

AMERICAN PETRO-HUNTER INC

Form 10-K

March 29, 2012

**UNITED STATES SECURITIES AND EXCHANGE COMMISSION**

**Washington, D.C. 20549**

**FORM 10-K**

x ANNUAL REPORT UNDER SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934  
**For the fiscal year ended December 31, 2011**

“TRANSITION REPORT UNDER SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934  
**Commission File Number 000-22723**

**AMERICAN PETRO-HUNTER INC.**

(Name of registrant as specified in its charter)

Nevada 98-0171619  
(State or Other Jurisdiction of (I.R.S. Employer  
Incorporation or Organization) Identification Number)

17470 North Pacesetter Way  
Scottsdale, AZ 85255  
(Address of Principal Executive Offices) (Zip Code)

**(480) 305-2052**

(Registrant's telephone number)

Securities registered pursuant to Section 12(b) of the Act:

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None                      None  
(Title of each class)    (Name of each exchange on which registered)

Securities registered pursuant to Section 12(g) of the Act:

**Common Stock, \$0.001 par value**

(Title of class)

Indicate by check mark if the registrant is a well-known seasoned issuer, as defined in Rule 405 of the Securities Act.

YES  NO

Indicate by check mark if the registrant is not required to file reports pursuant to Section 13 or Section 15(d) of the Act.

YES  NO

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 if disclosure of delinquent filers pursuant to Item 405 of Regulation S-K is not contained herein, and will not be contained, to the best of registrant's knowledge, in definitive proxy or information statements incorporated by reference in Part III of this Form 10-K or any amendment to this Form 10-K.

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

Large accelerated filer                       Accelerated filer   
Non-accelerated filer  (do not check if smaller reporting company)    Smaller reporting company

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

YES  NO

The aggregate market value of the voting stock held by non-affiliates of the Registrant as of June 30, 2011 was \$14,001,243.18 (computed by reference to the last sale price of a share of the registrant's common stock on that date as reported by the Over the Counter Bulletin Board). For purposes of this computation, it has been assumed that the shares beneficially held by directors and officers of registrant were "held by affiliates"; this assumption is not to be deemed to be an admission by such persons that they are affiliates of registrant.

As of March 27, 2012, there were outstanding 45,151,594 shares of registrant's common stock, par value \$0.001 per share.

#### **DOCUMENTS INCORPORATED BY REFERENCE**

Exhibits incorporated by reference are referred under Part IV.

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## **PART I**

### **ITEM 1 — BUSINESS**

#### **Background**

We are an oil and natural gas exploration and production (E&P) company with current projects in Kansas and Oklahoma. As of March 15, 2012, we have two producing wells in Kansas and six producing wells in Oklahoma. We also have rights for the exploration and production of oil and gas on an aggregate of approximately 6,230 acres in those states. This includes our core assets with rights to explore on 2,000 acres in Oklahoma, near the town of Ripley on the North Oklahoma Mississippi Project and a forty percent (40%) working interest in 3,000 acres in south-central Oklahoma (the “South Oklahoma Lease”).

Typically, our interest in a well arises from a contract with another entity pursuant to which we provide financial support for certain costs incurred in the exploration and development of a project, which may include land costs, seismic or other exploration, and test drilling. In exchange, we typically receive an interest in the proceeds from the project’s production.

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

#### Producing Wells

*Poston Oil Project* - On May 4, 2009, we entered into a binding Letter of Intent with S&W Oil & Gas, LLC (“S&W”) to acquire a 25% working interest and 81.5% net revenue interest on all commercial production in the 750-acre Poston Prospect #1 Lutters oilfield in Southwest Trego County, Kansas. On June 16, 2009, the #1 Lutters Well was completed at a total depth of 4,400 feet, encountering both oil and gas over a 46 foot interval. Oil production on the #1 Lutters Well began on June 18, 2009, with current production of six barrels per day. On July 1, 2010 we announced completion of the #3 Lutters Well and on July 14, 2010, we announced that the #3 Lutters Well had begun production. The current daily rate of the #3 Lutters Well is six barrels per day. Collectively, 12 barrels per day is going into the tanks for sale.

Subsequent to our fiscal year ended December 31, 2011, on February 23, 2012, due to an increase in costs of water haulage for disposal that was affecting the net revenue to the lease and a desire to focus on the planned wells and development of our Oklahoma leases, we sold 75% of our 25% working interest in the Poston Prospect for \$65,000.

*North Oklahoma Project (North Oklahoma Woodford “Yale” and North Oklahoma Mississippi “Ripley” Projects)*  
- On April 21, 2010, we entered into an operating agreement with Bay Petroleum Corp. (“Bay”) to participate in the drilling for oil in northern Oklahoma (the “Prospect”). Pursuant to such operating agreement, we agreed to pay to Bay \$52,125 for all costs in connection with the acquisition and operation of the Prospect, up to the drilling of an initial test well, in exchange for a 25% working interest and 80% net revenue interest in the Prospect. We are also responsible for 25% of all expenditures in connection with the development and operation of the Prospect for drilling.

On June 1, 2010, we announced that the No. 1 well had been put into production. The current daily rates are at the eight barrels per day level, with water in the 100 barrel range or approximately 8% oil cut. On September 21, 2010, we announced that drilling commenced on the NOJ26 well at the Prospect. On July 14, 2010, we announced that the NOJ26 Well had begun production. The cost of water haulage became prohibitive and the well was shut in for a period of two months while a disposal well was permitted. The well is now averaging six barrels per day of production and the Company owns a 50% Working Interest.

On January 4, 2011, we announced plans to drill the NOS227 Well as a direct offset to the NOJ26 Well. On March 15, 2011, we announced that the well had reached a total depth of 3,820 feet and was to be completed as an oil well. After testing and a large, multi-stage surge frack, the well did not respond favorably as we believe we fracked into a fault containing considerable water. The future of the well is being analyzed and plans to attempt additional work are being discussed.

On June 29, 2011, we announced that NOS122, a re-entry project where the well bore and casing was opened and cleaned, had begun commercial production. Inaugural loads of oil began shipping in July and current production at the NOS122 is eight barrels per day. As a frack is required to maximize the oil production, engineering has deemed it to be risky to do so in a 30 year old well bore. It has been decided to drill an 80 acre offset with a new well bore and undertake the frack test in the new well. This well is planned for the second quarter of 2012. The well has been designated NOS222. We estimate that our expenses associated with drilling and completing NOS222 will be approximately \$250,000.

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. After an initial flush of oil production and initial production rates over 200 barrels per day, the well declined to 25 barrels per day and it was deemed that a frack was required. This occurred in September 2011 and the frack load has been 50% recovered and we saw a double to the daily rate to 60 barrels per day. The well has declined and stabilized between 25-35 barrels per day and 100 MCF gas. As this was the first horizontal well drilled, subsequent drilling has shown that the preferred completion methods involve the installation of a submersible pump immediately after the frack of the well. All future wells will have this procedure implemented.

On July 18, 2011, we announced drilling plans for a total of 11 horizontal wells at the North Oklahoma Project. As of March 2012, there are nine locations left to drill on the acreage. The current drilling schedule, which includes direct offsets, involves drilling one horizontal well approximately every 90 days. Our experience has shown that the time to drill, complete, implement large frack, recover the fluids and begin oil sales involves a minimum of 90 days. We expect to drill a minimum of two additional horizontal wells on the North Oklahoma leases in May and August, 2012.

On July 27, 2012 we announced the NOW2H, an 80 acre offset to NOM1H. On September 6, 2011, we announced the spud of the NOW2H well. Following a successful drilling of 800 feet of horizontal lateral, excellent oil and gas shows warranted the well to be completed. Two productive zones are present in the well. Initial production from the Mississippi was followed by a frack of the 20 feet of oil filled sand behind pipe. This procedure is now finished and we are awaiting full production results. On November 7, 2011, we announced that the well had commenced commercial oil and gas production and the daily production before the sand frack was approximately 14 barrels per day.

Subsequent to our fiscal year ended December 31, 2011, 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 producing 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 well underwent a frack and the installation of a submersible pump. The NOM3H began commercial oil and gas production on March 7, 2012, with initial production rates over 200 barrels per day and 400 MCF gas. The well is currently being evaluated to determine the final stable rate after the frack load is fully pumped. The newly designed and implemented completion method appears to have been successful and all further wells will undergo a similar procedure. In 2012, we have plans to develop three additional wells on the North Oklahoma Project.

#### Exploration and Prospects

*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 oil and gas wells.

On March 16, 2012 we announced plans to spud the first well on the South Oklahoma Project, designated SOM-1H. The well has a planned 2,500 foot lateral and following the frack, is expected to generate revenue by May 2012.

The South Oklahoma Project covers Mississippi lime targets which, through sub-surface geological mapping and engineering, show targets analogous to the recently discovered oil and gas reservoir now being exploited at the North Oklahoma Project, which would offer considerable drilling opportunities. We have plans to develop three additional wells on the South Oklahoma Project during 2012.

*Colby Prospect* - In 2009, we entered into a binding Letter of Intent with S&W to participate in the drilling for oil in the Colby Prospect located in Thomas County, Kansas. The 500 acre block has a well-defined 3D seismic anomaly that includes seven potential zones to be tested. If a successful commercial well is established, S&W will assign 25% of the working interest and 81.5% net revenue interest in the Prospect to us. In 2009 we drilled an initial well at the Colby Prospect which successfully encountered oil and gas in the target horizons, but did not encounter adequate reservoirs in order to complete the well as a commercial producer. No work is planned on the lease in 2012.

*Archer Project* - In 2009 we also entered into two Participation Agreements with Archer Exploration, Inc. ("Archer") to participate in the drilling for natural gas on prospects located in Stanislaus County and Sacramento County in California. We have engaged in seismic evaluations to determine if a test well is viable on this prospect. We continue to evaluate the properties and believe they have the potential to support producing wells. A seismic line may be undertaken in the summer of 2012 which is required to ensure the closure of the gas reservoir. If such work is not conducted this year the leases will revert back to the land owner.

#### Customers

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

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

## **Competition**

Competition in the oil and gas industry is intense. Producing properties and undeveloped acreage are in high demand and we compete for such properties, and the equipment and labor required to develop and operate them, against independent oil and gas companies, drilling and production purchase programs and individual producers and operators. Many industry competitors have exploration and development budgets substantially greater than ours, potentially reducing our ability to compete for desirable properties. To compete effectively, we maintain a disciplined approach to selecting property acquisition and development opportunities.

## **Our Strategy**

Our focus is currently in locating and assessing potential acquisition targets, including real property, oil and gas rights and oil and gas companies. We will focus primarily on oil and gas properties within the U.S. and Canada including exploration, secondary recovery and development projects. Each project will be evaluated by our management based on sound geology, acceptable risk levels and total capital requirements to develop. Our officers and directors expect to travel to different locations throughout North America to evaluate potential acquisitions. Further, our management will participate in a variety of different conferences throughout 2012 to increase our exposure to potential opportunities.

Our ability to execute our strategy as outlined above is dependent on several factors including but not limited to: (i) identifying potential acquisitions of either assets or operational companies with prices, terms and conditions acceptable to us; (ii) additional financing for capital expenditures, acquisitions and working capital either in the form of equity or debt with terms and conditions that would be acceptable to us; (iii) our success in developing revenue, profitability and cash flow; (iv) the development of successful strategic alliances or partnerships; and (v) the extent and associated efforts and costs of federal, state and local regulations in each of the industries in which we currently or plan to operate in. There are no assurances that we will be successful in implementing our strategy as any negative result of one of the factors alone or in combination could have a material adverse effect on our business.

## **Employees**

As of December 31, 2011, we had no employees. Our President, Robert McIntosh, devotes a significant portion of his time to operating and growing our Company, with part-time assistance from our other two directors. We currently utilize temporary contract labor throughout the year to address business and administrative needs.

## **Environmental Regulation**

Oil and gas operations are subject to country-specific federal, state, and local laws relating to the protection of the environment, including laws regulating removal of natural resources from the ground and the discharge of materials into the environment. Various permits from governmental bodies are required for drilling operations to be conducted. Numerous governmental departments issue rules and regulations to implement and enforce such laws that are often complex and costly to comply with and that carry substantial administrative, civil and possibly criminal penalties for failure to comply. Under these laws and regulations, we may be liable for remediation or removal costs, damages and other costs associated with releases of hazardous materials (including oil) into the environment, and such liability may be imposed on us even if the acts that resulted in the releases were in compliance with all applicable laws at the time such acts were performed.

The Comprehensive Environmental Response, Compensation, and Liability Act (“CERCLA”) contains provisions requiring the remediation of releases of hazardous substances into the environment and imposes liability, without regard to fault or the legality of the original conduct, on certain classes of persons including owners and operators of contaminated sites where the release occurred and those companies who transport, dispose of, or arrange for disposal of hazardous substances released at the sites. Under CERCLA, such persons may be subject to joint and several liability for the costs of cleaning up the hazardous substances that have been released into the environment, for damages to natural resources and for the costs of certain health studies. Third parties may also file claims for personal injury and property damage allegedly caused by the release of hazardous substances. Although we handle hazardous substances in the ordinary course of business, we are not aware of any hazardous substance contamination for which we may be liable.

Management believes that we are in compliance in all material respects with the applicable environmental laws and regulations to which we are subject. We do not anticipate that compliance with existing environmental laws and regulations will have a material effect upon our capital expenditures, earnings or competitive position. To date, we have not been required to spend any material amount on compliance with environmental regulations. However, changes in the environmental laws and regulations, or claims for damages to persons, property, natural resources or the environment, could result in substantial costs and liabilities, and thus there can be no assurance that we will not incur significant environmental compliance costs in the future.

