

American Petro-Hunter, Inc.

OTCBB: AAPH

May 18, 2011 Close

DJIA: 12,560.18
S&P 500: 1,340.68
NASDAQ Comp: 2,815.00
Russell 2000: 833.45



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Recommendation: BUY

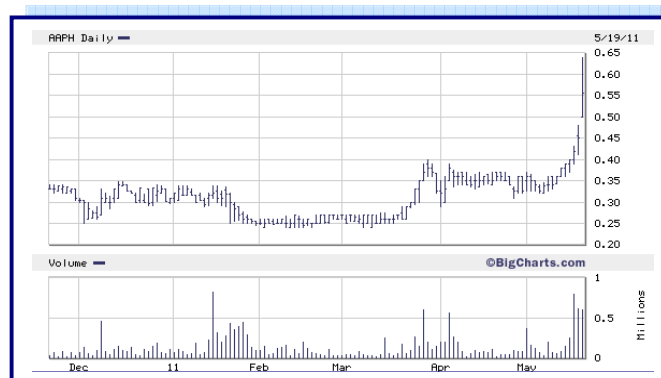
12 Mo. Price Target: \$1.45

COMPANY AND MARKET DATA

Stock Price 05/18/11:	\$0.45	Market Cap.:	\$12.18 M	FY 2011E EPS	\$ 0.08
52 Week Price Range:	\$0.24 – 0.90	Shares Outstanding:	27.06 M	P/E (FY 2011E)	5.08
Industry/Sector:	Oil & Gas (E&P)	Float (est):	26.81 M	FY 2010A EPS (FD)	\$ (0.09)

BASIS FOR RECOMMENDATION

✚ We are initiating a **BUY** rating for American Petro-Hunter, Inc. (OTCBB: AAPH), an emerging junior oil exploration and production (E&P) company that is actively seeking to capitalize on burgeoning demand and high oil prices by strategically acquiring and consolidating the operations of various properties (where possible), based on estimated reserves, ease of extraction and location.



✚ **Solid Project Portfolio:** The Company's primary producing properties will be on the Mississippi Formation in North Oklahoma and Kansas, and are classic over-producers. The Mississippi's geology is well understood as a result of the thousands of vertical wells drilled and produced there since the 1940s. The recent applications of horizontal drilling and multi-stage hydraulic fracturing, both utilized by AAPH, have demonstrated the potential for extracting significant additional quantities of oil and natural gas from the formation.

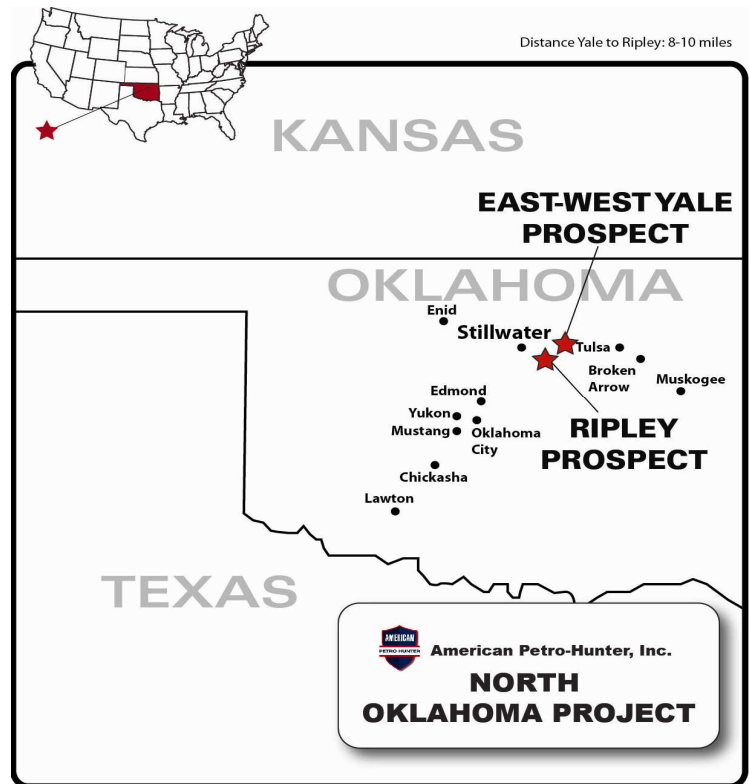
✚ **Timely Strategy:** Most readers are aware that oil prices have skyrocketed this year. The late 2010 and early 2011 predictions of \$80 a barrel this year have been blown out of the water, hitting nearly \$127 a barrel at one point (which is still below August 2008's all-time high of \$147). Based on this and other data we have collected, we have made several assumptions regarding the prospects of American Petro:

- First, with oil prices where they are, the risk profiles of E&P companies, no matter how small, have changed for the better.
- There has been a significant increase in exploration and development activity in the U.S. across the board – both in terms of the size of companies and geographic regions, including where American Petro operates.
- Oil prices will remain at least \$100 a barrel through the rest of 2011.

BUSINESS / PRODUCT OVERVIEW

American Petro-Hunter, Inc. is an emerging, expertly managed oil exploration and production (E&P) company. AAPH's business strategy is based on acquiring and developing high quality projects with existing and expansion potential (mostly through horizontal drilling). The Company has a diversified portfolio of assets with four wells in production and one slated to produce any day. American Petro is currently operating three projects: **Ripley** in Oklahoma (one well soon), **Poston** in Trego County, Kansas (2 wells) and **Yale** in Oklahoma (4 wells). Ripley and Yale are collectively referred to as **North Oklahoma**. Poston is currently producing, as are two wells at Yale.

By relying on experience, science and proven growth strategies in order to continuously balance a risk/reward portfolio, American Petro is focused on its existing leased properties to begin full production, while continually maintaining an eye to expand its acreage/leases at its North Oklahoma Project.



Company Strategy Brief

- **Acquire Capacity.** The Company has stated that it intends to become a 500-1000 BOE producer in the next 12-36 months by aggressively developing its Poston and North Oklahoma. Through the second half of this year, we have predicted 323 barrels a day, so this goal certainly seems realistic.
- **Utilize Strategic Relationships.** The Company continually strives to expand its network in North Oklahoma. Combined with successful efforts accounting, American Petro has been able to secure leases and develop properties with friendly strategic partners and run very lean from an outgoing cashflow perspective.
- **Increase Efficiencies (Geographic Concentration).** Because of fragmentation, huge demand, and the surge in exploration activities due to skyrocketing oil prices, the U.S. oil industry (particularly the independent, junior players) is marked by inefficiencies. This is why we like the fact that American Petro has geographically concentrated its operations, which better suits a fledgling E&P company in our opinion. Furthermore, we like to see the "P" of "E&P" (production) being the primary focus. Securing leases in this environment has been a nice coup, so now is the time to focus on developing the wells and generating revenue in a region that has certainly shown itself to be a top producer and has the interest of big players.

MARKET OVERVIEW

U.S. Oil Outlook

Everyone knows how economically dependent the U.S. is on oil. Many say it is the primary driver of our economy, and despite much of the talk regarding "dependence on foreign oil" and "alternative sources of energy", oil remains central to our economy and will for some time. Furthermore, it is common knowledge that oil prices have skyrocketed this year. The late 2010 and early 2011 predictions of \$80 a barrel this year have been blown out of the water, hitting nearly \$127 a barrel at one point (which is still below August 2008's all-time high of \$147).

