversion rate of \$0.25, the Company will issue additional shares for the previous conversions equal to the difference between the number of shares calculated utilizing the exercise price of the warrants less the number of shares previously issued subject to a ceiling of 4.99% of the total outstanding shares of the Company. The Company estimated the number of shares that could be issued pursuant to the agreements on July 3, 2012 to be 2,576,975 and recorded a derivative liability and corresponding comprehensive income (loss) in the amount of \$360,776 representing the fair value of the shares on that date. During the year ended December 31, 2012, the Company authorized the issuance of 3,003,104 shares as a result of the anti-dilution provision and recorded a financing expense in the amount of \$425,468, the fair value of the shares on the date of grant. As of December 31, 2012, there were an additional 4,633 additional anti-dilution shares potentially issuable to meet the beneficial ownership ceiling as a result; the Company recorded a decrease in derivative liability of \$360,497 and a corresponding change in comprehensive gain (loss). During the three months ended March 31, 2013, the Company authorized the issuance of an additional 4,633 shares as a result of the anti-dilution provision and recorded a financing expense in the amount of \$233; the fair value of the shares on the date of the grant. During the three months ended March 31, 2013, the Company recorded an increase in derivative liability of \$8,418 and a corresponding change in accumulated comprehensive gain (loss) on the balance sheet. As of March 31, 2013, the Company has not issued any of the shares discussed above and Maxum is owed 3,007,767 shares. These shares are recorded as owed but not issued on the balance sheet.

#### **Note Payable ASYM**

On July 3, 2012, the Company entered into a Purchase Agreement with ASYM Energy Opportunities LLC ( ASYM ), pursuant to which ASYM agreed to provide up to \$10,000,000 in debt financing to be advanced in approximately ten tranches of \$1,000,000 each, with \$300,000 of the initial tranche to be paid upon closing and the remaining \$700,000

to be funded upon the satisfaction of certain conditions, including completion of due diligence by ASYM, satisfaction by the Company of certain financial tests, and the availability of funds of ASYM. Each tranche will be evidenced by a senior secured promissory note which bears interest at a rate of 15% per annum, with all tranches maturing on June 30, 2015 at an amount equal to 110% of the principle amount funded. Additionally, each note is subject to early repayment in the event the Company does not meet certain financial covenants. In accordance with the agreement, the Company has issued a First Lien Security Agreement, Mortgage, Deed of Trust, Assignment of Production, Fixture Filing and Financing Statement to ASYM as collateral to the financing. In connection with each tranche of funding, the Company is required to issue a warrant to purchase shares of the Company's common stock equal to 83% the tranche amount, divided by the warrant exercise price. Additionally, the Company has entered into a Deposit Account Control Agreement with ASYM to perfect ASYM's security interest in certain bank accounts maintained by the Company. The Company is required to pay an administrative fee of \$100,000 payable upon receipt of the second tranche of \$1,000,000.

Further, pursuant to the Purchase Agreement, the Company entered into a perpetual Management Services Agreement with ASYM Management LLC ("ASYM Management") for managerial, financial, strategic and operational consulting services. The agreement expires only upon the sale, liquidation or dissolution of the Company or termination by ASYM Management. Pursuant to the terms of the agreement, the Company has agreed to pay a monthly management fee of \$12,000 plus two percent of the unfunded balance of the Purchase Agreement. In addition, ASYM Management will be entitled to receive a warrant equal to 17% of the tranche amount divided by the exercise price of the warrant.

In March of 2013, the Company amended its agreement with ASYM Management to raise the monthly management fee to \$20,000 per month and to eliminate the fee on the unused portion of the funding. The amended agreement lowers the amount owed to ASYM as of March of 2013 by approximately \$47,000 if the full balance owed to them is paid in full by July 31, 2013.

The aforementioned warrants had a variable exercise price computed based on the lesser of (i) \$0.20, (ii) eighty five percent (85%) of the volume weighted average price per share of the Company's common stock for the fifteen days preceding the issuance of any tranche, or (iii) the trailing ninety (90) net average daily oil production multiplied by \$40,000, the product of which is reduced by the Company's total liabilities, but not less than \$500,000, and then divided by the Company's fully diluted number of common shares outstanding. Each warrant will have a term of five years from the date of issuance and will be limited to an amount where the underlying shares of common stock issuable upon exercise does not cause ASYM collectively, to exceed a 4.99% ownership interest in the Company. Upon exercise of any warrant, the warrant shares are subject to demand registration rights utilizing best efforts.

