AMERICAN PETRO-HUNTER INC
Form 10-Q
August 12, 2011

UNITED STATES SECURITIES AND EXCHANGE COMMISSION
Washington, D.C. 20549

FORM 10-Q

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

For the quarterly period ended: June 30, 2011

¨ TRANSITION REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934

For the transition period from __________ to __________

Commission File Number 0-22723

AMERICAN PETRO-HUNTER INC.
(Exact name of registrant as specified in its charter)

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

17470 North Pacesetter Way
Scottsdale, AZ 85255
(Address of principal executive offices) (Zip Code)

(480) 305-2052
(Registrant's telephone number, including area code)

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

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

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

¨ Large accelerated filer	¨ Accelerated filer	¨ Non-accelerated filer (Do not check if smaller reporting company)	x Smaller Reporting company

Indicate by check mark whether the registrant is a shell company (as defined in Rule 12b-2 of the Exchange Act). o Yes x No

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

Class	Outstanding at July 25, 2011
Common stock, $.001 par value	28,303,418

AMERICAN PETRO HUNTER INC.
FORM 10-Q

June 30, 2011

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FORWARD-LOOKING STATEMENTS

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

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

YOU SHOULD NOT PLACE UNDUE RELIANCE ON THESE FORWARD LOOKING STATEMENTS

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

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

	(Unaudited) June 30, 2011	December 31, 2010
Assets		
Current assets:		
Cash	$50,546	$ 3,225
Accounts receivable	22,257	15,620
Prepaid expenses	4,116	8,373
Total current assets	76,919	27,218
Investments in mineral properties, net of accumulated amortization of $53,707 and $16,572, respectively	1,651,007	884,142
Total assets	$1,727,926	$ 911,360
Liabilities and Stockholders' (Deficit)		
Current liabilities:		
Accounts payable and other liabilities	$258,711	$ 251,391
Note payable and accrued interest	42,939	40,493
Convertible debenture, net of discount of $431,865 and $386,453	928,315	1,076,321
Convertible debenture	633,306	633,306
Accrued interest on convertible debenture	435,504	187,331
Loan guarantee	94,860	94,860
Total current liabilities	2,393,635	2,283,702
Convertible debenture - long term	1,334,783	-
Stockholders' (deficit):		
Common stock, $0.001 par value, 200,000,000 shares authorized,28,303,418 and 27,060,561 shares issued and outstanding as of June 30, 2011 and December 31, 2010	28,304	27,061
Common stock to be issued; 0 and 542,857 shares as of June 30, 2011 and December 31, 2010	-	543
Additional paid-in capital	7,195,262	6,348,559
Accumulated comprehensive gain (loss)	(8,114)	(8,114)
(Deficit) accumulated during development stage	(9,215,944)	(7,740,391)
Total stockholders' (deficit)	(2,000,492)	(1,372,342)
Total liabilities and stockholders' (deficit)	$1,727,926	$ 911,360