## ITEM 1A — RISK FACTORS

*With the exception of historical facts stated herein, the matters discussed in this report on Form 10-K are “forward looking” statements that involve risks and uncertainties that could cause actual results to differ materially from projected results. Such “forward looking” statements include, but are not necessarily limited to statements regarding anticipated levels of future revenues and earnings from the operations of American Petro-Hunter Inc. and its subsidiaries, (the “Company,” “we,” “us” or “our”), projected costs and expenses related to our operations, liquidity, capital resources, and availability of future equity capital on commercially reasonable terms. Factors that could cause actual results to differ materially are discussed below. We disclaim any intent or obligation to publicly update these “forward looking” statements, whether as a result of new information, future events or otherwise.*

### **Risks Relating to Our Business**

**We have a history of losses which may continue, which may negatively impact our ability to achieve our business objectives.**

We have an accumulated deficit of \$10,474,470 for the period from January 24, 1996 (inception) to December 31, 2011. We cannot be assured that we can achieve or sustain profitability on a quarterly or annual basis in the future. Our operations are subject to the risks and competition inherent in the establishment of a business enterprise. There can be no assurance that future operations will be profitable. We may not achieve our business objectives and the failure to achieve such goals would have an adverse impact on us.

**If we are unable to obtain additional funding our business operations will be harmed and if we do obtain additional financing our then existing shareholders may suffer substantial dilution.**

We will require additional funds to expand our oil and gas exploration activities, and to take advantage of any available business opportunities. Historically, we have financed our expenditures primarily with proceeds from the sale of debt and equity securities, bridge loans from our officers and stockholders and proceeds from our producing wells. The proceeds from our operations are currently insufficient to fully meet our obligations or enable us to carry out our business plan, so we will have to raise additional funds. Obtaining additional financing will be subject to market conditions, industry trends, investor sentiment and investor acceptance of our business plan and management. These factors may make the timing, amount, terms and conditions of additional financing unattractive or unavailable to us. If we are not successful in achieving financing in the amount necessary to further our operations, implementation of our business plan may fail or be delayed.

**Our independent auditors have expressed substantial doubt about our ability to continue as a going concern, which may hinder our ability to obtain future financing.**

In their report dated March 28, 2012, our independent auditors stated that our financial statements for the fiscal year ended December 31, 2011 were prepared assuming that we would continue as a going concern. Our ability to continue as a going concern is an issue raised as a result of recurring losses from operations. We continue to experience net operating losses. Our ability to continue as a going concern is subject to our ability to obtain necessary funding from outside sources, including obtaining additional funding from the sale of our securities. Our continued net operating losses increase the difficulty in meeting such goals and there can be no assurances that such methods will prove successful.

**We have a limited operating history and if we are not successful in growing our business, then we may have to scale back or even cease our ongoing business operations.**

We have yet to generate positive earnings from our current business strategy and there can be no assurance that we will ever operate profitably. Our Company has a limited operating history in the business of oil and gas exploration and must be considered in the development stage. Our success significantly depends on successful acquisition and subsequent exploration activities. Our operations will be subject to all the risks inherent in the establishment of a developing enterprise and the uncertainties arising from the absence of a significant operating history. We may be unable to locate recoverable reserves or operate on a profitable basis. We are in the development stage and potential investors should be aware of the difficulties normally encountered by enterprises in the development stage. If our business plan is not successful, and we are not able to operate profitably, investors may lose some or all of their investment in our Company.

**We are subject to corporate governance and internal control reporting requirements, and our costs related to compliance with, or our failure to comply with existing and future requirements, could adversely affect our business.**

We are subject to the corporate governance requirements of the Sarbanes-Oxley Act of 2002, as well as new rules and regulations subsequently adopted by the SEC and the Public Company Accounting Oversight Board. These laws, rules and regulations continue to evolve and may become increasingly stringent in the future. We are required to evaluate our internal control over financial reporting under Section 404 of the Sarbanes-Oxley Act of 2002 (“Section 404”). We are a non-accelerated filer as defined in Rule 12b-2 under the Securities Exchange Act of 1934, as amended. Section 404 requires us to include an internal control report with our Annual Report on Form 10-K. That report must include management’s assessment of the effectiveness of our internal control over financial reporting as of the end of the fiscal year. This report must also include disclosure of any material weaknesses in internal control over financial reporting that we have identified. Failure to comply, or any adverse results from such evaluation could result in a loss of investor confidence in our financial reports and have an adverse effect on the trading price of our securities. We strive to continuously evaluate and improve our control structure to help ensure that we comply with Section 404 of the Sarbanes-Oxley Act. The financial cost of compliance with these laws, rules and regulations is expected to remain substantial. We cannot assure you that we will be able to fully comply with these laws, rules and regulations that address corporate governance, internal control reporting and similar matters. Failure to comply with these laws, rules and regulations could materially adversely affect our reputation, financial condition and the value of our securities.

### ***Risks Related to our Oil and Gas Exploration***

**Our operating revenue is dependent upon the performance of our properties.**

Our operating revenue depends upon our ability to profitably operate our existing properties by drilling and completing wells that produce commercial quantities of oil and gas and our ability to expand our operations through the successful implementation of our plans to explore, acquire and develop additional properties. The successful development of oil and gas properties requires an assessment of potential recoverable reserves, future oil and gas prices, operating costs, potential environmental and other liabilities and other factors. Such assessments are necessarily inexact. No assurance can be given that we can produce sufficient revenue to operate our existing properties or acquire additional oil and gas producing properties and leases. We may not discover or successfully produce any recoverable reserves in the future, or we may not be able to make a profit from the reserves that we may discover. In the event that we are unable to produce sufficient operating revenue to fund our operations, we will be forced to seek additional, third-party funding, if such funding can be obtained. Such options would possibly include debt financing, sale of equity interests in our Company, joint venture arrangements, or the sale of oil and gas interests. If we are unable to secure such financing on a timely basis, we could be required to delay or scale back our operations. If such unavailability of funds continued for an extended period of time, this could result in the termination of our operations and the loss of an investor’s entire investment.

**We own rights to oil properties that have not yet been developed.**

We own rights to oil and gas properties that have limited or no development. There are no guarantees that our properties will be developed profitably or that the potential oil and gas resources on the property will produce as expected if they are developed.

**Title to the properties in which we have an interest may be impaired by title defects.**

Our general policy is to obtain title opinions on significant properties that we drill or acquire. However, there is no assurance that we will not suffer a monetary loss from title defects or title failure. Additionally, undeveloped acreage has greater risk of title defects than developed acreage. Generally, under the terms of the operating agreements affecting our properties, any monetary loss is to be borne by all parties to any such agreement in proportion to their interests in such property. If there are any title defects or defects in assignment of leasehold rights in properties in which we hold an interest, we will suffer a financial loss.

**We are subject to risks arising from the failure to fully identify potential problems related to acquired reserves or to properly estimate those reserves.**

Although we perform a review of the acquired properties that we believe is consistent with industry practices, such reviews are inherently incomplete. It generally is not feasible to review in depth every individual property involved in each acquisition. Ordinarily, we will focus our review efforts on the higher-value properties and will sample the remainder, and depend on the representations of previous owners. However, even a detailed review of records and properties may not necessarily reveal existing or potential problems, nor will it permit a buyer to become sufficiently familiar with the properties to assess fully their deficiencies and potential. Inspections may not always be performed on every well, and environmental problems, such as ground water contamination, are not necessarily observable even when an inspection is undertaken. Even when problems are identified, we often assume certain environmental and other risks and liabilities in connection with acquired properties. There are numerous uncertainties inherent in estimating quantities of proved oil reserves and actual future production rates and associated costs with respect to acquired properties, and actual results may vary substantially from those assumed in the estimates.

**If we are unable to successfully recruit qualified managerial and field personnel having experience in oil and gas exploration, we may not be able to execute on our business plan.**

In order to successfully implement and manage our business plan, we will be dependent upon, among other things, successfully recruiting qualified managerial and field personnel having experience in the oil and gas exploration business. Competition for qualified individuals is intense. There can be no assurance that we will be able to find, attract and retain existing employees or that we will be able to find, attract and retain qualified personnel on

acceptable terms.

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**Even if we are able to discover and produce oil or natural gas, the potential profitability of oil and gas ventures depends upon factors beyond the control of our Company.**

The potential profitability of oil and gas properties is dependent upon many factors beyond our control. For instance, world prices and markets for oil and gas are unpredictable, highly volatile, potentially subject to governmental fixing, pegging, controls or any combination of these and other factors, and respond to changes in domestic, international, political, social and economic environments. Additionally, due to worldwide economic uncertainty, the availability and cost of funds for production and other expenses have become increasingly difficult, if not impossible, to project. These changes and events may materially affect our future financial performance. These factors cannot be accurately predicted and the combination of these factors may result in our Company not receiving an adequate return on invested capital.

**Drilling for oil and gas involves inherent risks that may adversely affect our results of operations and financial condition.**

Drilling for oil and gas involves numerous risks, including the risk that we will not encounter commercially productive oil and gas reservoirs. The wells we drill or participate in may not be productive and we may not recover all or any portion of our investment in those wells. The seismic data and other technologies we use do not allow us to know conclusively prior to drilling a well that crude or natural gas is present or may be produced economically. The costs of drilling, completing and operating wells are often uncertain, and drilling operations may be curtailed, delayed or canceled as a result of a variety of factors including, but not limited to:

- unexpected drilling conditions;
- pressure or irregularities in formations;
- equipment failures or accidents;
- mechanical difficulties, such as lost or stuck oil field drilling and service tools;
- fires, explosions, blowouts and surface cratering;
- uncontrollable flows of oil and formation water;

environmental hazards, such as oil spills, pipeline ruptures and discharges of toxic gases;

other adverse weather conditions; and

increase in the cost of, or shortages or delays in the availability of, drilling rigs and equipment.

Certain future drilling activities may not be successful and, if unsuccessful, this failure could have an adverse effect on our future results of operations and financial condition. While all drilling, whether developmental or exploratory, involves these risks, exploratory drilling involves greater risks of dry holes or failure to find commercial quantities of hydrocarbons.

**Our oil and gas operations involve substantial costs and are subject to various economic risks.**

Our oil and gas operations are subject to the economic risks typically associated with exploration, development and production activities, including the necessity of significant expenditures to locate and acquire producing properties and to drill exploratory wells. The cost and length of time necessary to produce any reserves may be such that it will not be economically viable. In conducting exploration and development activities, the presence of unanticipated pressure or irregularities in formations, miscalculations or accidents may cause our exploration, development and production activities to be unsuccessful. In addition, the cost and timing of drilling, completing and operating wells is often uncertain. We also face the risk that the oil and gas reserves may be less than anticipated, that we will not have sufficient funds to successfully drill on the property, that we will not be able to market the oil and gas due to a lack of a market and that fluctuations in the prices of oil will make development of those leases uneconomical. This could result in a total loss of our investment.

**A substantial or extended decline in oil and gas prices may adversely affect our business, financial condition, cash flow, liquidity or results of operations as well as our ability to meet our capital expenditure obligations and financial commitments to implement our business plan.**

Any revenues, cash flow, profitability and future rate of growth we achieve will be greatly dependent upon prevailing prices for oil and gas. Our ability to maintain or increase our borrowing capacity and to obtain additional capital on attractive terms is also expected to be dependent on oil and gas prices. Historically, oil and gas prices and markets have been volatile and are likely to continue to be volatile in the future. Prices for oil and gas are subject to potentially wide fluctuations in response to relatively minor changes in supply of and demand for oil and gas, market uncertainty, and a variety of additional factors beyond our control. Those factors include:

- the domestic and foreign supply of oil and natural gas;

- the ability of members of the Organization of Petroleum Exporting Countries and other producing countries to agree upon and maintain oil prices and production levels;

- political instability, armed conflict or terrorist attacks, whether or not in oil or natural gas producing regions;

- the level of consumer product demand;

- the growth of consumer product demand in emerging markets, such as China and India;

- weather conditions, including hurricanes and other natural occurrences that affect the supply and/or demand of oil and natural gas;

- domestic and foreign governmental regulations and other actions;

- the price and availability of alternative fuels;

- the price of foreign imports;

- the availability of liquid natural gas imports; and

- worldwide economic conditions.

These external factors and the volatile nature of the energy markets make it difficult to estimate future prices of oil and natural gas. Lower oil and natural gas prices may not only decrease our revenues on a per unit basis, but may also reduce the amount of oil we can produce economically, if any. A substantial or extended decline in oil and natural gas prices may materially affect our future business, financial condition, results of operations, liquidity and borrowing capacity. While our revenues may increase if prevailing oil and gas prices increase significantly, exploration and production costs and acquisition costs for additional properties and reserves may also increase.

**Competition in the oil and gas industry is highly competitive and there is no assurance that we will be successful in acquiring viable leases.**

The oil and gas industry is intensely competitive. We compete with numerous individuals and companies, including many major oil and gas companies which have substantially greater technical, financial and operational resources and staffs. Accordingly, there is a high degree of competition for desirable oil and gas leases, suitable properties for drilling operations and necessary drilling equipment, as well as for access to funds. We cannot predict if the necessary funds can be raised or that any projected work will be completed.