On July 3, 2012, the Company estimated the number of shares underlying warrants that could be issued pursuant to the Purchase Agreement, while not exceeding an ownership interest of 4.99%, to be 2,576,975 and recorded a derivative liability and corresponding comprehensive income (loss) in the amount of \$354,049 representing the fair value of the of the warrants on that date. The warrants were valued utilizing the Black-Sholes Model and the following terms: i) five-year life ii) exercise price of \$0.031 iii) volatility of 181% iv) risk free rate of 0.69% and v) share price on the date of grant of \$0.14.

On July 6, 2012, the Company received \$300,000 of the initial tranche and in accordance with the Purchase Agreement the Company granted two warrants to purchase a total of 2,576,975 shares of the Company's common stock, 2,138,889 to ASYM and 438,086 to ASYM Management, at an exercise price of \$0.031 and recorded a financing expense in the amount of \$354,049, the fair value of the warrants on the date of grant. On September 27, 2012, the Company received additional proceeds of \$180,000 due under the first tranche. As consideration for the limitation of funding the entire remaining \$700,000 per the Purchase Agreement, ASYM agreed to a \$0.35 exercise price for the warrant due them in connection with the September 27<sup>th</sup> funding. As a result, the Company granted two warrants to purchase a total of 376,209 shares of the Company's common stock and recorded a financing expense in the amount of \$59,124, the fair value of the warrants on the date of grant. The warrants were valued utilizing the Black-Sholes Model and the following terms: i) five-year life ii) exercise price of \$0.2946 iii) volatility of 179% iv) risk free rate of 0.64% and v) share price on the date of grant of \$0.16

On November 19 and December 17, the Company received two additional tranches in the amount of \$5,000 each. In accordance with the terms of the financing agreement the Company granted the issuance of two warrants to purchase 18,773 and 31,147, respectively in connection with the funding advances and recorded financing costs of \$4,452. The warrants were valued utilizing the Black-Sholes Model and the following terms: i) five-year life ii) exercise price of \$0.01 iii) volatility of 184%-185 iv) risk free rate of 0.64% -0.77% and v) share price on the date of grant of \$0.12 -\$0.07.

During the three months ended March 31, 2013, the Company and ASYM agreed to modify the terms of the July 3, 2012 agreement whereby eliminating the variable exercise price of each warrant grant due pursuant to the agreement to a fixed exercise price of \$0.01 applicable to both past and future warrant grants. As a result of the retrospective modification of terms, the Company re-valued all warrants previously issued and recorded a financing expense in the amount of \$174,683. As of December 31, 2012, the derivative liability related to the fair value of the variable number of warrants potentially issuable has been eliminated due to the fixed conversion rate.

The ASYM agreement contains miscellaneous debt covenant requirements. As of December 31, 2012 and March 31, 2013, the Company was not in compliance with those covenants. On March 28, 2013, ASYM granted the Company a waiver of those covenants through March 31, 2013 in return for a 3% overriding royalty interest in all existing and future properties and a \$25,000 waiver fee. The \$25,000 waiver fee was not paid but rather recorded as a tranche loan under the agreement. In accordance with the terms of the financing agreement the Company granted the issuance of two warrants to purchase 3,869 and 793, respectively in connection with the funding advances and recorded financing costs of \$240. The warrants were valued utilizing the Black-Sholes Model and the following terms: i) five-year life ii) exercise price of \$0.01 iii) volatility of 120.5% iv) risk free rate of 0.72% and v) share price on the date of grant of \$0.055.