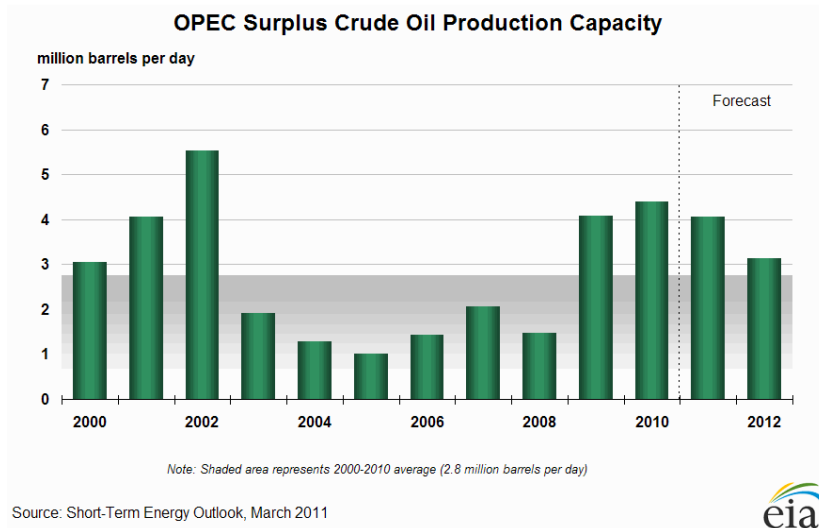
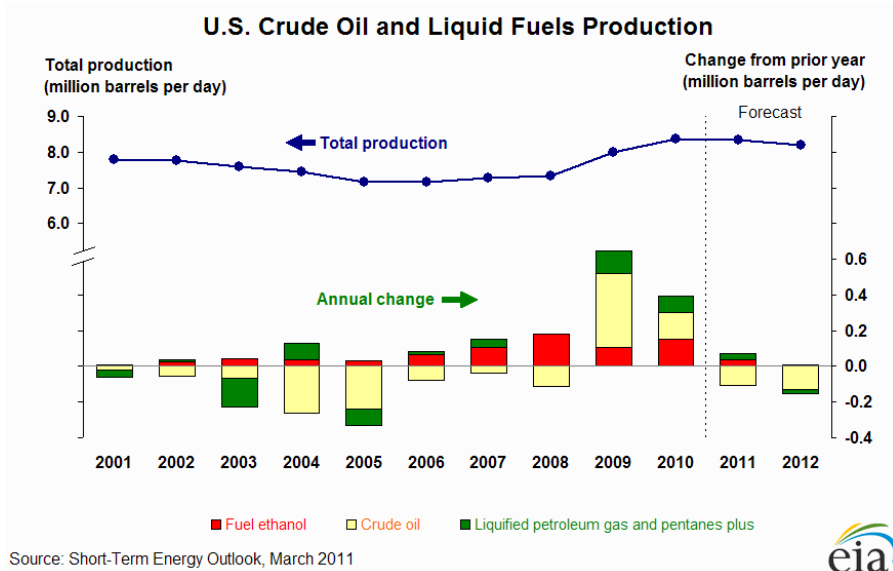
Conflicts in the Middle East, namely Libya, and economic recovery (albeit slow) are often cited as the primary reason behind the surge. In addition, there are conflicting estimates and seemingly contradictory analysis on our future.

On April 12, 2011, the U.S. Energy Information Administration (EIA) released the April 2011 Short-Term Energy and Summer Fuels Outlook that includes a detailed look at the forecast for transportation fuels during the upcoming summer (April through Sept. 2011), traditionally a time when demand peaks. Regular-grade gasoline retail prices, which averaged \$2.76 per gallon last summer, are projected to average \$3.86 per gallon during the 2011 driving season.

Because taxes and retail distribution costs are generally stable, movements in gasoline and diesel prices are driven primarily by changes in crude oil prices and wholesale margins. The retail price projections in the EIA's report reflect higher prices for the refiner acquisition cost of crude oil, which will average about \$112 per barrel (\$2.67 per gallon) this summer compared with the \$75 per barrel (\$1.78 per gallon) average of last summer.

