AMERICAN PETRO-HUNTER INC
Form 10-Q
September 11, 2013

UNITED STATES
SECURITIES AND EXCHANGE COMMISSION

Washington, D.C. 20549

FORM 10-Q

[X] QUARTERLY REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934

For the quarterly period ended: **June 30, 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	**90-0552874**
(State or Other Jurisdiction of Incorporation or Organization)	(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.
[X] 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)
[X] 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 (Do not check if smaller reporting company)	[X] 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 [X] 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 September 5, 2013
Common stock, $.001 par value	**63,465,597**

AMERICAN PETRO HUNTER INC.
FORM 10-Q

June 30, 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, variat 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 sometime 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

		(Unaudited) June 30, 2013		December 31, 2012
Assets				
Current assets:				
Cash	$	148	$	16,216
Accounts receivable		20,386		13,735
Total current assets		20,534		29,951
Investments in mineral properties, net of accumulated amortization of $167,675 and $132,499, respectively		1,590,328		1,582,324
Capitalized financing costs, net of amortization of $15,256 and $6,737, respectively		186,244		41,263
Total assets	$	1,797,106	$	1,653,538
Liabilities and Stockholders' Equity (Deficit)				
Current liabilities:				
Accounts payable and other liabilities	$	795,925	$	567,629
Short term note from officer		39,200		39,200
Note payable - current, net of discount of $26,250 and $0 at June 30, 2013 and December 31, 2012, respectively		78,750		-
Accrued interest		92,677		41,073
Derivative liability		17,396		559
Total current liabilities		**1,023,948**		**648,461**
Long term liabilities:				
Note payable, net of discount of $174,063 and $178,471 at June 30, 2013 and December 31, 2012, respectively		443,937		359,529
Convertible debenture		493,306		633,306
Total long term liabilities		937,243		992,835
Total liabilities		1,961,191		1,641,296
Stockholders' equity:				
Common stock, $0.001 par value, 200,000,000 shares authorized, 62,215,597 and 47,620,406 shares issued and outstanding as of June 30, 2013 and December 31, 2012, respectively		62,216		47,621
Common stock to be issued; 6,433,034 and 6,423,708 shares as of June 30, 2013 and December 31, 2012		6,434		6,424
Additional paid-in capital		14,230,611		13,731,097
Accumulated comprehensive gain (loss)		(12,131)		4,706
Accumulated deficit		(14,451,215)		(13,777,606)
Total stockholders' equity		(164,085)		12,242
Total liabilities and stockholders' equity	$	1,797,106	$	1,653,538

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

American Petro-Hunter, Inc.
Condensed Statements of Operations

	For the three months ended June 30, 2013	For the three months ended June 30, 2012	For the six months ended June 30, 2013	For the six months ended June 30, 2012
Revenue	$ 30,770	$ 72,954	$ 75,009	$ 187,677
Cost of Goods Sold				
Production and amortization	37,964	47,567	64,557	120,220
Gross profit	(7,194)	25,387	10,452	67,457
General and administrative	163,773	151,305	286,023	257,096
Executive compensation	51,000	76,000	102,000	361,000
Impairment expense	-	-	-	256,737
Total expenses	214,773	227,305	388,023	874,833
Net loss before other income (expense)	(221,967)	(201,918)	(377,571)	(807,376)
Other income (expense):				
Gain on forgiveness of debt	-	235,985	-	322,731
Interest expense	(172,442)	(75,115)	(296,038)	(460,704)
Total other income (expense)	(172,442)	160,870	(296,038)	(137,973)
Net loss before income taxes	(394,409)	(41,048)	(673,609)	(945,349)
Provision for income taxes	-	-	-	-
Net loss	(394,409)	(41,048)	(673,609)	(945,349)
Other comprehensive income (expense)	-	-	(16,837)	8,114
Comprehensive loss	$ (394,409)	$ (41,048)	$ (690,446)	$ (937,235)
Weighted average common shares outstanding - basic and fully diluted	56,673,089	46,656,635	52,505,980	40,196,644
Net loss per common share basic and fully diluted	$ (0.007)	$ (0.001)	$ (0.013)	$ (0.023)

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

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

	For the six months ended June 30, 2013	2012
Cash flows from operating activities		
Net (loss)	$ (673,609)	$ (945,349)
Adjustments to reconcile net (loss) to net cash used in operating activities:		
Shares issued for compensation	-	189,000
Amortization of discount	197,073	212,070
Impairment expense	-	256,737
Amortization of mineral properties	35,176	60,808
Amortization of prepaid financing costs	8,518	-
Stock and warrants issued for financing	704	-
Gain on forgiveness of debt	-	(322,731)
Changes in operating assets and liabilities:		
(Increase) decrease in accounts receivable	(6,651)	26,043
(Increase) decrease in prepaid expenses	-	39,812
Increase (decrease) in accounts payable and accrued liabilities	228,297	246,238
Increase (decrease) in accrued interest	51,604	142,447
Net cash used by operating activities	(158,888)	(94,925)
Cash flows from investing activities		
Proceeds from sale of mineral properties	-	106,000
Acquisition of mineral properties	(43,180)	(245,100)
Net cash used by investing activities	(43,180)	(139,100)
Cash flows from financing activities		
Short-term note from officer	-	39,200
Proceeds from sale of common stock	14,500	-
Proceeds from note payable	171,500	-
Proceeds from convertible debenture	-	198,000
Net cash provided by financing activities	186,000	237,200
Net increase (decrease) in cash	(16,068)	3,175
Cash - beginning	16,216	2,609
Cash - ending	$ 148	$ 5,784
Supplemental disclosures:		
Interest paid	$ 28,312	$ 43,750
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	$ -	$ 239,469
Note payable and accrued interest converted to stock	$ 130,000	$ 3,375,846

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

American Petro-Hunter Inc.
Notes to Condensed Financial Statements
June 30, 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 June 30, 2013, and the results of its operations and cash flows for the six months ended June 30, 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 six months ended June 30, 2013.

The results of operations for the six months ended June 30, 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 and six months ended June 30, 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 June 30, 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 six months ended June 30, 2013, the Company invested $43,180 in one investment of 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 six months ended June 30, 2013 and 2012, respectively. As of June 30, 2013 and December 31, 2012, the estimated fair value of mineral properties totaled $1,590,328 and $1,582,324, net of accumulated amortization of $167,675 and $132,499, respectively. As of June 30, 2013, the Company has total capitalized costs of mineral properties (gross) of $1,758,003; $1,103,205 in proved properties and $654,798 in unproved properties. As of 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 six months ended June 30, 2013 and 2012 was $35,176 and $60,808, 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 six months ended June 30, 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 six months ended June 30, 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:

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
June 30, 2013:				
Cash	$ 148	$ -	$ -	$ 148
Accounts receivable	-	20,386	-	20,386
Accounts payable and other liab.	-	(888,602)	-	(888,602)
Derivative liability	-	(17,396)	-	(17,396)
Notes payable, net of discount	-	(1,055,193)	-	(1,055,193)
December 31, 2012:				
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 June 30, 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 six months ended June 30, 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 six months ended June 30, 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 June 30, 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.