The accompanying notes are an integral part of these financial statements

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

	For the three months ended June 30,		For the six months ended June 30,		For the Period from January 24, 1996 (inception) to June 30, 2011
	2011	2010	2011	2010	
Revenue	$74,533	$10,794	$120,202	$20,123	$ 290,684
Cost of Goods Sold					
Production and amortization	61,490	488	87,341	11,371	163,430
Gross profit	13,043	10,306	32,861	8,752	127,254
General and administrative	174,390	126,601	269,512	200,178	2,797,575
Executive compensation	372,000	51,000	438,000	285,000	1,441,237
Rent	10,012	12,529	17,542	21,165	118,892
Impairment expense	-	-	-	116,900	1,859,340
Total expenses	556,402	190,130	725,054	623,243	6,217,044
Net loss before other income (expense)	(543,359)	(179,824)	(692,193)	(614,491)	(6,089,790)
Other income (expense):					
Interest expense	(372,133)	(173,811)	(783,360)	(454,858)	(1,936,864)
Loan placement fee	-	-	-	-	(238,227)
Loss from loan guarantee	-	-	-	-	(84,858)
Loss from settlement of debt	-	-	-	-	(14,971)
Income from debt forgiveness	-	-	-	-	85,960
Total other income (expense)	(372,133)	(173,811)	(783,360)	(454,858)	(2,188,960)
Net loss from continuing operations	(915,492)	(353,635)	(1,475,553)	(1,069,349)	(8,278,750)
Net loss from discontinued operations	-	-	-	-	(937,194)
Net loss	(915,492)	(353,635)	(1,475,553)	(1,069,349)	(9,215,944)
Foreign currency translation gain	-	-	-	-	(8,114)
Comprehensive loss	$(915,492)	$(353,635)	$(1,475,553)	$(1,069,349)	$ (9,224,058)
Weighted average common shares outstanding - basic and fully diluted	27,407,776	27,060,561	27,100,618	26,406,316	

Net (loss) per share - basic and fully diluted	(0.033)	(0.013)	$(0.054)	$(0.040)

The accompanying notes are an integral part of these financial statements

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

	Shares	Amount	Additional Paid-in Capital	Common Stock owed but not issued be issued	Deficit accumulated during the development stage	Accumulated Comprehensive Loss gain(loss)	Total Stockholder's (deficit) (Deficit)
Shares issued for cash, net of issue costs	10,497,300	$ 10,497	$ 296,833	$ -	$ -	$ -	$ 307,330
Net income	-	-	-	-	4,856	-	4,856
Balance at December 31, 1996	10,497,300	10,497	296,833	-	4,856	-	312,186
Shares issued for cash, net of issue costs	187,416	187	46,850	-	-	-	47,037
Net loss	-	-	-	-	(96,386)	-	(96,386)
Unrealized foreign exchange gain	-	-	-	-	-	8,258	8,258
Balance at December 31, 1997	10,684,716	10,684	343,683	-	(91,530)	8,258	271,095
Stock reverse split 3:1	(7,123,094)	(7,123)	7,123	-	-	-	-
Shares issued	7,773,026	7,773	1,980,833	-	-	-	1,988,606
Unrealized foreign exchange loss	-	-	-	-	-	(8,258)	(8,258)
Net loss	-	-	-	-	(1,798,830)	-	(1,798,830)
Balance at December 31, 1998	11,334,648	11,334	2,331,639	-	(1,890,360)	-	452,613
1998 issuance cancelled	(4,800,000)	(4,800)	(1,339,200)	-	-	-	(1,344,000)
Share issue costs	500,000	500	85,000	-	-	-	85,500
Net loss	-	-	-	-	(307,331)	-	(307,331)
Balance at December 31, 1999	7,034,648	7,034	1,077,439	-	(2,197,691)	-	(1,113,218)
Shares issued	4,435,570	-	1,083,791	-	-	-	1,083,791
Finders' fees	-	-	48,000	-	-	-	48,000
Share purchase warrants	-	-	80,000	-	-	-	80,000
Net loss	-	-	-	-	(547,097)	-	(547,097)
Balance at December 31, 2000	11,470,218	7,034	2,289,230	-	(2,744,788)	-	(448,524)