**Oil and gas operations are subject to comprehensive regulation which may cause substantial delays or require capital outlays in excess of those anticipated causing an adverse effect on our Company ..**

Oil and gas operations are subject to country-specific federal, state, and local laws relating to the protection of the environment, including laws regulating removal of natural resources from the ground and the discharge of materials into the environment. Oil and gas operations are also subject to country-specific federal, state, and local laws and regulations which seek to maintain health and safety standards by regulating the design and use of drilling methods and equipment. Various permits from governmental bodies are required for drilling operations to be conducted and no assurance can be given that such permits will be received. Environmental standards imposed by federal, state, provincial, or local authorities may be changed and any such changes may have material adverse effects on our activities. Moreover, compliance with such laws may cause substantial delays or require capital outlays in excess of those anticipated, thus causing an adverse effect on us. Additionally, we may be subject to liability for pollution or other environmental damages. To date, we have not been required to spend any material amount on compliance with environmental regulations. However, we may be required to do so in the future and this may affect our ability to expand or maintain our operations.

**The unavailability or high cost of drilling rigs, equipment, supplies, personnel and oil field services could adversely affect our ability to execute our exploration and development plans on a timely basis and within our budget.**

Our industry is cyclical and, from time to time, there is a shortage of drilling rigs, equipment, supplies or qualified personnel. During these periods, the costs and delivery times of rigs, equipment and supplies are substantially greater. In addition, the demand for, and wage rates of, qualified drilling rig crews rise as the number of active rigs in service increases. As a result of increasing levels of exploration and production in response to strong prices of oil and natural gas, the demand for oilfield services and equipment has risen, and the costs of these services and equipment are increasing. If the unavailability or high cost of drilling rigs, equipment, supplies or qualified personnel were particularly severe in areas where we operate, we could be materially and adversely affected.

**We depend on the skill, ability and decisions of third party operators to a significant extent.**

The success of the drilling, development and production of the oil properties in which we have or expect to have a working interest is substantially dependent upon the decisions of such third-party operators and their diligence to comply with various laws, rules and regulations affecting such properties. The failure of any third-party operator to make decisions, perform their services, discharge their obligations, deal with regulatory agencies, and comply with laws, rules and regulations, including environmental laws and regulations in a proper manner with respect to properties in which we have an interest could result in material adverse consequences to our interest in such

properties, including substantial penalties and compliance costs. Such adverse consequences could result in substantial liabilities to us or reduce the value of our properties, which could negatively affect our results of operations.

**Exploration and production activities are subject to certain environmental regulations which may prevent or delay the commencement or continuation of our operations.**

In general, our exploration and production activities are subject to certain country-specific federal, state and local laws and regulations relating to environmental quality and pollution control. Such laws and regulations increase the costs of these activities and may prevent or delay the commencement or continuation of a given operation. Compliance with these laws and regulations has not had a material effect on our operations or financial condition to date. Specifically, we will be subject to legislation regarding emissions into the environment, water discharges and storage and disposition of hazardous wastes. In addition, legislation has been enacted which requires well and facility sites to be abandoned and reclaimed to the satisfaction of U.S. state authorities. However, such laws and regulations are frequently changed and we are unable to predict the ultimate cost of compliance. Generally, environmental requirements do not appear to affect us any differently or to any greater or lesser extent than other companies in the industry. We believe that our current operations comply, in all material respects, with all applicable environmental regulations.

***Risks Related to our Common Stock***

**Our common stock may be subject to the penny stock rules which may make it more difficult to sell our common stock.**

The Securities and Exchange Commission has adopted regulations which generally define a “penny stock” to be any equity security that has a market price, as defined, less than \$5.00 per share or an exercise price of less than \$5.00 per share, subject to certain exceptions. Our securities may be covered by the penny stock rules, which impose additional sales practice requirements on broker-dealers who sell to persons other than established customers and accredited investors such as, institutions with assets in excess of \$5,000,000 or an individual with net worth in excess of \$1,000,000 or annual income exceeding \$200,000 or \$300,000 jointly with his or her spouse. For transactions covered by this rule, the broker-dealers must make a special suitability determination for the purchase and receive the purchaser’s written agreement of the transaction prior to the sale. Consequently, the rule may affect the ability of broker-dealers to sell our securities and also affect the ability of our stockholders to sell their shares in the secondary market.

**FINRA sales practice requirements may also limit a shareholder's ability to buy and sell our stock.**

In addition to the "penny stock" rules described above, FINRA has adopted rules that require that in recommending an investment to a customer, a broker-dealer must have reasonable grounds for believing that the investment is suitable for that customer. Prior to recommending speculative low priced securities to their non-institutional customers, broker-dealers must make reasonable efforts to obtain information about the customer's financial status, tax status, investment objectives and other information. Under interpretations of these rules, FINRA believes that there is a high probability that speculative low priced securities will not be suitable for at least some customers. The FINRA requirements make it more difficult for broker-dealers to recommend that their customers buy our Common Stock, which may limit your ability to buy and sell our stock and have an adverse effect on the market for our Common Stock.

**We have historically not paid dividends and do not intend to pay dividends.**

We have historically not paid dividends to our stockholders and management does not anticipate paying any cash dividends on our common stock to our stockholders for the foreseeable future. We intend to retain future earnings, if any, for use in the operation and expansion of our business.

**A limited public trading market exists for our common stock, which makes it more difficult for our stockholders to sell their common stock in the public markets.**

Although our common stock is quoted on the OTCBB under the symbol "AAPH," there is a limited public market for our common stock. No assurance can be given that an active market will develop or that a stockholder will ever be able to liquidate its shares of common stock without considerable delay, if at all. Many brokerage firms may not be willing to effect transactions in the securities. Even if a purchaser finds a broker willing to effect a transaction in these securities, the combination of brokerage commissions, state transfer taxes, if any, and any other selling costs may exceed the selling price. Furthermore, our stock price may be impacted by factors that are unrelated or disproportionate to our operating performance. These market fluctuations, as well as general economic, political and market conditions, such as recessions, interest rates or international currency fluctuations may adversely affect the market price and liquidity of our common stock.

**ITEM 1B — UNRESOLVED STAFF COMMENTS**

None.

## ITEM 2 — PROPERTIES

### *Facilities*

Our corporate headquarters are located at 17470 North Pacesetter Way, Scottsdale, AZ 85255.

### *Reserves*

As of the end of the 2011 fiscal year, the Company has no proved reserves.

### *Production, Production Prices and Production Costs*

Sales of oil during the 2011 fiscal year amounted to \$298,390 for 3,834.50 barrels at an average price of \$77.82 per barrel and at an average production cost per barrel of \$16.50. Sales of oil during the 2010 fiscal year amounted to \$92,754 for 1,446 barrels at an average price of \$70.03 per barrel and at an average production cost per barrel of \$10. Sales of oil during the 2009 fiscal year amounted to \$77,728 for 1,242 barrels at an average price of \$62.58 per barrel and at an average production cost per barrel of \$10.54. Production costs are expected to increase as production increases. Prior to the 2009 fiscal year we had not had any oil production. All of our oil production has occurred in the United States.

Sales of gas during the 2011 fiscal year amounted to \$19,541 for 602.1 barrels of oil equivalent (BOE), based upon a 6:1 ratio of MCF gas to barrels of oil, at an average price of \$32.45 per BOE and at an average production cost per BOE of \$2.46. Production costs are expected to increase as production increases. Prior to the 2011 fiscal year we had not had any gas production. All of our gas production has occurred in the United States.

### *Past and Present Development Activities*

During the 2011 fiscal year we drilled five exploratory wells in the United States, of which three were net productive and two did not contain sufficient volumes to warrant completion for commercial production. We did not drill any development wells during the 2011 fiscal year. As of the end of the 2011 fiscal year, no additional wells were being drilled. During the 2010 fiscal year we drilled seven exploratory wells in the United States, of which three were net productive and four did not contain sufficient volumes to warrant completion for commercial production. We did not drill any development wells during the 2010 fiscal year. During the 2009 fiscal year we drilled six exploratory wells in

the United States, of which two were net productive, one of which is not currently in commercial production, and four did not contain sufficient volumes to warrant completion for commercial production. We did not drill any development wells during the 2009 fiscal year.

*Delivery Commitments*

On January 4, 2010, we entered into an oil purchase contract with the National Co-op Refinery Association of McPherson Kansas to purchase all production at the Lutters lease at a premium to Kansas common oil prices of \$3.85 per barrel above the daily price. This price premium reflects the quality of the 44 degree oil being produced at Lutters.

*Properties, Wells, Operations, Acreage and Current Activities*

The following table sets forth our interest in wells and acreage as of December 31, 2011.

|     | Number of Productive Wells |         | Developed Acreage (3) |         | Undeveloped Acreage |         |
|-----|----------------------------|---------|-----------------------|---------|---------------------|---------|
|     | Gross (1)                  | Net (2) | Gross (1)             | Net (2) | Gross (1)           | Net (2) |
| Oil | 7                          | 2.10    | 1,280                 | 87.6    | 6,190               | 860     |
| Gas | 0                          | 0       | 0                     | 0       | 1,040               | 260     |

(1) A gross well or acre is a well or acre in which we own an interest.

(2) A net well or acre is deemed to exist when the sum of fractional ownership interests in wells or acres equals 1.

(3) Developed acreage is acreage assignable to productive wells.

As of December 31, 2011, our acreage subject to leases has the minimum remaining lease terms set forth in the following table.

| Property                                     | Gross Acreage | Net Acreage | Minimum Remaining Lease Terms |
|--|---------------|-------------|-------------------------------|
| Trego County, KS (Poston Prospect)           | 750           | 152.8       | Held by production            |
| Payne County, OK (Bay Ripley Prospect)       | 1,200         | 208         | 2.5 Years                     |
| Thomas County, KS (Colby Prospect)           | 500           | 101.9       | 2 months                      |
| Sacramento County, CA (Wurster Gas Project)  | 1,040         | 260         | 6 months                      |
| Payne County, OK (Bay Yale Prospect)         | 960           | 480         | 2.5 years                     |
| South Oklahoma, OK (South Oklahoma Prospect) | 3,000         | 1,200       | 3 years                       |

All of our oil and gas interests and acreage are located in, and all of our drilling and other development activities have occurred in, the United States.

### **ITEM 3 — LEGAL PROCEEDINGS**

None.

### **ITEM 4 — MINE SAFETY DISCLOSURES**

Not applicable.

## **PART II**

### **ITEM 5 — MARKET FOR REGISTRANT'S COMMON EQUITY, RELATED STOCKHOLDER MATTERS AND ISSUER PURCHASES OF EQUITY SECURITIES**

#### **Market Information**

Our common stock is traded on the Over the Counter Bulletin Board under the symbol AAPH.

The following is the range of high and low bid prices for our common stock for the periods indicated. The quotations reflect inter-dealer prices, without retail mark-up, mark-down or commissions and may not represent actual transactions.

| Fiscal 2011                        | High  | Low   |
|------------------------------------|-------|-------|
| First Quarter (March 31, 2011)     | \$.40 | \$.24 |
| Second Quarter (June 30, 2011)     | \$.70 | \$.29 |
| Third Quarter (September 30, 2011) | \$.62 | \$.21 |
| Fourth Quarter (December 31, 2011) | \$.33 | \$.19 |



| Fiscal 2010                        | High   | Low   |
|------------------------------------|--------|-------|
| First Quarter (March 31, 2010)     | \$1.14 | \$.54 |
| Second Quarter (June 30, 2010)     | \$.99  | \$.36 |
| Third Quarter (September 30, 2010) | \$.43  | \$.25 |
| Fourth Quarter (December 31, 2010) | \$.36  | \$.25 |

The closing price for our common stock on December 30, 2011 was \$0.23.

### **Stockholders**

As of March 27, 2012, there were 45,151,594 shares of common stock issued and outstanding held by 79 stockholders of record (not including street name holders).

### **Dividends**

We have not paid dividends to date and do not anticipate paying any dividends in the foreseeable future. Our Board of Directors intends to follow a policy of retaining earnings, if any, to finance our growth. The declaration and payment of dividends in the future will be determined by our Board of Directors in light of conditions then existing, including our earnings, financial condition, capital requirements and other factors.

### **ITEM 6 — SELECTED FINANCIAL DATA**

Not applicable.

### **ITEM 7 — MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS**

The following discussion should be read in conjunction with our consolidated financial statements and notes thereto included elsewhere in this 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.

## **Executive Summary**

We are an oil and natural gas exploration and production (E&P) company with current projects in Kansas and Oklahoma. As of December 31, 2011, we had two producing wells in Kansas and five producing wells in Oklahoma, and rights for the exploration and production of oil and gas on more than an aggregate of approximately 6,410 acres in those states. 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.

Our producing wells in Kansas arose out of a binding Letter of Intent we entered into in 2009 with S&W Oil & Gas, LLC. The #1 Lutters Well began production on June 18, 2009 and the #3 Lutters Well which was completed as a direct-offset to the #1 Lutters Well, began production on July 14, 2010. These two wells are producing, in the aggregate, approximately 12 barrels per day. Subsequent to our fiscal year ended December 31, 2011 on February 23, 2012 due to an increase in costs of water haulage for disposal that was affecting the net revenue to the lease, the Company sold  $\frac{3}{4}$  of our 25% WI for \$65,000 leaving 6.25%.

We have also established five producing wells in northern Oklahoma, arising out of our 2010 operating agreement with Bay Petroleum Corp. ("Bay"), two of which began production in mid-2010. An additional three wells, including two horizontal wells, began production in 2011. Collectively, daily production from the five northern Oklahoma wells is approximately 72 barrels per day.