#### **Notes Payable Magna Group**

Effective March 4, 2013, in connection with the assignment of \$140,000 of outstanding convertible debt of the Company to Magna Group, LLC ( Magna ), the Company issued to Magna a Twelve Percent (12%) Convertible Note which matures on September 4, 2013. The Note provides that Magna, at any time, and the Company, on the maturity date, may convert any remaining outstanding principal balance and accrued interest under the Note into shares of common stock of the Company. The conversion price of the Note shall be equal to a forty five percent (45%) discount from the lowest trading price of the Company's common stock in the five days prior to the day Magna requests conversion. An additional eight percent (8%) discount will be applied if the Company's common stock is chilled for deposit at DTC and/or becomes chilled at any point while the Note is outstanding. In no event will the conversion price be less than \$0.00004 per share. If at any time the Company issues any stock or grants options or warrants at a price per share less than the conversion price, then the conversion price will be reduced to such lesser amount. The Company may prepay the note at any time, upon three business days' written notice, at a price equal to one hundred and fifty percent (150%) of the outstanding principal balance of the Note, plus accrued interest. This note contains a beneficial conversion feature that was calculated at \$140,000 and a discount was recorded. The discount will be amortized over the six-month of the loan and adjusted for any conversions to common stock. During the three months ended March 31, 2013, \$54,674 was amortized into interest expense in relation to the discount and the discount is \$85,326 as of March 31, 2013.

In March of 2013, the company issued 1,305,034 shares of common stock in relation to a conversion of \$40,000 of the Note. During the three months ended March 31, 2013, interest in the amount of \$1,113 was accrued. As of March 31, 2013, the balance of the note was \$100,000. Subsequent to March 31, 2013, Magna converted an additional \$45,000 of the note into 5,658,784 shares of common stock.

#### **Notes Payable MJM Financial**

Effective March 27, 2013, the Company issued a convertible promissory note in the total possible amount of \$335,000 and borrowed \$50,000 under the note. The note bears no interest if repaid within ninety days and bears interest of 12% if not repaid within ninety dates. The maturity date of each loan under this promissory note is one year from the date of the draw. The loan balance is convertible at the lesser of \$0.075 or 60% of the lowest trade price in the 25 trading days previous to the conversion. This note contains a beneficial conversion feature that was bifurcated out of the loan proceeds of the initial \$50,000 draw. A discount on notes payable related to the beneficial conversion feature was recorded in the amount of \$20,000 and will be amortized over the one year of the loan. As of March 31, 2013, the note balance on this note is \$50,000 and no interest had been accrued.



**Notes Payable Hanover Holdings I, LLC**

Effective March 4, 2013, the Company issued a convertible promissory note in the amount of \$51,500. The note bears interest at 12% and matures on December 4, 2013. The loan balance is convertible at 55% of the lowest trade price in the 10 trading days previous to the conversion. This note contains a beneficial conversion feature that was bifurcated out of the loan proceeds. A discount on notes payable related to the beneficial conversion feature was recorded in the amount of \$25,925 and will be amortized over the life of the loan. As of March 31, 2013, the note balance on this note is \$51,500 and \$457 of interest had been accrued. In April of 2013, the Company entered into an exchange agreement with Hanover which changed the maturity date of the note to November 4, 2014 and changed the conversion price to \$.008. The note balance is shown as a long term liability on the balance sheet.

### **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 estimated amount of the claim, \$94,860 along with a comprehensive loss on foreign currency of \$8,114, since in the opinion of legal counsel it is more likely than not that CWB would prevail in this action. As of December 31, 2012, the Company has determined the loan guarantee is no longer valid due to its age and the statute of limitations. As a result, the Company recognized a gain on debt in the amount of \$86,746 in the year ended December 31, 2012.

### **Financing and interest expense**

Financing and interest costs related to the Company's aforementioned financing activities for the three months ended March 31, 2013 and 2012, totaled \$123,596 and 385,589, respectively.

## **7. Stockholders' Equity Transactions**

### **Common Stock**

As of December 31, 2011, there are 32,867,028 shares of common stock issued and outstanding and no common stock owed but not issued.

In January of 2012, the Company issued 900,000 shares of common stock in lieu of executive compensation. The shares were valued at \$189,000, which was market value on the day of the grant.

During the year ended December 31, 2012, the Company authorized the issuance of 767,500 shares of common stock for the conversion of \$239,469 of accounts payable balances. As of the balance sheet date 417,500 shares were unissued.

During the year ended December 31, 2012, the Company authorized the issuance of 12,652,869 shares of common stock for the conversion of \$3,163,218 in convertible debt and accrued interest as discussed in Note 6.