Stock reverse split 10:1	(10,323,196)	(5,887)	5,887	-	-	-	-
Shares issued	4,253,617	4,254	552,106	-	-	-	556,360
Net loss	-	-	-	-	(297,352)	-	(297,352)
Balance at December 31, 2001	5,400,639	5,401	2,847,223	-	(3,042,140)	-	(189,516)
Shares issued	220,000	220	21,780	-	-	-	22,000
Net loss	-	-	-	-	(29,664)	-	(29,664)
Balance at December 31, 2002	5,620,639	5,621	2,869,003	-	(3,071,804)	-	(197,180)
Shares issued	430,000	430	25,370	-	-	-	25,800
Other comprehensive loss	-	-	-	-	17,920	(17,920)	-
Net loss	-	-	-	-	(57,652)	-	(57,652)
Balance at December 31, 2003	6,050,639	6,051	2,894,373	-	(3,111,536)	(17,920)	(229,032)
Shares issued for services rendered	475,000	475	56,525	-	-	-	53,774
Other comprehensive loss	-	-	-	-	-	(9,773)	(9,773)
Net loss	-	-	-	-	(134,058)	-	(134,058)
Balance at December 31, 2004	6,525,639	6,526	2,950,898	-	(3,245,594)	(27,693)	(319,089)
Shares issued for services rendered	-	-	-	-	-	-	3,226
Shares issued for cash	1,739,380	1,739	85,230	-	-	-	86,969
Other comprehensive loss	-	-	-	-	-	(6,156)	(6,156)
Net loss	-	-	-	-	(70,711)	-	(70,711)
Balance at December 31, 2005	8,265,019	8,265	3,036,128	-	(3,316,305)	(33,849)	(305,761)
Other comprehensive loss	-	-	-	-	-	(6,380)	(6,380)
Net loss	-	-	-	-	(72,398)	-	(72,398)
Balance at December 31, 2006	8,265,019	8,265	3,036,128	-	(3,388,703)	(40,229)	(384,539)
Other comprehensive loss	-	-	-	-	-	(49,031)	(49,031)
Share subscription received in advance	-	-	-	60,000	-	-	60,000
Net loss	-	-	-	-	(107,554)	-	(107,554)
Balance at December 31, 2007	8,265,019	8,265	3,036,128	60,000	(3,496,257)	(89,260)	(481,124)

**							
Share issued for subscription recd in 07	1,200,000	1,200	58,800	(60,000)	-	-	-
Common stock sold at $0.05 per share	600,000	600	29,400	-	-	-	30,000
Share subscription received in 2008	-	-	-	40,000	-	-	40,000
Other comprehensive gain	-	-	-	-	-	81,146	81,146
Net loss	-	-	-	-	(123,823)	-	(123,823)
Balance at December 31, 2008	10,065,019	10,065	3,124,328	40,000	(3,620,080)	(8,114)	(453,801)
Shares issued that were owed	800,000	800	39,200	(40,000)	-	-	-
Shares issued for cash	2,250,000	2,250	42,750	-	-	-	45,000
Shares issued for accts payable conversion	8,254,088	8,254	156,828	-		-	165,082
Shares issued for notes payable conversion	879,454	880	218,984	-	-	-	219,864
Warrants issued for services	-	-	238,227	-	-	-	238,227
Warrant exercise	1,500,000	1,500	223,500	-	-	-	225,000
Shares sold for cash, not issued at year-end	-	-	66,310	190	-	-	66,500
Warrant exercise, not issued yet at year-end	-	-	418,883	1,641	-	-	420,524
Warrants issued with debt	-	-	581,626	-	-	-	581,626
Net loss	-	-	-	-	(1,655,978)	-	(1,655,978)
Balance at December 31, 2009	23,748,561	$ 23,749	$ 5,110,636	$ 1,831	$ (5,276,058)	$ (8,114)	$ (147,956)
Shares issued for compensation	250,000	250	169,750	-	-	-	170,000
Shares issued that were owed	1,830,825	1,831	-	(1,831)	-	-	-
Exercise of warrants	231,175	231	34,445	-	-	-	34,676
Convertible debenture converted to stock	1,000,000	1,000	349,000	-	-	-	350,000