## **2011 Highlights**

### *Exploration and Development*

Our 2011 drilling activities were concentrated on our northern Oklahoma properties. In 2011 we drilled five wells in northern Oklahoma, three of which are commercially producing. NOS122, a re-entry project where the well bore and casing was opened and cleaned, began commercial production on June 29, 2011 and its current production is approximately 8-10 barrels per day. NOM1H, our first horizontal well, began commercial production on June 29, 2011 and is currently producing approximately 25-35 barrels per day and 90 MCF gas. NOW2H, a second horizontal well and direct offset to NOM1H, began commercial production on November 7, 2011 and is currently producing approximately 14 barrels per day as a pre-frack rate.

Subsequent to the 2011 fiscal year, on January 9, 2012, we announced plans to drill a third horizontal well, NOM3H.

### *Drilling and Completion Expenditures*

During the 2011 fiscal year, we invested \$1,374,730 in drilling and completion of new wells.

### *Production*

Our total 2011 fiscal year production was net 3,834.5 barrels of oil and 602.1 BOE (3,613.4 MCF) of natural gas, based upon a 6:1 ratio of MCF gas to barrels of oil. Average daily production for the 2011 fiscal year averaged 10.5 barrels of oil, an increase of 265% from the 2010 fiscal year daily production of 3.96 barrels. Daily gas production for the 2011 fiscal year, the Company's first year of commercial gas production, averaged 1.64 BOE.

### *Leaseholds*

On July 13, 2011, we entered into an agreement with Bay whereby we purchased a forty percent (40%) ownership interest in certain leases held by Bay covering more than 3,000 acres in southern Oklahoma and a right of first refusal to acquire a forty percent (40%) ownership interest in any additional acreage Bay may obtain in the same region as the

Acquired Leases. We also purchased a working interest in certain leases held by Bay (the “Developing Leases”) and agreed to specific drilling sites and the allocation of revenues and costs between the parties with respect to such leases.

## **2012 Outlook**

Our 2012 operating plans include drilling a planned approach on the horizontal well locations at both North and South Oklahoma Projects. Our goal of drilling a well every 90 days would see three wells on the South Oklahoma project and three on the North by the end of the 2012 fiscal year. Additionally, two vertical offsets of the NOS122 have been engineered. Therefore, our goal is to drill a total of eight wells in 2012.

Our future operations will require substantial capital expenditures which will exceed our current revenues. Therefore, we are dependent upon the identification and successful completion of additional long-term or permanent equity financings, the support of creditors and shareholders, and, ultimately, the achievement of profitable operations. There can be no assurances that we will be successful, which would in turn significantly affect our ability to meet our business objectives. If not, we will likely be required to reduce operations or liquidate assets. We will continue to evaluate our projected expenditures relative to our available cash and to seek additional means of financing in order to satisfy our acquisition, working capital and other cash requirements.

We continue to operate with very limited administrative support, and our current officers and directors continue to be responsible for many duties to preserve our working capital. We expect no significant changes in the number of employees over the next 12 months.

## **Critical Accounting Policies**

The preparation of financial statements in conformity with United States generally accepted accounting principles 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 accounting principles generally accepted in the United States of America. 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, 2008. As of, and for the year ended December 31, 2011, there have been no material changes or updates to our critical accounting policies.



## **Results of Operations**

The discussion and financial statements contained herein are for our fiscal year ended December 31, 2011 and December 31, 2010. The following discussion regarding our financial statements should be read in conjunction with our financial statements included herewith.

### **Financial Condition as of December 31, 2011**

We reported total current assets of \$128,490 at December 31, 2011, consisting of cash of \$2,609, accounts receivable of \$46,417 and prepaid expenses of \$79,464. Total current liabilities reported of \$4,230,209 included accounts payable of \$565,552, note payable and accrued interest of \$202,484, convertible debentures of \$2,797,511 and accrued interest on convertible debenture of \$456,638. The Company had a working capital deficit of \$4,101,719 at December 31, 2011.

Stockholders' Deficiency increased from \$1,372,342 at December 31, 2010 to \$2,136,142 at December 31, 2011. This increase is due primarily to an increase in our accumulated deficit from \$7,740,391 at December 31, 2010 to \$10,474,470 at December 31, 2011.

### **Cash and Cash Equivalents**

As of December 31, 2011, we had cash of \$2,609. We anticipate that a substantial amount of cash will be used as working capital and to execute our strategy and business plan. As such, we further anticipate that we will have to raise additional capital through debt or equity financings to fund our operations during the next 6 to 12 months.

### **Results of Operations for the Fiscal Year Ended December 31, 2011**

For the fiscal year ended December 31, 2011, we incurred a net loss of \$2,734,079.

General and administration expenses for the fiscal year end December 31, 2011, amounted to \$635,091 compared to \$416,864 in 2010. Executive compensation for the 2011 fiscal year end was \$602,000 compared to \$430,000 in 2010.

## **Results of Operations for the Fiscal Year Ended December 31, 2010**

For the fiscal year ended December 31, 2010, we incurred a net loss of \$2,464,333.

General and administration expenses for the fiscal year end December 31, 2010, amounted to \$416,864 compared to \$348,045 in 2009. Executive compensation for the 2010 fiscal year end is \$430,000 compared to \$173,749 in 2009.

## **Liquidity and Capital Resources**

As of December 31, 2011, we had cash of \$2,609, and working capital deficiency of \$4,101,719. During the year ended December 31, 2011, we funded our operations from the proceeds of private sales of equity and/or convertible notes and proceeds from our producing wells. 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 year ended December 31, 2011, we used net cash of \$527,784 in operations. Net cash used in operating activities reflected an increase in accrued interest from \$191,847 for the fiscal year ended December 31, 2010 to \$583,803 for the fiscal year ended December 31, 2011 and a decrease in impairment expenses from \$759,160 for the year ended December 31, 2010 to \$173,879 for the fiscal year ended December 31, 2011.

We raised \$1,901,898 during the year ended December 31, 2011 from the issuance of common stock and convertible notes and debentures. We received \$317,931 in revenue during the year ended December 31, 2011 from our producing wells.

Our current cash requirements are significant due to planned exploration and development of current projects. We anticipate drilling five wells in Oklahoma and Kansas in 2011 which will cost approximately \$1,875,000. Additionally, we have an aggregate of \$1,176,451 in outstanding short term borrowings. Approximately \$633,306 of these borrowings may be converted into equity at the option of the holder and \$387,480 of these borrowings may be converted into equity at either the option of the holder, or under certain circumstances at the option of the Company. In the event these borrowings are not converted to equity we will need to secure additional debt or equity financing to pay such obligations as they become due. We are currently in negotiations with various lending parties as well as suitable joint venture partners. 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.

### Capital Expenditures

We made capital expenditure investments in six natural resource projects in the aggregate amount of \$1,374,730 during the fiscal year ending December 31, 2011. One of those investments produced a “dry hole” and \$80,000 was treated as an impairment expense. Another investment was impaired by \$93,879 to bring the total capitalized costs in line with its market value. At December 31, 2011 the company has eleven investments valued at cost for a total of \$1,965,577 net of amortization.

### Contractual Obligations

The following table outlines payments due under our significant contractual obligations over the periods shown, exclusive of interest:

| Contractual Obligations<br>At December 31, 2011 | Payments Due by Period |                     |           |           |                      |
|---|------------------------|---------------------|-----------|-----------|----------------------|
|   | Total                  | Less than<br>1 Year | 1-3 years | 3-5 years | More than<br>5 years |
| Note Payable @ 12%                              | \$25,000               | \$25,000            |           |           |                      |
| Note Payable @ 24%                              | \$71,000               | \$71,000            |           |           |                      |
| Note Payable @ 6%                               | \$79,980               | \$79,980            |           |           |                      |
| Convertible Promissory Note @ 18%               | \$633,306              | \$633,306           |           |           |                      |
| Convertible Promissory Note @ 24%               | \$2,164,205            | \$2,164,205         |           |           |                      |
| <b>Total</b>                                    | <b>\$2,973,491</b>     | <b>\$2,973,491</b>  |           |           |                      |

The above table outlines our obligations as of December 31, 2011 and does not reflect any changes in our obligations that have occurred after that date.

#### **ITEM 7A — QUANTITATIVE AND QUALITATIVE DISCLOSURES ABOUT MARKET RISK**

Not applicable.

#### **ITEM 8 — FINANCIAL STATEMENTS AND SUPPLEMENTARY DATA**

Reference is made to the financial statements, the reports of our independent registered public accounting firm, and the notes thereto of this report, which financial statements, reports, and notes are incorporated herein by reference.

#### **ITEM 9 — CHANGES IN AND DISAGREEMENT WITH ACCOUNTANTS ON ACCOUNTING AND FINANCIAL DISCLOSURE**

None.

#### **ITEM 9A — CONTROLS AND PROCEDURES**

##### **Evaluation of Disclosure Controls and Procedures**

Our Chief Executive Officer and Chief Financial Officer have evaluated our disclosure controls and procedures as of December 31, 2011 and have concluded that these disclosure controls and procedures are effective to ensure that information required to be disclosed by us in the reports that we file or submit under the Act is recorded, processed, summarized and reported within the time periods specified in the Commission's rules and forms and is accumulated and communicated to our management, including the Chief Executive Officer and Chief Financial Officer, as appropriate to allow timely decisions regarding required disclosure.

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

Our management is responsible for establishing and maintaining adequate internal control over financial reporting, as such term is defined in Exchange Act Rules 13a-15(f). Our management conducted an evaluation of the effectiveness of our internal control over financial reporting based on the framework in Internal Control – Integrated Framework issued by the Committee of Sponsoring Organizations of the Treadway Commission. Based on this evaluation under the framework in Internal Control – Integrated Framework, our management concluded that our internal control over financial reporting was effective as of December 31, 2011.

### **Changes in Internal Controls Over Financial Reporting**

There were no changes in our internal control over financial reporting that occurred during the fourth quarter of 2011 that have materially affected or are reasonably likely to materially affect our internal control over financial reporting.

### **ITEM 9B — OTHER INFORMATION**

Subsequent to our fiscal year ended December 31, 2011, on January 24, 2012, the Company issued 400,000 shares of the Company's Common Stock to Robert McIntosh, 250,000 to John J. Lennon and 250,000 to Dan Holladay in lieu of executive compensation.

Subsequent to our fiscal year ended December 31, 2011, in January 2012, the Company verbally agreed to pay Mr. Lennon a salary of \$3,000 per month and grant him 100,000 shares of our Common Stock.

Subsequent to our fiscal year ended December 31, 2011, on March 1, 2012, the Company issued 200,000 shares in relation to consulting agreements.

Subsequent to our fiscal year ended December 31, 2011, on March 26, 2012, the Company issued 10,997,289 shares of common stock in conversion of \$2,177,046 of convertible debt plus interest at \$0.25 per share.

Subsequent to our fiscal year ended December 31, 2011, on March 26, 2012, the Company issued 187,277 shares of common stock in exchange for a note payable in the amount of \$46,819.14 at \$0.25 per share.

The issuances described above were issued in reliance upon Section 4(2), Rule 506 of Regulation D and/or Regulation S of the Securities Act, and comparable exemptions for sales to "accredited" investors under state securities laws.

### **PART III**

**ITEM 10 — DIRECTORS, EXECUTIVE OFFICERS AND CORPORATE GOVERNANCE****Directors and Executive Officers**

The following table sets forth the names and ages of our current directors and executive officers, the principal offices and positions held by each person:

| Person          | Age | Position   |
|-----------------|-----|--|
| John J. Lennon  | 57  | Chairman of the Board; Chief Financial Officer and Secretary |
| Dan Holladay    | 52  | Director, Vice President Operations                          |
| Robert McIntosh | 51  | Director; President and Chief Executive Officer              |

Our board of directors believes that its members encompass a range of talent, skill, and experience sufficient to provide sound and prudent guidance with respect to our operations and interests. The information below with respect to our directors includes each director's experience, qualifications, attributes, and skills that led our board of directors to the conclusion that he or she should serve as a director.

**John J. Lennon.** Mr. Lennon became our President, Chairman and Chief Financial Officer in February 2009. On June 2, 2009, Mr. Lennon resigned as President, but remained as our Chief Financial Officer. Mr. Lennon serves as President and a Director of UV Flu Technologies, Inc. Mr. Lennon has served as President of Chamberlain Capital Partners since 2004, and served as a Director of American Durahomes from 2006 and Treasurer, VP of Finance and a Director of US Starcom from 2005 to 2007. Chamberlain Capital Partners assists companies in the area of maximizing shareholder value through increased sales, cost reduction and refined business strategy. Mr. Lennon has also assisted companies in obtaining debt financing, private placements or other methods of funding. He is responsible for corporate reporting, press releases, and funding related initiatives for American Durahomes, a private corporation, and previously for US Starcom, a public entity. From May 30, 2008, until July 6, 2009, Mr. Lennon served as a Director, Treasurer and VP of Finance of Brite-Strike Tactical Illumination Products, Inc. From 2007 to 2011, Mr. Lennon served as President and a Director of NYXIO Technologies Corp. (previously LED Power Group, Inc.). From 2007 to 2009, Mr. Lennon served as Chief Executive Officer, President, Chief Financial Officer, Secretary, Treasurer and director of Explortex Energy Inc., a publicly reporting company, which is a natural resource exploration company engaged in the participation in drilling of oil and gas in the United States. From 1987 to 2004, Mr. Lennon served as Senior Vice President of Janney Montgomery Scott, Osterville, MA, Smith Barney and Prudential Bache Securities, managing financial assets for high net worth individuals. Mr. Lennon's prior executive officer and director experience provides our Board with a perspective of someone with knowledge in multiple facets of public and private company operations and strategy.