During the year ended December 31, 2012, the Company authorized the issuance of 850,509 shares of common stock for the conversion of \$212,628 in notes payable and accrued interest as discussed in Note 6.

During the year ended December 31, 2012, the Company authorized the issuance of 6,006,208 shares of common stock valued at \$832,083 in connection with the anti-dilution provisions provided to Maxum and CPP.

As of December 31, 2012 there are 47,620,406 shares of common stock issued and outstanding and 6,423,708 shares of common stock owed but not issued.

During the three months ended March 31, 2013, the Company issued 241,667 shares of common stock for cash of \$14,500.

During the three months ended March 31, 2013, the Company issued 1,305,034 shares of common stock for the conversion of \$40,000 in convertible debt as discussed in Note 6.

During the three months ended March 31, 2013, the Company issued 1,764,706 shares of common stock as a commitment fee in relation to the Hanover Holdings I, LLC agreement as discussed below. The shares were valued at \$150,000 and capitalized as financing costs. The fee will be amortized over the two-year life of the

agreement.

As of March 31, 2013 there are 50,931,813 shares of common stock issued and outstanding and 6,433,034 shares of common stock owed but not issued.

**Hanover Holdings I, LLC Purchase Agreement:**

On March 22, 2013, the Company entered into a common stock purchase agreement with Hanover Holdings I, LLC, a New York limited liability company (the Investor ). The Purchase Agreement provides that, upon the terms and subject to the conditions set forth therein, the Investor is committed to purchase up to \$5,000,000 worth of the Company's common stock over the 24-month term of the Purchase Agreement.

From time to time over the term of the Purchase Agreement, commencing on the trading day immediately following the date on which the initial registration statement is declared effective by the Securities and Exchange Commission (the Commission ), as further discussed below, the Company may, in its sole discretion, provide the Investor with draw down notices to purchase a specified dollar amount of Shares over a 10 consecutive trading day period commencing on the trading day specified in the applicable Draw Down Notice, with each draw down subject to the limitations discussed below. The maximum amount of Shares requested to be purchased pursuant to any single Draw Down Notice cannot exceed 300% of the average daily trading volume of the Company's common stock for the 10 trading days immediately preceding the date of the Draw Down Notice.

Once presented with a Draw Down Notice, the Investor is required to purchase a pro rata portion of the applicable Draw Down Amount on each trading day during the applicable Pricing Period on which the daily volume weighted average price for the Company's common stock (the VWAP ) equals or exceeds a floor price determined by the Company for such draw down (the Floor Price ). If the VWAP falls below the applicable Floor Price on any trading day during the applicable Pricing Period, the Purchase Agreement provides that the Investor will not be required to purchase the pro rata portion of the applicable Draw Down Amount allocated to that trading day. The per share purchase price for the Shares subject to a Draw Down Notice shall be equal to 90.0% of the arithmetic average of the three lowest VWAPs that equal or exceed the applicable Floor Price during the applicable Pricing Period; provided, however, that if the VWAP does not equal or exceed the applicable Floor Price for at least three trading days during the applicable Pricing Period, then the per share purchase price shall be equal to 90.0% of the arithmetic average of all VWAPs that equal or exceed the applicable Floor Price during such Pricing Period. Each purchase pursuant to a draw down shall reduce, on a dollar-for-dollar basis, the Total Commitment under the Purchase Agreement.

The Company is prohibited from issuing a Draw Down Notice if (i) the amount requested in such Draw Down Notice exceeds the Maximum Draw Down Amount, (ii) the sale of Shares pursuant to such Draw Down Notice would cause the Company to issue or sell or the Investor to acquire or purchase an aggregate dollar value of Shares that would exceed the Total Commitment, or (iii) the sale of Shares pursuant to the Draw Down Notice would cause the Company to sell or the Investor to purchase an aggregate number of shares of the Company's common stock which would result in beneficial ownership by the Investor of more than 4.99% of the Company's common stock (as calculated pursuant to Section 13(d) of the Securities Exchange Act of 1934, as amended, and the rules and regulations thereunder). The Company cannot make more than one draw down in any Pricing Period and must allow 24 hours to elapse between the completion of the settlement of any one draw down and the commencement of a Pricing Period for any other draw down.