Shares sold for cash	-	-	154,557	443	-	-	155,000
Exercise of warrants	-	-	14,900	100	-	-	15,000
Beneficial conversion feature issued on convertible debenture	-	-	515,271	-	-	-	515,271
Net loss	-	-	-	-	(2,464,333)	-	(2,464,333)
Balance at December 31, 2010	27,060,561	27,061	6,348,559	543	(7,740,391)	(8,114)	(1,372,342)
Beneficial conversion feature issued on convertible debenture	-	-	490,403	-	-	-	490,403
Shares issued, not previously issued	542,857	543		(543)			-
Shares issued for compensation	600,000	600	305,400				306,000
Shares issued for services	100,000	100	50,900				51,000
Net loss	-	-	-	-	(1,475,553)	-	(1,475,553)
Balance at June 30, 2011	28,303,418	$ 28,304	$ 7,195,262	$ -	$ (9,215,944)	$ (8,114)	$ (2,000,492)

The accompanying notes are an integral part of these financial statements

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

	For the six months ended June 30, 2011	For the six months ended June 30, 2010	For the period from the date of inception on January 24, 1996 to June 30, 2011
Cash flows from operating activities			
Net (loss)	$(1,475,553)	$(1,069,349)	$ (9,215,944)
Adjustments to reconcile net (loss) to net cash used in operating activities:			
(Gain) loss from loan guarantee	-	-	94,860
Warrants issued for services	-	-	366,227
Shares issued for services and compensation	357,000	170,000	1,519,558
Amortization of discount	444,993	366,857	1,155,438
Impairment expense	-	116,900	1,531,889
Amortization of mineral properties	37,135	-	53,707
Changes in operating assets and liabilities:			
(Increase) decrease in accounts receivable	(6,637)	(1,259)	(22,257)
(Increase) decrease in other receivable	-	(163,798)	-
(Increase) decrease in prepaid expenses	4,257	(4,000)	(4,116)
Increase (decrease) in accounts payable and accrued liabilities	7,320	124,883	2,037,071
Increase (decrease) in accrued interest	250,618	16,763	458,864
Increase (decrease) in due to related parties	-	-	(107,170)
Net cash used by operating activities	(380,867)	(443,003)	(2,131,873)
Cash flows from investing activities			
Proceeds from sale of mineral properties	-	-	80,000
Acquisition of mineral properties	(804,000)	(682,642)	(3,309,103)
Net cash used by investing activities	(804,000)	(682,642)	(3,229,103)
Cash flows from financing activities			
Proceeds from sale of common stock, net of share issuance costs	-	155,000	803,168
Proceeds from warrant exercise	-	49,676	695,200
Proceeds from note payable	-	-	243,000
Proceeds from convertible debenture	1,232,188	895,984	3,694,962
Payments for convertible debenture	-	-	(16,694)
Net cash provided by financing activities	1,232,188	1,100,660	5,419,636
Foreign currency translation effect on cash	-	-	(8,114)
Net increase (decrease) in cash	47,321	(24,985)	50,546
Cash - beginning	3,225	38,021	-
Cash - ending	$50,546	$13,036	$ 50,546
Supplemental disclosures:			

Interest paid	$68,250	$69,000	$ 237,165
Income taxes paid	$-	$-	$ -
Non-cash transactions:			
Warrants issued for services	$-	$-	$ 366,227
Shares issued for services and compensation	$357,000	$170,000	$ 1,519,558
Note payable converted to common stock	$-	$350,000	$ 569,864
Accounts payable converted to common stock	$-	$-	$ 165,082

The accompanying notes are an integral part of these financial statements

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

1. Nature and Continuance of Operations

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

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

Going Concern

These financial statements have been prepared in accordance with accounting principles generally accepted in the United States of America ("GAAP") applicable to a going concern, which contemplates the realization of assets and the satisfaction of liabilities and commitments in the normal course of business. The Company is at a development stage and has minimal revenues, has limited assets and has accumulated deficit and comprehensive losses during the development period of $9,224,058 and requires additional funds to maintain its operations. Management's plan in this regard is to raise equity financing as required. There can be no assurance that sufficient funding will be obtained. The foregoing matters raise substantial doubt about the Company's ability to continue as a going concern. The condensed financial statements do not include any adjustments relating to the recoverability and classification of recorded assets, or the amounts of and classification of liabilities that might be necessary in the event the Company cannot continue in existence.