**Dan Holladay.** Mr. Holladay became a Director of the Company in June 2009 and became Vice President Operations effective September 1, 2011. Mr. Holladay is oil industry management consultant based in Wichita Kansas. He graduated in 1983 from the University of Eastern New Mexico with an Associate degree in Petroleum Management

following extensive studies at the University of Kansas in geology. After a short career in a variety of oil field work, he began a 25 year career as an Investment Adviser for firms such as AG Edwards where he advised high net worth clients. Recently, Mr. Holladay has been working as an independent oil industry management consultant where he has been identifying, evaluating and assisting companies and individuals on a variety of Kansas based oil and gas prospects for both exploration and production projects. On July 30, 2009, Mr. Holladay filed for personal bankruptcy in the United States Bankruptcy Court for the Sedgwick County, Kansas (Case No. 09CV4118) and was discharged under Chapter 7 on January 25, 2010. The Board has considered Mr. Holladay's bankruptcy filing and determined that it has no bearing on his efforts on behalf of our company. Mr. Holladay's background as an oil industry management consultant, and his 25 year career as an investment advisor, provides a unique perspective to our Board.

**Robert McIntosh.** On June 2, 2010, Mr. McIntosh became our President and Chief Executive Officer. Prior to that, Mr. McIntosh had been our Chief Operating Officer and a Director on our Board since March 2009. Prior to joining our company, Mr. McIntosh served as President of Silver Star Energy, Inc. from September 2003 to May 2008 and as President of Bancroft Uranium, Inc. from July 2008 to December 2008. Mr. McIntosh has been a businessman and consulting geologist for the past 25 years. He is experienced both as a resource exploration geoscientist alongside noteworthy strengths in all facets of corporate development. Since 1983 his career has taken him across the Americas and abroad where he has been instrumental in the design, implementation, execution and management of programs in the oil, gas, precious and base metals segments of the resource sector. His skills encompass virtually every aspect of oil & gas exploration, well completion and production techniques alongside a diverse experience in project acquisition, negotiations, contracts, and project divestitures within the petroleum industry. He has developed significant expertise and industry contacts in his various roles across the publicly traded market sector as well as with private junior E&P companies. Mr. McIntosh has successfully assisted his clients and stakeholders in the U.S.A. and Canada on projects that ultimately became producing properties where he has contributed in full field exploitation programs with additional traditional and secondary forms of drilling and completions, along with ongoing well site supervision aimed at fully optimizing the overall asset. Mr. McIntosh's business experience, and his 25 year career as a consulting geologist, give him unique insights into our challenges, opportunities, and operations.

Except as set forth above, no officer or director has been involved in any material legal proceeding.

There are no arrangements, understandings, or family relationships pursuant to which our executive officers were selected.

### **Audit Committee Financial Expert**

Our Board of Directors has not established a separate audit committee within the meaning of Section 3(a)(58)(A) of the Securities Exchange Act of 1934, as amended (the "Exchange Act"). Instead, the entire Board of Directors acts as the audit committee within the meaning of Section 3(a)(58)(B) of the Exchange Act. In addition, John J. Lennon currently meets the definition of an "audit committee financial expert" within the meaning of Item 407(d)(5) of Regulation S-K. Mr. Lennon is not an independent director. We are seeking candidates for outside directors and for a financial expert to serve on a separate audit committee when we establish one. Due to our small size and limited operations and resources, it has been difficult to recruit outside directors and financial experts.

### **Section 16(a) Beneficial Ownership Reporting Compliance**

In connection with the issuance of 400,000 shares of our common stock to Robert McIntosh on June 16, 2011, Mr. McIntosh was required to file a Form 4 no later than June 20, 2011. Mr. McIntosh filed the Form 4 on August 10,

2011.

In connection with the issuance of 200,000 shares of our common stock to Dan Holladay on June 16, 2011, Mr. Holladay was required to file a Form 4 no later than June 20, 2011. Mr. Holladay filed the Form 4 on August 10, 2011.

In connection with the issuance of 250,000 shares of our common stock to Dan Holladay on January 25, 2012, Mr. Holladay was required to file a Form 4 no later than January 27, 2012. Mr. Holladay filed the Form 4 on February 15, 2012.

In connection with the issuance of 400,000 shares of our common stock to Robert McIntosh on January 25, 2012, Mr. McIntosh was required to file a Form 4 no later than January 27, 2012. Mr. McIntosh filed the Form 4 on February 15, 2012.

In connection with the issuance of 250,000 shares of our common stock to Chamberlain Capital, LLC, on January 25, 2012, John J. Lennon, as the sole member of Chamberlain Capital, LLC, was required to file a Form 4 no later than January 27, 2012. Mr. Lennon filed the Form 4 on February 15, 2012.

Except as set forth above, and based solely upon a review of Forms 3, 4 and 5 delivered to us during our most recent fiscal year, as filed with the Securities Exchange Commission, as of December 31, 2011, all of our executive officers and directors, and persons who own more than 10% of our Common Stock timely filed all required reports pursuant to Section 16(a) of the Securities Exchange Act.

### **Code of Ethics**

On July 20, 2009, our Board of Directors adopted a Code of Ethical Conduct that provides an ethical standard for all employees, officers and directors. A copy of the Code of Ethical Conduct will be provided, without charge, to any person who so requests. A copy of the Code of Ethical Conduct may be requested via the following address or phone number:

American Petro-Hunter Inc.

17470 North Pacesetter Way

Scottsdale AZ, 85255

(480) 305-2052

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**ITEM 11 — EXECUTIVE COMPENSATION****Summary Compensation**

The summary compensation table below shows certain compensation information for services rendered in all capacities to us by our principal executive officer and principal financial officer and by each other executive officer whose total annual salary and bonus exceeded \$100,000 during the fiscal periods ended December 31, 2010 and December 31, 2011. Other than as set forth below, no executive officer's total annual compensation exceeded \$100,000 during our last fiscal period.

**Summary Compensation Table**

| Name and Principal Position (a)                                       | Year (b) | Salary (\$)(c) | Bonus (\$)(d) | Stock Awards (\$)(e) | Option Awards (\$)(f) | Non Equity Incentive Plan Compensation (\$)(g) | Non-qualified Deferred Compensation Earnings (\$)(h) | All Other Compensation (\$)(i) | Total Compensation (\$)(j) |
|---|----------|----------------|---------------|----------------------|-----------------------|--|--|--------------------------------|----------------------------|
| John J. Lennon,<br>Chairman of the Board, Chief<br>Financial Officer  | 2011     | \$-0-          | \$-0-         | \$-0-                | \$-0-                 | \$-0-  | \$-0-  | \$-0-                          | \$-0-                      |
|   | 2010     | \$-0-          | \$-0-         | \$-0-                | \$-0-                 | \$-0-  | \$-0-  | \$-0-                          | \$-0-                      |
| Robert McIntosh<br>Director, President and Chief<br>Executive Officer | 2011     | \$180,000      | \$-0-         | \$204,000            | \$-0-                 | \$-0-  | \$-0-  | \$-0-                          | \$384,000                  |
|   | 2010     | \$180,000      | \$-0-         | \$136,000            | \$-0-                 | \$-0-  | \$-0-  | \$-0-                          | \$316,000                  |
| Dan Holladay<br>Director, Vice President<br>Operations                | 2011     | \$116,000      | \$-0-         | \$102,000            | \$-0-                 | \$-0-  | \$-0-  | \$-0-                          | \$218,000                  |
|   | 2010     | \$80,200       | \$-0-         | \$34,000             | \$-0-                 | \$-0-  | \$-0-  | \$-0-                          | \$114,200                  |

Pursuant to the business consultant agreement with Mr. McIntosh, dated March 15, 2009, it was agreed that Mr. McIntosh would provide us with corporate management consulting services for a monthly fee of \$15,000. The initial term of the agreement is twelve months with automatic renewals on a month-by-month basis thereafter. Mr. McIntosh received a total of \$316,000 in compensation for the fiscal year ended December 31, 2010, of this, \$136,000 was stock issued for services rendered. Mr. McIntosh received a total of \$384,000 in compensation for the fiscal year ended December 31, 2011, of this, \$204,000 was stock issued for services rendered.

Subsequent to our fiscal year ended December 31, 2011, in January 2012, the Company verbally agreed to pay Mr. Lennon a salary of \$3,000 per month and grant him 100,000 shares of our Common Stock.

Mr. Holladay became a Director in June 2009. On September 1, 2011, Mr. Holladay became our Vice President Operations, and his responsibilities were increased to include supervision of all field operations. He entered into a verbal agreement, effective September 1, 2011, whereby his monthly compensation was increased to \$15,000 per month.

### **Director Compensation**

Our board of directors are reimbursed for actual expenses incurred in attending Board meetings. There are no other compensation arrangements with directors, and the directors did not receive any other compensation in the fiscal year ending December 31, 2011.

### **ITEM 12 — SECURITY OWNERSHIP OF CERTAIN BENEFICIAL OWNERS AND MANAGEMENT AND RELATED STOCKHOLDER MATTERS**

The following table sets forth, as of March 27, 2012, the number and percentage of outstanding shares of our common stock owned by (i) each person known to us to beneficially own more than 5% of our outstanding common stock, (ii) each director, (iii) each named executive officer, and (iv) all executive officers and directors as a group. Share ownership is deemed to include all shares that may be acquired through the exercise or conversion of any other security immediately or within sixty days of March 27, 2012. Such shares that may be so acquired are also deemed outstanding for purposes of calculating the percentage of ownership for that individual or any group of which that individual is a member. Unless otherwise indicated, the stockholders listed possess sole voting and investment power with respect to the shares shown.

| Name and Address of Beneficial Owner                                  | Title of Class | Amount and Nature of Beneficial Ownership of Common Stock(1) |     | Percentage of Common Stock Outstanding(1) |   |
|---|----------------|--|-----|---|---|
| John J. Lennon<br>104 Swallow Hill Drive<br>Barnstable, Massachusetts | Common         | 250,000  | (2) | .55                                       | % |
| Robert B. McIntosh<br>17470 N Pacesetter Way<br>Scottsdale, AZ 85255  | Common         | 1,000,000  |     | 2.21                                      | % |
| Dan Holladay<br>5813 E 17<br>Wichita, KS 67208                        | Common         | 500,000  |     | 1.11                                      | % |
| All Executive Officers and Directors as a Group (3 persons)           | Common         | 1,750,000  |     | 3.87                                      | % |

Consists of the aggregate total of shares of common stock held by the named individual directly. Based upon information furnished to us by the directors and executive officers or obtained from our stock transfer books showing 45,151,594 shares of common stock outstanding as of March 27, 2012. We are informed that these persons hold the sole voting and dispositive power with respect to the common stock except as noted herein. For (1) purposes of computing “beneficial ownership” and the percentage of outstanding common stock held by each person or group of persons named above as of March 27, 2012, any security which such person or group of persons has the right to acquire within 60 days after such date is deemed to be outstanding for the purpose of computing beneficial ownership and the percentage ownership of such person or persons, but is not deemed to be outstanding for the purpose of computing the percentage ownership of any other person.

(2) Includes 250,000 shares held by Chamberlain Capital LLC. Mr. Lennon has sole voting and dispositive power with respect to such shares.

### Equity Compensation Plan Information

The company has no active equity compensation plans and there are currently no outstanding options from prior plans.

## **ITEM 13 — CERTAIN RELATIONSHIPS AND RELATED TRANSACTIONS, AND DIRECTOR INDEPENDENCE**

### **Related Party Transactions**

On March 15, 2009 we entered into a business consultant agreement with Robert McIntosh, our President, Chief Executive Officer and director, whereby it was agreed that Mr. McIntosh will provide us with corporate management consulting services for a monthly fee of \$15,000. The term of the agreement is twelve months and is subject to termination upon 30 days prior written notice by either party. Upon expiration of the initial twelve month term, this agreement has continued upon a month-by-month basis until further notice.

On September 1, 2011, the Company agreed to name Dan Holladay, a director of the Company, to the position of Vice President Operations. Mr. Holladay entered into a verbal agreement with the Company, effective September 1, 2011, whereby his monthly compensation was increased to \$15,000 per month.

During the year ended December 31, 2011, the Company granted 400,000 shares of the Company's Common Stock to Robert McIntosh and 200,000 shares to Dan Holladay in lieu of executive compensation.

Subsequent to our fiscal year ended December 31, 2011, in January 2012, the Company verbally agreed to pay John J. Lennon a salary of \$3,000 per month and grant him 100,000 shares of our Common Stock, for his service as Chief Financial Officer of the Company.

Subsequent to our fiscal year ended December 31, 2011, on January 24, 2012, the Company issued 400,000 shares of the Company's Common Stock to Robert McIntosh, 250,000 to John J. Lennon and 250,000 to Dan Holladay in lieu of executive compensation.