The Purchase Agreement contains customary representations, warranties and covenants by, among and for the benefit of the parties. The Purchase Agreement may be terminated at any time by the mutual written consent of the parties. Unless earlier terminated, the Purchase Agreement will terminate automatically on the earlier to occur of (i) the first day of the month next following the 24-month anniversary of the date on which the initial registration statement is declared effective by the Commission or (ii) the date on which the Investor purchases the Total Commitment worth of common stock under the Purchase Agreement. Under certain circumstances set forth in the Purchase Agreement, the Company and the Investor each may terminate the Purchase Agreement on one trading days prior written notice to the other.

The Company paid to the Investor a commitment fee for entering into the Purchase Agreement equal to \$150,000 (or 3.0% of the Total Commitment under the Purchase Agreement) in the form of 1,764,706 restricted shares of the Company's common stock, calculated at a price equal to \$0.085 per share, which was the closing price of our Common

Stock on March 4, 2013. The Commitment shares were issued in March of 2013.

The Company also agreed to pay up to \$15,000 of reasonable attorneys' fees and expenses (exclusive of disbursements and out-of-pocket expenses) incurred by the Investor in connection with the preparation, negotiation, execution and delivery of the Purchase Agreement and related transaction documentation. Further, if the Company issues a Draw Down Notice and fails to deliver the shares to the Investor on the applicable settlement date, and such failure continues for 10 trading days, the Company agreed to pay the Investor, in addition to all other remedies available to the Investor under the Purchase Agreement, an amount in cash equal to 2.0% of the purchase price of such shares for each 30-day period the shares are not delivered, plus accrued interest.

The Purchase Agreement also provides for indemnification of the Investor and its affiliates in the event that the Investor incurs losses, liabilities, obligations, claims, contingencies, damages, costs and expenses related to a breach by the Company of any of its representations and warranties under the Purchase Agreement or the other related transaction documents or any action instituted against the Investor or its affiliates due to the transactions contemplated by the Purchase Agreement or other transaction documents, subject to certain limitations.

### **Warrants**

During the year ended December 31, 2011, the Company issued 200,000 warrants in relation to a stock sale as described in above. The warrants have a \$0.40 exercise price and a two-year life. The warrants expire on November 7, 2013.

During the year ended December 31, 2012, the Company issued 3,003,104 warrants in connection with the ASYM Purchase Agreement discussed in Note 6. The warrants are exercisable for a term of five years and at a strike price of \$0.01. These warrants expire in the third and fourth quarter of 2017.

As of December 31, 2012, there are 3,203,104 warrants outstanding at a weighted average exercise price of \$0.0344.

During the three months ended March 31, 2013, the Company issued an additional 4,662 warrants in connection with the ASYM Purchase Agreement discussed in Note 6. The warrants are exercisable for a term of five years and at a strike price of \$0.01. These warrants expire in the first quarter of 2018.

As of March 31, 2013, there are 3,207,766 warrants outstanding at a weighted average exercise price of \$0.0343.

## **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. The Company's operations for the years ended December 31, 2012 and the three months ended March 31, 2013 resulted in losses. Accordingly, no provisions for current income taxes have been reflected in the accompanying statements of operations.

As of December 31, 2012 and March 31, 2013, the Company has total net operating loss carryforwards of approximately \$10,000,000 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 provisions for deferred income taxes have been reflected in the accompanying statements of operations.

**9. Related Party Transactions**

During the three months ended March 31, 2013 and 2012, the Company granted no shares and 900,000 shares, respectively, to directors and officers in lieu of executive compensation.

During the three months ended March 31, 2013, the Company reimbursed an officer approximately \$4,068 in connection with travel, lodging and meals. During the three months ended March 31, 2012, the Company reimbursed an officer \$10,996 for a residential lease and related utilities in Wichita, Kansas, which was being used as the corporate offices. The Company also reimbursed the officer approximately \$9,810 in connection with travel, lodging and meals.

During the year ended December 31, 2012, an officer/director loaned the company \$39,200 for the purchase of mineral properties as discussed in note 6. As of March 31, 2013, the loan is still outstanding.