Development Stage Activities

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

2. Significant Accounting Policies

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

Principles of accounting

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

Income taxes

The Company accounts for income taxes under FASB Codification Topic 740-10-25 ("ASC 740-10-5"). Under ASC 740-10-25, deferred tax assets and liabilities are recognized for the future tax consequences attributable to differences between the financial statement carrying amounts of existing assets and liabilities and their respective tax bases. Deferred tax assets and liabilities are measured using enacted tax rates expected to apply to taxable income in the years in which those temporary differences are expected to be recovered or settled. Under ASC 740-10-25, the effect on deferred tax assets and liabilities of a change in tax rates is recognized in income in the period that includes the enactment date. See footnote 8 for further details.

Revenue Recognition

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

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

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

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

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

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

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

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

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

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

3. Recent Accounting Pronouncements

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

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

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

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

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

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

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

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

4. Investments in Mineral Properties

During the six month ended June 30, 2011, the Company made three investments totaling $804,000. During the year ended December 31, 2010, the Company made eight investments totaling $1,031,440. Several of those investments produced "dry holes" and were therefore fully impaired. During the six months ended June 30, 2011, impairment expense related to these "dry holes" was $0 and during the year ended December 31, 2010, impairment expense related to these "dry holes" was $765,229. As of June 30, 2011, the Company has investments, valued at cost, of $1,704,714; $670,714 in proved wells and $1,034,000 in unproved wells. As of December 31, 2010, the Company has investments, valued at cost, of $900,714; $305,964 in proved wells and $594,750 in unproved wells. Capitalized costs of proved properties are amortized and expensed using the straight-line method over the estimated useful life of each well. Unproved properties are excluded from amortization. Amortization expense for the six months ended June 30, 2011 and year ended December 31, 2010 was $37,135 and $16,572, respectively. Amortization expense was not taken in the year ended December 31, 2009 because it was immaterial to the overall financials. A summary of investments follows:

S&W Oil & Gas, LLC - Poston Prospect
On May 4, 2009, the Company entered into a binding Letter of Intent ("LOI") with S&W Oil & Gas, LLC ("S&W") to participate in the drilling for oil in the Poston Prospect #1 Lutters in Southwest Trego County, Kansas (the "Poston Prospect"). Pursuant to the LOI, the Company paid S&W $64,500 in exchange for a 25% working interest in the 81.5% net revenue interest in the Poston Prospect. During the year ended December 31, 2009, an additional $44,624 was paid for completion of the oil well and for the purchase of necessary equipment. During the year ended December 31, 2010, the Company paid an additional $106,167 for drilling and completion costs of a second well on this property. Amortization expense was $11,221 and 16,572 on this prospect for the six months ended June 30, 2011 and year ended December 31, 2010, respectively.

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

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

Shelor 23-3 Prospect

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

Oklahoma prospects
During the year ended December 31, 2010, the Company entered into an agreement with Bay Petroleum to purchased working interests in several properties in Oklahoma and advanced funds for lease purchases. The Company paid Bay Petroleum $697,600 in exchange for 25% to 50% working interest in the net revenue of the project. Additional properties were purchased during the six month period ending June 30, 2011 of $804,000. As of June 30, 2011, amortization expense was $18,862. As of December 31, 2010, these prospects are unproved wells and were not being amortized.

5. Fair Value Measurements

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

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

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

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

The Company has no level 3 assets or liabilities.

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

	Level 1	Level 2	Level 3	Fair Value
Cash	$50,546	$-	$-	$50,546
Accounts & other receivables	-	22,257	-	22,257
Accounts payable	-	258,711	-	258,711
Notes payable	-	42,939	-	42,939
Convertible debentures, net of disc.	-	2,896,404	-	2,896,404
Accrued interest	-	435,504	-	435,504
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.				