### **Review, Approval or Ratification of Transactions with Related Persons**

Although we adopted a Code of Ethical Conduct on July 20, 2009, we still rely on our board to review related party transactions on an ongoing basis to prevent conflicts of interest. Our board reviews a transaction in light of the affiliations of the director, officer or employee and the affiliations of such person's immediate family. Transactions are presented to our board for approval before they are entered into or, if this is not possible, for ratification after the transaction has occurred. If our board finds that a conflict of interest exists, then it will determine the appropriate remedial action, if any. Our board approves or ratifies a transaction if it determines that the transaction is consistent with the best interests of the Company. For the above transaction, the board approved and ratified the transaction,

finding it in the best interest of the Company.

## Director Independence

During fiscal 2011, we did not have any independent directors on our board. We evaluate independence by the standards for director independence established by applicable laws, rules, and listing standards including, without limitation, the standards for independent directors established by The New York Stock Exchange, Inc., The NASDAQ National Market, and the Securities and Exchange Commission.

Subject to some exceptions, these standards generally provide that a director will not be independent if (a) the director is, or in the past three years has been, an employee of ours; (b) a member of the director's immediate family is, or in the past three years has been, an executive officer of ours; (c) the director or a member of the director's immediate family has received more than \$120,000 per year in direct compensation from us other than for service as a director (or for a family member, as a non-executive employee); (d) the director or a member of the director's immediate family is, or in the past three years has been, employed in a professional capacity by our independent public accountants, or has worked for such firm in any capacity on our audit; (e) the director or a member of the director's immediate family is, or in the past three years has been, employed as an executive officer of a company where one of our executive officers serves on the compensation committee; or (f) the director or a member of the director's immediate family is an executive officer of a company that makes payments to, or receives payments from, us in an amount which, in any twelve-month period during the past three years, exceeds the greater of \$1,000,000 or two percent of that other company's consolidated gross revenues.

## ITEM 14 — PRINCIPAL ACCOUNTING FEES AND SERVICES

The following table shows the fees paid or accrued by us for the audit and other services provided by Weaver, Martin & Samyn, LLC for the fiscal periods shown.

|                      | <b>December 31, 2011</b> | <b>December 31, 2010</b> |
|----------------------|--------------------------|--------------------------|
| Audit Fees           | \$ 22,750                | \$ 23,250                |
| Audit — Related Fees | 0                        | 0                        |
| Tax Fees             | 0                        | 0                        |
| All Other Fees       | 0                        | 0                        |
| Total                | \$ 22,750                | \$ 23,250                |

Audit fees consist of fees billed for professional services rendered for the audit of our financial statements and review of the interim financial statements included in quarterly reports and services that are normally provided by the above

auditors in connection with statutory and regulatory filings or engagements.

In the absence of a formal audit committee, the full Board of Directors pre-approves all audit and non-audit services to be performed by the independent registered public accounting firm in accordance with the rules and regulations promulgated under the Securities Exchange Act of 1934, as amended. The Board of Directors pre-approved 100% of the audit and audit-related services performed by the independent registered public accounting firm in fiscal 2011. The percentage of hours expended on the principal accountant's engagement to audit the Company's financial statements for the most recent fiscal year that were attributed to work performed by persons other than the principal accountant's full-time, permanent employees was 0%.

## **PART IV**

### **ITEM 15 — EXHIBITS, FINANCIAL STATEMENT SCHEDULES**

#### **(a) Financial Statements and Financial Statement Schedules**

(1) Financial Statements are listed in the Index to Financial Statements of this report.

#### **(b) Exhibits**

| Exhibit Number | Name  |
|----------------|---|
| 3.1(1)         | Amended and Restated Articles of Incorporation                      |
| 3.2(1)         | Bylaws  |
| 10.1(2)        | Management and Governance Consultant Agreement with Robert McIntosh |
| 10.2(3)        | Letter of Intent with S&W Oil & Gas, LLC dated May 4, 2009.         |
| 10.3(4)        | Letter of Intent with S&W Oil & Gas, LLC dated June 11, 2009.       |
| 10.4(5)        | Letter of Intent with S&W Oil & Gas, LLC dated June 23, 2009.       |
| 10.5(6)        | Note Purchase Agreement dated August 13, 2009.                      |
| 10.6(7)        |   |

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|           |  |
|-----------|--|
|           | Letter of Intent with S&W Oil & Gas, LLC dated August 25, 2009.              |
| 10.7(8)   | Secured Convertible Promissory Note dated September 15, 2009                 |
| 10.8(9)   | Operating Agreement with Bay Petroleum Corp.                                 |
| 10.9(10)  | Note Purchase Agreement  |
| 10.10(10) | Form of Convertible Debenture  |
| 10.11(10) | Form of Warrant  |
| 10.12(11) | Amended and Restated Debenture   |
| 10.13(12) | Purchase Agreement with Bay Petroleum Corp.                                  |
| 10.14(12) | Working Interest Agreement with Bay Petroleum Corp.                          |
| 10.15(12) | Amendment to Amended and Restated Convertible Debenture                      |
| 10.16(12) | Royalty Agreement  |
| 10.17(13) | Second Amendment to Amended and Restated Convertible Debenture               |
| 10.18(13) | Amendment to Royalty Agreement   |
| 10.19(14) | Notes Amendment  |
| 21        | List of Subsidiaries   |
| 31.1      | Rule 13(a) — 14(a)/15(d) — 14(a) Certification (Principal Executive Officer) |
| 31.2      | Rule 13(a) — 14(a)/15(d) — 14(a) Certification (Principal Financial Officer) |
| 32        | Section 1350 Certifications  |

**Footnotes to Exhibits Index**

- (1) Incorporated by reference to Form 10-SB12G dated June 19, 1997.
- (2) Incorporated by reference to Form 8-K dated March 27, 2009.
- (3) Incorporated by reference to Form 8-K dated May 6, 2009.

- (4) Incorporated by reference to Form 8-K dated June 11, 2009.
- (5) Incorporated by reference to Form 8-K dated June 23, 2009.
- (6) Incorporated by reference to Form 10-QSB for the period ended June 30, 2009.
- (7) Incorporated by reference to Form 8-K dated August 27, 2009.

- (8) Incorporated by reference to Form 8-K dated September 24, 2009.
- (9) Incorporated by reference to Form 8-K dated April 23, 2010.
- (10) Incorporated by reference to Form 8-K dated May 20, 2010.
- (11) Incorporated by reference to Form 10-Q filed May 12, 2011.
- (12) Incorporated by reference to Form 8-K dated July 19, 2011.
- (13) Incorporated by reference to Form 10-Q/A dated August 12, 2011.
- (14) Incorporated by reference to Form 8-K dated August 16, 2011.

## SIGNATURES

Pursuant to the requirements of Section 13 or 15(d) of the Securities Exchange Act of 1934, the registrant has duly caused this report to be signed on its behalf by the undersigned, thereunto duly authorized.

### AMERICAN PETRO-HUNTER INC.

Dated: March 28, 2012 /s/ Robert B. McIntosh  
By: Robert B. McIntosh  
Its: President and Chief Executive Officer  
(Principal Executive Officer)

Pursuant to requirements of the Securities Exchange Act of 1934, this report has been signed below by the following persons on behalf of the registrant and in the capacities and on the dates indicated:

| Signature                                    | Capacity   | Date           |
|--|--|----------------|
| /s/ Robert B. McIntosh<br>Robert B. McIntosh | President, Chief Executive Officer and Director<br>(Principal Executive Officer)   | March 28, 2012 |
| /s/ John J. Lennon<br>John J. Lennon         | Chief Financial Officer, Secretary and Chairman of the Board<br>(Principal Financial Officer and Principal Accounting Officer) | March 28, 2012 |
| /s/ Dan Holladay<br>Dan Holladay             | Director   | March 28, 2012 |

To the Board of Directors and Stockholders

American Petro-Hunter, Inc.

Scottsdale, Arizona

#### REPORT OF INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRM

We have audited the accompanying balance sheet of American Petro-Hunter, Inc. as of December 31, 2011 and 2010 and the related statements of operations, stockholders' deficit, and cash flows for the years then ended. American Petro-Hunter, Inc.'s management is responsible for these financial statements. Our responsibility is to express an opinion on these financial statements based on our audit.

We conducted our audit in accordance with the standards of the Public Company Accounting Oversight Board (United States). Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. The Company is not required to have, nor were we engaged to perform, an audit of its internal control over financial reporting. Our audit included consideration of internal control over financial reporting as a basis for designing audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Company's internal control over financial reporting. Accordingly, we express no such opinion. Our audit of the financial statements includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements, assessing the accounting principles used and significant estimates made by management, and evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinion.

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of American Petro-Hunter, Inc. as of December 31, 2011 and 2010 and the results of its operations, stockholders' deficit, and cash flows for the years then ended in conformity with accounting principles generally accepted in the United States of America.

The accompanying financial statements have been prepared assuming that the Company will continue as a going concern. As discussed in Note 1 to the financial statements, the Company has suffered recurring losses from operations and is dependent upon the continued sale of its securities or obtaining debt financing for funds to meet its cash requirements. These factors raise substantial doubt about the Company's ability to continue as a going concern. The financial statements do not include any adjustments that might result from the outcome of this uncertainty.

/s/ Weaver Martin & Samyn, LLC

Weaver Martin & Samyn, LLC

Kansas City, Missouri

March 28, 2012

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**American Petro-Hunter, Inc.****Balance Sheets**

|  | December 31,<br>2011 | December 31,<br>2010 |
|--|----------------------|----------------------|
| Assets   |                      |                      |
| Current assets:  |                      |                      |
| Cash   | \$2,609              | \$ 3,225             |
| Accounts receivable  | 46,417               | 15,620               |
| Prepaid expenses   | 79,464               | 8,373                |
| Total current assets   | 128,490              | 27,218               |
| Investments in mineral properties, net of accumulated amortization of \$135,987 and \$16,572, respectively   | 1,965,577            | 884,142              |
| Total assets   | \$2,094,067          | \$ 911,360           |
| Liabilities and Stockholders' (Deficit)  |                      |                      |
| Current liabilities:   |                      |                      |
| Accounts payable and other liabilities   | \$565,552            | \$ 251,391           |
| Note payable and accrued interest  | 202,484              | 40,493               |
| Convertible debenture, net of discount of \$212,070 and \$386,453  | 2,164,205            | 1,076,321            |
| Convertible debenture  | 633,306              | 633,306              |
| Accrued interest on convertible debenture  | 456,638              | 187,331              |
| Royalty interest payable   | 113,164              | -                    |
| Loan guarantee   | 94,860               | 94,860               |
| Total current liabilities  | 4,230,209            | 2,283,702            |
| Stockholders' (deficit):   |                      |                      |
| Common stock, \$0.001 par value, 200,000,000 shares authorized, 32,867,028 and 27,060,561 shares issued and outstanding as of December 31, 2011 and 2010, respectively | 32,867               | 27,061               |
| Common stock owed but not issued; 0 and 542,857 shares as of December 31, 2011 and 2010, respectively  | -                    | 543                  |
| Additional paid-in capital   | 8,313,575            | 6,348,559            |
| Accumulated comprehensive gain (loss)  | (8,114 )             | (8,114 )             |
| Accumulated deficit  | (10,474,470 )        | (7,740,391 )         |
| Total stockholders' (deficit)  | (2,136,142 )         | (1,372,342 )         |
| Total liabilities and stockholders' (deficit)  | \$2,094,067          | \$ 911,360           |

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

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

|  | For the year ended<br>December 31, |                |
|--|------------------------------------|----------------|
|  | 2011                               | 2010           |
| Revenue  | \$317,931                          | \$92,754       |
| Cost of Goods Sold   |                                    |                |
| Production and amortization  | 228,863                            | 62,999         |
| Gross profit   | 89,068                             | 29,755         |
| General and administrative   | 635,091                            | 416,864        |
| Executive compensation   | 602,000                            | 430,000        |
| Impairment expense   | 173,879                            | 759,160        |
| Total expenses   | 1,410,970                          | 1,606,024      |
| Net loss before other income (expense)                               | (1,321,902 )                       | (1,576,269 )   |
| Other income (expense):  |                                    |                |
| Interest expense   | (1,412,177 )                       | (888,064 )     |
| Total other income (expense)   | (1,412,177 )                       | (888,064 )     |
| Net loss before income taxes   | (2,734,079 )                       | (2,464,333 )   |
| Provision for income taxes   | -                                  | -              |
| Net loss   | (2,734,079 )                       | (2,464,333 )   |
| Other comprehensive income (expense)                                 | -                                  | -              |
| Comprehensive loss   | \$(2,734,079 )                     | \$(2,464,333 ) |
| Weighted average common shares outstanding - basic and fully diluted | 28,221,310                         | 26,736,127     |
| Net (loss) per share - basic and fully diluted                       | \$(0.10 )                          | \$(0.09 )      |