As noted in note 7, during the year December 31, 2012, the Company authorized the issuance of 767,500 shares of common stock for the conversion of \$239,469 of accounts payable balances. As of the March 31, 2013 and December 31, 2012, 417,500 shares were unissued. \$173,205 of the accounts payable converted was held by officers/directors of the Company.

**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.

During April and May of 2013, \$45,000 of notes payable was converted into 5,658,784 shares of common stock.

In April of 2013, the Company entered into an exchange agreement with Hanover which changed the maturity date of the note payable to Hanover to November 4, 2014 and changed the conversion price to \$.008. The note balance was \$51,500 as of March 31, 2013. The Company also borrowed an additional \$5,000 from Hanover in April of 2013.



## 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 Payne and Lincoln Counties in Oklahoma. As of May 17, 2013, we have six producing wells in Oklahoma. We also have ownership of 1,410.7 net acres and rights for the exploration and production of oil and gas on an aggregate of approximately 4,733.8 gross acres in Oklahoma. This includes rights to explore on 1,847 gross acres in Oklahoma in the North Oklahoma Mississippi Project and in 2,886 gross acres in south-central Oklahoma (the South Oklahoma Project). In 2012, oil sales from our producing wells averaged 13.1 cumulative barrels per day.

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. The Company operates from its offices at 250 N Rock Rd., Suite 365 Wichita, KS.

### Producing Properties

*North Oklahoma Project (North Oklahoma Woodford Yale and North Oklahoma Mississippi Lime 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 well produced 1,638 barrels in 2012 at an average of 4.4 barrels per day. The current daily rate is 5.3 barrels per day.

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 of 2011. The well produced 888 barrels in 2012 at a rate of 2.43 barrels per day.

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. The Company owns a 25% Working Interest in the lease. On June 29, 2011, we announced that NOM1H had begun commercial production. The well produced 5,199 barrels in 2012 at a rate of

14.2 barrels per day. Daily gas production is in the 50 Mcf/day range.

On July 27, 2011 we announced the NOW2H, an 80 acre offset to NOM1H. On November 7, 2011, the well commenced commercial oil and gas production. On March 26, 2012, we announced that after undergoing a second frack and the installation of a submersible pump, the well was producing at a daily rate of 30 barrels per day. Since that time the well has drastically declined and produced a total of 888 barrels in 2012, and 5,837 Mcf of gas. The well is currently no longer economically viable, has had no sales since June of 2012, and would require re-drilling of the lateral and re-completion to return to commercial viability. There are no plans at this time to implement this program.

On January 9, 2012, we announced plans to drill a third horizontal well at the North Oklahoma Project, NOM3H, on the same section of land as our two previously completed wells, NOM1H and NOW2H. On February 6, 2012, we announced that we had drilled a total of 1,988 feet in the horizontal well segment penetrating into the 100 plus foot thick Mississippi pay zone. The NOM3H began commercial oil and gas production on March 7, 2012. As of March 1, 2013, the well had cumulatively produced 8,571 barrels of oil, with 8,035 barrels in 2013 at an average daily rate of 26.7 barrels per day. Daily gas production is in the 85 Mcf/day range.

On October 1, 2012 we announced the commencement of drilling of the NOS222 oil and gas well in Payne County, Oklahoma. The well is an offset to the NOS122. On October 15, 2012 we announced that the completion program was underway. It was determined, after the program was completed that the Skinner sand portion, the primary objective of the well, was the only viable commercial producer. The well is in production and the Company has been informed that the well is forecast to produce approximately seven to ten barrels per day.

On July 18, 2011, we announced drilling plans for a total of eleven horizontal wells at the North Oklahoma Project. As of March, 2013, there are at least eight locations left to drill on the acreage in each of the Woodford Shale and Mississippi Lime that would be horizontal wells spaced on 180 acres. We previously announced a drilling schedule that involved drilling one horizontal well approximately every 90 days. However, based on estimated engineering expenses of \$3,200,000 for drilling and completion, we were unable to implement that drilling schedule. Our revised drilling schedule for 2013 is between one to three wells, depending upon available capital.

The next well planned is a direct offset to the NOM1H and is expected to cost \$800,000 for our working interest share of the drilling and completion costs. The well is a Woodford Shale horizontal well and we plan to announce a drilling schedule once it is determined by the operator in April 2013.

*South Oklahoma Project* - On July 20, 2011, we announced the acquisition of a forty percent (40%) working interest in the South Oklahoma Project on 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 Mississippi lime and Woodford Shale oil and gas wells.

On April 2, 2012, we announced the spud of the first well on the South Oklahoma Project, designated SOM-1H. On July 10, 2012, the well began commercial production. As of March 1, 2013, the well had cumulatively produced 5,696 barrels of oil, with 4,618 barrels for the 2012 calendar year, and sales beginning in July 2012 at an average daily rate of 25.4 barrels per day. Daily gas production is in the 60 Mcf/day range.

### Customers

Our crude oil production is sold to Sunoco in Oklahoma. We receive Oklahoma spot prices for our oil and sell our oil in minimum allotments of 160 barrels.

We have commercial sales of natural gas at our Oklahoma Project 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, 2012. As of, and for the three months ended March 31, 2013, 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, 2012.

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, 2013 and March 31, 2012

For the three month periods ended March 31, 2013 and March 31, 2012, we incurred a comprehensive loss of \$279,200 and \$896,187, respectively. The decrease was largely attributed to decreases from March 31, 2012 to March 31, 2013 in executive compensation from \$285,000 to \$51,000, and impairment expenses from \$256,737 to \$0. General and administration expenses for the three month period ended March 31, 2013 amounted to \$122,250 compared to \$105,791 in the same period of 2012.

### Liquidity and Capital Resources

As of March 31, 2013, we had cash of \$9,743 and working capital deficiency of \$723,385. During the three month period ended March 31, 2013, we funded our operations from revenue received, and proceeds of private sales of equity and notes. During the three month period ended March 31, 2013, we raised \$126,500 from the proceeds of notes payable and \$14,500 from the proceeds of the sale of common stock. We are currently seeking further financing and we believe that will provide sufficient working capital to fund our operations for at least the next six months. Changes in our operating plans, increased expenses, acquisitions, or other events, may cause us to seek additional equity or debt financing in the future. For the three months ended March 31, 2013, we used net cash of \$147,473 in operations.

On March 22, 2013, we announced that we had entered into a common stock purchase agreement dated as of the Closing Date (the Purchase Agreement) with Hanover Holdings I, LLC, a New York limited liability company (Hanover). The Purchase Agreement provides that, upon the terms and subject to the conditions set forth therein including volume based share and price limitations, Hanover is committed to purchase up to \$5,000,000 (the Total Commitment) worth of our common stock, \$0.001 par value (the Shares), over the 24-month term of the Purchase Agreement, beginning on the trading day following the date on which a registration statement covering the resale of the Shares by Hanover is declared effective. The per share purchase price for the shares shall be equal to 90.0% of the arithmetic average of the three lowest volume weighted average prices for our common stock during the applicable pricing period that equal or exceed the applicable floor price established by the Company. We paid to Hanover a commitment fee for entering into the Purchase Agreement equal to \$150,000 (or 3.0% of the Total Commitment under the Purchase Agreement) in the form of 1,764,706 restricted shares of our common stock, calculated at a price equal to \$0.085 per share, which was the closing price of our Common Stock on March 4, 2013. In connection with the execution of the Purchase Agreement, we agreed to file an initial registration statement with the Commission to register an agreed upon number of Shares, which shall not exceed 1/3 of the number of shares of our common stock held by non-affiliates of the Company, which registration statement was filed on May 3, 2013.

On July 9, 2012, we announced that we entered into a three-year credit facility with ASYM Energy Partners LLC and its affiliates (ASYM), a private investment firm focused on the energy industry. The credit facility is secured by all of our assets. At this time \$515,000 has been advanced under the ASYM credit facility. We do not expect to receive additional funds from the ASYM facility at this time as we do not qualify under the agreement covenants.

The Company and ASYM agreed to modify the terms of the agreement with ASYM whereby eliminating the variable exercise price of each warrant grant due pursuant to the agreement to a fixed exercise price of \$0.01

applicable to both past and future warrant grants.