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

**American Petro-Hunter, Inc.****Statement of Stockholder's (Deficit)**

|   | Common Stock |          | Additional         | Stock                  | Accumulated    | Accumulated             | Total                      |
|---|--------------|----------|--------------------|------------------------|----------------|-------------------------|----------------------------|
|   | Shares       | Amount   | Paid-in<br>Capital | owed but<br>not issued | Deficit        | Comprehensive<br>(Loss) | Stockholder's<br>(deficit) |
| Balance at December 31, 2009                                  | 23,748,561   | \$23,749 | \$5,110,636        | \$ 1,831               | \$(5,276,058 ) | \$ (8,114 )             | \$(147,956 )               |
| Shares issued for compensation                                | 250,000      | 250      | 169,750            | -                      | -              | -                       | 170,000                    |
| Shares issued that were owed                                  | 1,830,825    | 1,831    | -                  | (1,831 )               | -              | -                       | -                          |
| Exercise of warrants  | 231,175      | 231      | 34,445             | -                      | -              | -                       | 34,676                     |
| Convertible debenture converted to stock                      | 1,000,000    | 1,000    | 349,000            | -                      | -              | -                       | 350,000                    |
| Shares sold for cash  | -            | -        | 154,557            | 443                    | -              | -                       | 155,000                    |
| Exercise of warrants  | -            | -        | 14,900             | 100                    | -              | -                       | 15,000                     |
| Beneficial conversion feature issued on convertible debenture | -            | -        | 515,271            | -                      | -              | -                       | 515,271                    |
| Net loss  | -            | -        | -                  | -                      | (2,464,333 )   | -                       | (2,464,333 )               |
| Balance at December 31, 2010                                  | 27,060,561   | 27,061   | 6,348,559          | 543                    | (7,740,391 )   | (8,114 )                | (1,372,342 )               |
| Shares issued that were owed                                  | 542,856      | 543      | -                  | (543 )                 | -              | -                       | -                          |
| Shares issued for compensation                                | 600,000      | 600      | 305,400            | -                      | -              | -                       | 306,000                    |
| Shares issued for services                                    | 100,000      | 100      | 50,900             | -                      | -              | -                       | 51,000                     |
| Shares issued for cash  | 200,000      | 200      | 49,800             | -                      | -              | -                       | 50,000                     |
| Convertible debenture converted to stock                      | 4,363,611    | 4,363    | 1,086,539          | -                      | -              | -                       | 1,090,902                  |
| Beneficial conversion feature issued on convertible debenture | -            | -        | 472,377            | -                      | -              | -                       | 472,377                    |
| Net loss  | -            | -        | -                  | -                      | (2,734,079 )   | -                       | (2,734,079 )               |
| Balance at December 31, 2011                                  | 32,867,028   | \$32,867 | \$8,313,575        | \$ -                   | \$(10,474,470) | \$ (8,114 )             | \$(2,136,142 )             |

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

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

|   | For the year ended<br>December 31, |               |
|---|------------------------------------|---------------|
|   | 2011                               | 2010          |
| Cash flows from operating activities  |                                    |               |
| Net (loss)  | \$(2,734,079)                      | \$(2,464,333) |
| Adjustments to reconcile net (loss) to net cash used in operating activities: |                                    |               |
| Shares issued for compensation  | 306,000                            | 170,000       |
| Shares issued for services  | 51,000                             | -             |
| Amortization of discount  | 646,760                            | 512,839       |
| Impairment expense  | 173,879                            | 759,160       |
| Amortization of mineral properties  | 119,415                            | 16,572        |
| Changes in operating assets and liabilities:                                  |                                    |               |
| (Increase) decrease in accounts receivable                                    | (30,797 )                          | (10,602 )     |
| (Increase) decrease in other receivable                                       | -                                  | 13,184        |
| (Increase) decrease in taxes recoverable                                      | -                                  | 2,111         |
| (Increase) decrease in prepaid expenses                                       | (71,091 )                          | (8,373 )      |
| Increase (decrease) in accounts payable and accrued liabilities               | 427,326                            | 66,789        |
| Increase (decrease) in accrued interest                                       | 583,803                            | 191,847       |
| Net cash used by operating activities   | (527,784 )                         | (750,806 )    |
| Cash flows from investing activities  |                                    |               |
| Proceeds from sale of mineral properties                                      | -                                  | 80,000        |
| Acquisition of mineral properties   | (1,374,730)                        | (1,031,440)   |
| Net cash used by investing activities   | (1,374,730)                        | (951,440 )    |
| Cash flows from financing activities  |                                    |               |
| Proceeds from sale of common stock  | 50,000                             | 155,000       |
| Proceeds from warrant exercise  | -                                  | 49,676        |
| Proceeds from note payable  | 150,980                            | -             |
| Proceeds from convertible debenture   | 1,700,918                          | 1,462,774     |
| Net cash provided by financing activities                                     | 1,901,898                          | 1,667,450     |
| Net increase (decrease) in cash   | (616 )                             | (34,796 )     |
| Cash - beginning  | 3,225                              | 38,021        |
| Cash - ending   | \$2,609                            | \$3,225       |
| Supplemental disclosures:   |                                    |               |
| Interest paid   | \$136,500                          | \$108,000     |
| Income taxes paid   | \$-                                | \$-           |
| Non-cash transactions:  |                                    |               |
| Shares issued for compensation  | \$306,000                          | \$170,000     |

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|  |             |           |
|--|-------------|-----------|
| Shares issued for services                           | \$51,000    | \$-       |
| Note payable and accrued interest converted to stock | \$1,090,902 | \$350,000 |

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

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**American Petro-Hunter Inc.**

**Notes to Financial Statements**

**December 31, 2011**

**1. Nature and Continuance of Operations**

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

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

**Going Concern**

These financial statements have been prepared in accordance with accounting principles generally accepted in the United States of America ("GAAP") applicable to a going concern, which contemplates the realization of assets and the satisfaction of liabilities and commitments in the normal course of business. The Company 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 condensed financial statements do not include any adjustments relating to the recoverability and classification of recorded assets, or the amounts of and classification of liabilities that might be necessary in the event the Company cannot continue in existence.

**2. Significant Accounting Policies**

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

**Principles of accounting**

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

**Income taxes**

The Company accounts for income taxes under FASB Codification Topic 740-10-25 (“ASC 740-10-5”). Under ASC 740-10-25, deferred tax assets and liabilities are recognized for the future tax consequences attributable to differences between the financial statement carrying amounts of existing assets and liabilities and their respective tax bases. Deferred tax assets and liabilities are measured using enacted tax rates expected to apply to taxable income in the years in which those temporary differences are expected to be recovered or settled. Under ASC 740-10-25, the effect on deferred tax assets and liabilities of a change in tax rates is recognized in income in the period that includes the enactment date. See footnote 9 for further details.

### **Revenue Recognition**

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

### **Use of estimates**

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

### **Cash Equivalents**

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

### **Net loss per share**

In accordance with ASC subtopic 260-10, the basic loss per common share is computed by dividing net loss available to common stockholders by the weighted average number of common shares outstanding. Diluted loss per common share is computed similar to basic loss per common share except that the denominator is increased to include the number of additional common shares that would have been outstanding if the potential common shares had been issued and if the additional common shares were dilutive. For the years ended December 31, 2011 and 2010, the denominator in the diluted EPS computation is the same as the denominator for basic EPS due to the anti-dilutive effect of the warrants and stock options on the Company’s net loss.

## **Financial instruments**

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

## **Fair Value of Financial Instruments**

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

## **Reclassifications**

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

## **Oil and Gas Properties**

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

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

Unproved properties are assessed periodically individually when drilling and flow testing results indicate whether there is an economic resource or not. All capitalized costs associated with properties that have been determined to be a "dry-hole" are impaired when that determination is made. Proved properties are assessed periodically for impairment on an individual basis. Events that can trigger the test for possible impairment include significant decreases in the market value of a property, significant change in the extent or manner of use or change in property and the expectation that a

property will be sold or otherwise disposed of significantly sooner than the previously estimated useful life. The assessment is done by comparing each property's carrying value to their associated estimated undiscounted future net cash flows. Impaired properties are written down to their estimated fair values. The resulting impairment would be expensed to operations as impairment expense in the period in which it was determined that the impairment was indicated and calculated.

### **3. Recent Accounting Pronouncements**

In February 2010, the Financial Accounting Standards Board ("FASB") issued Accounting Standards Update ("ASU") 2010-09, "Subsequent Events (Topic 855)—Amendments to Certain Recognition and Disclosure Requirements" ("ASU 2010-09"). ASU 2010-09 was issued to change certain guidance in the original codification and to clarify other portions. All of the amendments in ASU 2010-09 are effective upon issuance of the final ASU 2010-09, except for the use of the issued date for conduit debt obligors. That amendment is effective for interim or annual periods ending after June 15, 2010. The Company determined that this updated guidance has no impact on its consolidated financial position or results of operations.

In May 2011, the FASB issued a new accounting standard on fair value measurements that clarifies the application of existing guidance and disclosure requirements, changes certain fair value measurement principles and requires additional disclosures about fair value measurements. The standard is effective for interim and annual periods beginning after December 15, 2011. Early adoption is not permitted. The Company does not expect the adoption of this accounting guidance to have a material impact on its consolidated financial statements and related disclosures.

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

### **International Financial Reporting Standards**

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

#### **4. Investments in Mineral Properties**

During the year ended December 31, 2011, the Company made six investments totaling \$1,374,730. During the year ended December 31, 2010, the Company made eight investments totaling \$1,031,440. Prior to 2010, the Company made nine investments totaling \$1,473,663. Several of those investments produced “dry holes” and were therefore fully impaired. During the year ended December 31, 2011, 2010, and 2009, impairment expense related to these “dry holes” was \$80,000, 765,229, and 765,229, respectively. In addition, during the year ended December 31, 2011, another investment was impaired by \$93,879 to bring the total capitalized costs in line with its market value for total impairment expense for 2011 of \$173,879. As of December 31, 2011, the Company has investments, valued at cost, of \$2,101,564; \$1,365,714 in proved wells and \$735,850 in unproved wells. As of December 31, 2010, the Company had investments, valued at cost, of \$900,714; \$305,964 in proved wells and \$594,750 in unproved wells. Capitalized costs of proved properties are amortized and expensed using the straight-line method over the estimated useful life of each well. Unproved properties are excluded from amortization. Amortization expense for the year ended December 31, 2011 and 2010 was \$119,415 and \$16,572, respectively. A summary of investments follows:

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

On May 4, 2009, the Company entered into a binding Letter of Intent (“LOI”) with S&W Oil & Gas, LLC (“S&W”) to participate in the drilling for oil in the Poston Prospect #1 Lutters in Southwest Trego County, Kansas (the “Poston Prospect”). Pursuant to the LOI, the Company paid S&W \$64,500 in exchange for a 25% working interest in the 81.5% net revenue interest in the Poston Prospect. During the year ended December 31, 2009, an additional \$44,624 was paid for completion of the oil well and for the purchase of necessary equipment. During the year ended December 31, 2010, the Company paid an additional \$106,167 for drilling and completion costs of a second well on this property. Amortization expense was \$22,568 and 16,572 on this prospect for the years ended December 31, 2011 and 2010, respectively. Subsequent to December 31, 2011, 75% of this property was sold for a loss. During the year ended December 31, 2011, an impairment charge of \$93,879 was taken on this property to bring the net book value in-line with its market value.

##### **S&W Oil & Gas, LLC – Rooney Prospect**

On June 19, 2009, the Company entered into a binding LOI with S&W to participate in the drilling for oil and natural gas in the Rooney Prospect located in southwestern Ford County, Kansas. Pursuant to the LOI, the Company paid S&W a total of \$113,333 for land acquisition and leasing costs, \$216,697 for the 3D seismic shoot costs, and \$392,231 for completion of the oil well and the purchase of necessary equipment in exchange for a 50% working interest in the 81.5 net revenue interest of the project. During the year ended December 31, 2010, this prospect was determined to be a “dry hole” and an impairment charge of \$642,260 was taken on this property to bring the total capitalized costs in-line with its market value. The property was sold for \$80,000 on October 15, 2010.

##### **Shelor 23-3 Prospect**

During the year ended December 31, 2009, the Company entered into an agreement with S&W to participate in the drilling for oil. Pursuant to the agreement, the Company paid S&W \$116,900 for a 50% working interest in the

project. During the year ended December 31, 2010, the well was determined to be a “dry hole” and the full \$116,900 was written off to impairment expense.

### **Oklahoma prospects**

During the year ended December 31, 2010, the Company entered into an agreement with Bay Petroleum to purchase working interests in several properties in Oklahoma and advanced funds for lease purchases. During the year ended December 31, 2010, the Company paid Bay Petroleum \$697,600 in exchange for 25% to 50% working interest in the net revenue of several properties in the project. \$1,374,730 of additional properties were purchased during the year ending December 31, 2011. During the year ended December 31, 2011, one well was determined to be a “dry hole” and its full \$80,000 cost was written off to impairment expense. As of December 31, 2011, amortization expense was \$96,847 relating to these wells. As of December 31, 2010, these prospects are unproved wells and were not being amortized.

### 5. Fair Value Measurements

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

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

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

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

The Company has no level 3 assets or liabilities and therefore no reconciliation has been presented for the change in level 3 assets.