In addition, during the three months ended March 31, 2013, we raised \$126,500 from promissory notes. We also recorded \$44,239 in revenue during the three months ended March 31, 2013 from our producing wells.

Our current cash requirements are significant due to planned exploration and development of current projects. We anticipate drilling one to three wells in Oklahoma in 2013 which is estimated to cost between \$800,000 and \$2,400,000. Additionally, we have an aggregate of \$189,200 in outstanding short term borrowings. We will need to secure additional debt or equity financing to pay such obligations as they become due. Accordingly, we expect to continue to 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.

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. In order to execute on our business strategy, we will require additional working capital, commensurate with the operational needs of our planned drilling projects and obligations. Such working capital will most likely be obtained through equity or debt financings until such time as acquired operations are integrated and producing revenue in excess of operating expenses. 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 not effective as of March 31, 2013 in ensuring that information required to be disclosed by us in reports that we file or submit under the Exchange Act is recorded, processed, summarized, and reported within the time periods specified in the Securities and Exchange Commission's rules and forms. This conclusion is based on findings that constituted material weaknesses. A material weakness is a deficiency, or a combination of control deficiencies, in internal control over financial reporting such that there is a reasonable possibility that a material misstatement of the Company's interim financial statements will not be prevented or detected on a timely basis.

### **Management's Report on Internal Control Over Financial Reporting**

In performing the above-referenced assessment, our management identified the following material weaknesses:

- i) We have not achieved the optimal level of segregation of duties relative to key financial reporting functions.
- ii) We have insufficient quantity of dedicated resources and experienced personnel involved in reviewing and designing internal controls. As a result, a material misstatement of the interim and annual financial statements could occur and not be prevented or detected on a timely basis.

- iii) We did not perform an entity level risk assessment to evaluate the implication of relevant risks on financial reporting, including the impact of potential fraud related risks and the risks related to non-routine transactions, if any, on our internal control over financial reporting. Lack of an entity-level risk assessment constituted an internal control design deficiency which resulted in more than a remote likelihood that a material error would not have been prevented or detected, and constituted a material weakness.



- iv) We did not have an audit committee or an independent audit committee financial expert. While not being legally obligated to have an audit committee or independent audit committee financial expert, it is the management's view that to have an audit committee, comprised of independent board members, and an independent audit committee financial expert is an important entity-level control over our financial statements.

We are currently reviewing our disclosure controls and procedures related to these material weaknesses and expect to implement changes as our financial situation allows, including identifying specific areas within our governance, accounting and financial reporting processes to add adequate resources and personnel to potentially mitigate these material weaknesses.

Our present management will continue to monitor and evaluate the effectiveness of our internal controls and procedures and our internal controls over financial reporting on an ongoing basis and are committed to taking further action and implementing additional enhancements or improvements, as necessary and as funds allow.

Because of its inherent limitations, internal control over financial reporting may not prevent or detect misstatements. Projections of any evaluation of effectiveness to future periods are subject to the risk that controls may become inadequate because of changes in conditions, or that the degree of compliance with the policies or procedures may deteriorate. All internal control systems, no matter how well designed, have inherent limitations. Therefore, even those systems determined to be effective can provide only reasonable assurance with respect to financial statement preparation and presentation.

There were no changes in our internal controls over financial reporting that occurred during the quarterly period ended March 31, 2013 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.**

From time to time, we may become involved in various lawsuits and legal proceedings which arise in the ordinary course of business. However, litigation is subject to inherent uncertainties and an adverse result in these or other matters may arise from time to time that may harm our business. To the best knowledge of management, there are no material legal proceedings pending against the Company.

### **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. Mine Safety Disclosures**

Not applicable.



**Item 5. Other Information.**

None.

**Item 6. Exhibits.****Exhibit Number Name**

3.1(1)	Articles of Incorporation, and all amendments thereto
3.2(2)	Bylaws
<u>31</u>	<u>Rule 13a-14(a)/15d-14(a) Certification (Principal Executive Officer and Principal Financial Officer)</u>
<u>32</u>	<u>Section 1350 Certifications</u>
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 the Quarterly Report on Form 10-Q/A, filed August 30, 2012.

(2) Incorporated by reference to Form 10-SB12G dated June 19, 1997.

\* 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: May 20, 2013

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

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