The following table presents a reconciliation of all assets and liabilities measured at fair value on a recurring basis as of December 31, 2011:

|                                     | Level 1 | Level 2   | Level 3 | Fair Value |
|-------------------------------------|---------|-----------|---------|------------|
| Cash                                | \$2,609 | \$-       | \$ -    | \$2,609    |
| Accounts & other receivables        | -       | 46,417    | -       | 46,417     |
| Prepaid expenses                    | -       | 79,464    | -       | 79,464     |
| Accounts payable                    | -       | 565,552   | -       | 565,552    |
| Notes payable                       | -       | 202,484   | -       | 202,484    |
| Convertible debentures, net of disc | -       | 2,797,511 | -       | 2,797,511  |
| Accrued interest                    | -       | 456,638   | -       | 456,638    |
| Royalty interest payable            | -       | 113,164   | -       | 113,164    |
| Loan Guarantee                      | -       | 94,860    | -       | 94,860     |

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

|                                     | Level 1 | Level 2   | Level 3 | Fair Value |
|-------------------------------------|---------|-----------|---------|------------|
| Cash                                | \$3,225 | \$-       | \$ -    | \$3,225    |
| Accounts & other receivables        | -       | 15,620    | -       | 15,620     |
| Prepaid expenses                    | -       | 8,373     | -       | 8,373      |
| Accounts payable                    | -       | 251,391   | -       | 251,391    |
| Notes payable                       | -       | 40,493    | -       | 40,493     |
| Convertible debentures, net of disc | -       | 1,709,627 | -       | 1,709,627  |
| Accrued interest                    | -       | 187,331   | -       | 187,331    |

|                |   |        |   |        |
|----------------|---|--------|---|--------|
| Loan Guarantee | - | 94,860 | - | 94,860 |
|----------------|---|--------|---|--------|

## 6. Debt and Debt Guarantee

### Notes Payable

As of December 31, 2011 and 2010, the Company has a note payable of \$25,000 bearing interest at 12% per annum collateralized by a general security arrangement over all of the Company's assets. The note was payable in full on May 18, 2007 and is therefore in default as of December 31, 2011 and 2010. During years ended December 31, 2011 and 2010, the Company accrued interest expense of \$5,082 and \$4,516, respectively. As of December 31, 2011 and 2010, the balance of the note payable, including accrued interest, is \$45,575 and \$40,493, respectively.

During the year ended December 31, 2011, the Company received \$71,000 for a demand note bearing interest at 24% per annum. During the year ended December 31, 2011, the Company accrued interest expense of \$5,929. As of December 31, 2011, the balance of the note payable, including accrued interest, is \$76,929.

During the year ended December 31, 2011, the Company acquired mineral properties in exchange for a \$300,000 note payable. A down payment of \$50,000 was paid and the remainder of \$250,000 was paid in three payments starting in October of 2011.

During the year ended December 31, 2011, the Company received \$79,980 for a demand note bearing interest at 6% per annum. During the year ended December 31, 2011, the Company did not accrue interest expense on the note. As of December 31, 2011, the balance of the note payable is \$79,980.

### **Convertible Debentures - 2009**

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

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

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

### **Convertible Debentures - 2010**

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

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

amendment. The beneficial conversion feature was valued at \$515,271 and recorded as additional paid in capital. A discount on the convertible debenture was recorded in the same amount and will be amortized into interest expense over the remaining life of the debenture using the interest method. For the years ended December 31, 2010 and 2011, \$128,818 and \$386,453, respectively, was amortized into interest expense in relation to these discounts.

During the year ended December 31, 2011, the Company received additional funds of \$1,700,918. The beneficial conversion feature was valued at \$472,377 and recorded as additional paid in capital. A discount on the convertible debenture was recorded in the same amount and will be amortized into interest expense over the remaining life of the debenture using the interest method. For the year ended December 31, 2011, \$260,306 was amortized into interest expense in relation to these discounts.

The total amount of discounts amortized into interest expense during the year ended December 31, 2010 and 2011 was \$512,839 and \$646,760, respectively.

In May of 2011, the Company amended the agreement to increase the credit line from \$1,500,000 to \$1,800,000. In July of 2011, the Company amended the agreement to increase the credit line from \$1,800,000 to \$2,000,000 in exchange for a 3% royalty interest in the proceeds of the Company's working interests in mineral properties. In August of 2011, the Company amended the agreement to extend the repayment date for all advances before September 30, 2010 to November 17, 2012; and all other advances after September 30, 2010 to be due one year from the date of advance. Additionally the credit line was increased from \$2,000,000 to \$3,000,000 in exchange for an additional 3% royalty interest.

The 6% royalty interest given in the amendments was valued at the present value of estimated future payments over the life of the wells. \$113,164 was recorded as a royalty interest payable and corresponding prepaid financing charges. The prepaid expense will be amortized over the extension period of the loans. For the year ended December 31, 2011, \$35,364 was amortized into interest expense in relation to this prepaid and \$77,800 remains in prepaid expenses as of December 31, 2011. The royalty interest payable will be lowered by future royalty payments made. \$0 and \$4,418 royalties were paid and earned, respectively, in the year ended December 31, 2011.

In December of 2011, \$1,090,902 of the debenture balance was converted into 4,363,611 shares of common stock at a conversion rate of \$0.25 per share.

As of December 31, 2010, the balance due on the convertible debentures, net of the discount of \$386,453, was \$1,076,321.

As of December 31, 2011, the balance due on the convertible debentures, net of the discount of \$212,070, was \$2,164,205.

### **Loan Guarantee**

In 2004, the Company received a demand for payment from Canadian Western Bank (“CWB”) pursuant to a guarantee provided by the Company in favor of Calgary Chemical, a former subsidiary. The Company divested itself of Calgary Chemical in 1998 under an agreement with a former president and purchaser. The agreements included an indemnity guarantee from the purchaser of Calgary Chemical, whereby the purchaser would indemnify and save harmless the Company from any and all liability, loss, damage or expenses. Upon receipt of the demand, the Company accrued the amount of the claim since in the opinion of legal counsel it is more likely than not that CWB would prevail in this action. No interest expense has been accrued on this balance during 2011.

### **Interest expense**

Interest expense related to all of the above items for the year ended December 31, 2011 and 2010 was \$1,412,177 and \$888,064, respectively.

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

### **Common Stock**

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

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

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

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

During the year ended December 31, 2010, the Company issued 1,000,000 shares of common stock in conversion of \$350,000 of convertible debt at \$0.35 per shares. See Note 6 for further details.

During the year ended December 31, 2010, the Company received \$155,000 for the purchase of 442,857 shares of common stock and 442,857 warrants with an exercise price of \$0.50. As of December 31, 2010, these shares had not been issued and were shown as common stock owed but not issued. The shares were issued in 2011.

During the year ended December 31, 2010, the Company received \$15,000 for the exercise of 100,000 warrants to purchase 100,000 shares of common stock. As of December 31, 2010, these shares had not been issued and were shown as common stock owed but not issued. The shares were issued in 2011.

As of December 31, 2010, the Company had 27,060,561 shares of common stock issued and outstanding and 542,856 shares owed but not issued.

During the year ending December 31, 2011, the Company issued 542,856 shares of common stock that were owed but not issued as of December 31, 2010.

During the year ended December 31, 2011, the Company issued 600,000 shares to Directors in lieu of executive compensation. The shares were valued at \$306,000 which was market value on the day of the grant.

During the year ended December 31, 2011, the Company issued 100,000 shares of common stock for services. The shares were valued at \$51,000, which was market value on the day of the grant.

During the year ended December 31, 2011, the Company issued 200,000 units of equity for cash in the amount of \$50,000. Each unit contained one share of common stock and one warrant for a share of common stock at an exercise price of \$0.40. The warrants have a term of two years.

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During the year ended December 31, 2011, the Company issued 4,363,611 shares of common stock in conversion of \$1,090,902 of convertible debt at 0.25 per shares. See Note 6 for further details.

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.

### **Warrants**

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

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

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

During the year ended December 31, 2010, the Company issued 442,857 warrants with an exercise price of \$0.50 in relation to a stock sale. During the year ended December 31, 2011, these warrants expired.

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

As of December 31, 2011, there are 200,000 warrants outstanding at an exercise price of \$0.40.

### **8. Income Taxes**

The Company follows ASC subtopic 740-10 (formerly Statement of Financial Accounting Standard No. 109, "Accounting for Income Taxes") for recording the provision for income taxes. ASC 740-10 requires the use of the asset and liability method of accounting for income taxes. Under the asset and liability method, deferred tax assets and liabilities are computed based upon the difference between the financial statement and income tax basis of assets and

liabilities using the enacted marginal tax rate applicable when the related asset or liability is expected to be realized or settled. Deferred income tax expenses or benefits are based on the changes in the asset or liability each period. If available evidence suggests that it is more likely than not that some portion or all of the deferred tax assets will not be realized, a valuation allowance is required to reduce the deferred tax assets to the amount that is more likely than not to be realized. Future changes in such valuation allowance are included in the provision for deferred income taxes in the period of change.

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

The Company's effective income tax rate is higher than would be expected if the federal statutory rate were applied to income before tax, primarily because of expenses deductible for financial reporting purposes that are not deductible for tax purposes during the year ended December 31, 2011 and 2010. The Company's operations for the years ended December 31, 2011 and 2010 resulted in losses. Accordingly, no provision for current income taxes have been reflected in the accompanying statements of operations.

As of December 31, 2011 and 2010, the Company has total losses of approximately \$10,500,000 and \$7,750,000, respectively, since inception which may or may not be used to reduce future income taxes payable. Current Federal Tax Law limits the amount of loss available to offset against future taxable income when a substantial change in ownership occurs. Therefore, the amount of these losses available to offset future taxable income may be limited. The Company has not filed income tax returns which may also limit its ability to claim past net operating losses. A valuation allowance has been recorded to reduce the net benefit recorded in the financial statements related to this deferred asset to \$0. The valuation allowance is deemed necessary as a result of the uncertainty associated with the ultimate realization of these deferred tax assets. Accordingly, no provision for deferred income taxes have been reflected in the accompanying statements of operations.

#### **9. Related Party Transactions**

During the years ended December 31, 2011 and 2010, the Company granted 600,000 shares and 250,000 shares, respectively, to directors and officers in lieu of executive compensation.

During the period from August to December of 2011, the Company reimbursed an officer \$1,800 per month for a residential lease in Wichita, Kansas. The Company also reimbursed the officer approximately \$8,700 in connection with meals and groceries during the same period.

#### **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.

On January 24, 2012, the Company issued 900,000 shares to Directors in lieu of executive compensation. The shares were valued at \$189,000 which was market value on the day of the grant.

On March 1, 2012, the Company issued 200,000 shares in relation to consulting agreements. The shares were valued at \$46,000 which was market value on the day of the grant.

In February of 2012, the Company sold 75% of its investment in the Poston project property for \$65,000. This property accounted for approximately 33.5% of the Company's revenues during the year ended December 31, 2011.

In March of 2012, the Company issued 10,997,289 shares of common stock in conversion of \$2,177,046 of convertible debt plus interest, at \$0.25 per share.

In March of 2012, the Company issued 187,277 shares of common stock in exchange for a note payable in the amount of \$46,819.14 at \$0.25 per share.

**INDEX TO EXHIBITS**

| Exhibit Number | Name  |
|----------------|---|
| 3.1(1)         | Amended and Restated Articles of Incorporation                      |
| 3.2(1)         | Bylaws  |
| 10.1(2)        | Management and Governance Consultant Agreement with Robert McIntosh |
| 10.2(3)        | Letter of Intent with S&W Oil & Gas, LLC dated May 4, 2009.         |
| 10.3(4)        | Letter of Intent with S&W Oil & Gas, LLC dated June 11, 2009.       |
| 10.4(5)        | Letter of Intent with S&W Oil & Gas, LLC dated June 23, 2009.       |
| 10.5(6)        | Note Purchase Agreement dated August 13, 2009.                      |
| 10.6(7)        | Letter of Intent with S&W Oil & Gas, LLC dated August 25, 2009.     |
| 10.7(8)        | Secured Convertible Promissory Note dated September 15, 2009        |
| 10.8(9)        | Operating Agreement with Bay Petroleum Corp.                        |
| 10.9(10)       | Note Purchase Agreement   |
| 10.10(10)      | Form of Convertible Debenture                                       |
| 10.11(10)      | Form of Warrant   |
| 10.12(11)      | Amended and Restated Debenture                                      |
| 10.13(12)      | Purchase Agreement with Bay Petroleum Corp.                         |
| 10.14(12)      | Working Interest Agreement with Bay Petroleum Corp.                 |
| 10.15(12)      | Amendment to Amended and Restated Convertible Debenture             |
| 10.16(12)      | Royalty Agreement   |
| 10.17(13)      | Second Amendment to Amended and Restated Convertible Debenture      |

|           |  |
|-----------|--|
| 10.18(13) | Amendment to Royalty Agreement   |
| 10.19(14) | Notes Amendment  |
| 21        | List of Subsidiaries   |
| 31.1      | Rule 13(a) — 14(a)/15(d) — 14(a) Certification (Principal Executive Officer) |
| 31.2      | Rule 13(a) — 14(a)/15(d) — 14(a) Certification (Principal Financial Officer) |
| 32        | Section 1350 Certifications  |

**Footnotes to Exhibits Index**

- (1) Incorporated by reference to Form 10-SB12G dated June 19, 1997.
- (2) Incorporated by reference to Form 8-K dated March 27, 2009.
- (3) Incorporated by reference to Form 8-K dated May 6, 2009.
- (4) Incorporated by reference to Form 8-K dated June 11, 2009.
- (5) Incorporated by reference to Form 8-K dated June 23, 2009.
- (6) Incorporated by reference to Form 10-QSB for the period ended June 30, 2009.
- (7) Incorporated by reference to Form 8-K dated August 27, 2009.

- (8) Incorporated by reference to Form 8-K dated September 24, 2009.
- (9) Incorporated by reference to Form 8-K dated April 23, 2010.
- (10) Incorporated by reference to Form 8-K dated May 20, 2010.
- (11) Incorporated by reference to Form 10-Q filed May 12, 2011.
- (12) Incorporated by reference to Form 8-K dated July 19, 2011.
- (13) Incorporated by reference to Form 10-Q/A dated August 12, 2011.
- (14) Incorporated by reference to Form 8-K dated August 16, 2011.