One thing is for sure - the price forecast for transportation fuels is highly uncertain, in large part due to the uncertainty in the EIA Outlook for crude oil prices (many analysts, however, see little link between retail gas prices and the common quote for crude oil because gasoline is refined from a different kind of crude). Both recent experience and the sizable participation in near-term futures options contracts clearly demonstrate that prices can move within a wide range in a relatively short period. For example, the lower and upper limits for the 95% confidence interval for the June 2011 WTI futures contract over the five trading days ending April 7, 2011 were \$90 and \$132 per barrel, respectively.

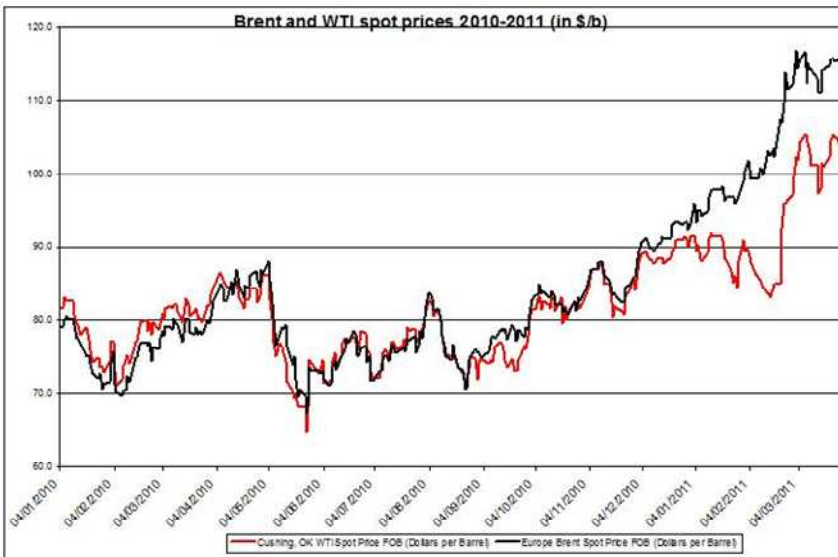
Complicating the matter even further, is the EIA's prediction that OPEC production will drop from 2010 levels and U.S. production will rise only slightly (see charts above). Other evidence, however, points to increased U.S. production as oil prices have climbed. "This is being driven by the appetite to find more oil, comfort that today's oil prices will be sustained and companies getting out of a hunker-down, recession mode," said James West, an energy analyst with Barclays, earlier this year.



Further, a recent article *IBTimes* stated (quoting Phil McPherson, Global Hunter Securities' Senior Analyst), "But as with any business, when the demand is there and the visibility is there, entrepreneurs rise up to the challenge because they know they can make money. I think you're going to be surprised that in 2011 the likes of Halliburton Co. (NYSE:HAL) and Schlumberger Ltd. (NYSE:SLB), as well as lot of other smaller companies, are going to have more crews out working. There's going to be enough demand there. It's all a function of oil prices, and as long as they are in this relative range, people are going to continue to drill these wells. I don't think margin makes as much of an impact as the NAV (net asset value) that you can grow with these companies via drilling these wells and growing reserves."

Based on this data, we have made several assumptions regarding the prospects of American Petro:

- ◆ First, with oil prices where they are, the risk profiles of E&P companies, no matter how small, have changed for the better.
- ◆ There has been a significant increase in exploration and development activity in the U.S. across the board – both in terms of the size of companies and geographic regions, including where American Petro operates.
- ◆ Oil prices will remain at least \$100 a barrel through the rest of 2011.



Price Summary

	Year				Percent Change		
	2009	2010	2011	2012	09-10	10-11	11-12
WTI Crude^a (\$/barrel)	61.65	79.40	102.67	107.00	28.8	29.3	4.2
Gasoline^b (\$/gal)	2.35	2.78	3.63	3.66	18.4	30.5	0.9
Diesel^c (\$/gal)	2.46	2.99	3.89	3.93	21.5	30.1	0.8
Heating Oil^d (\$/gal)	2.52	2.97	3.76	4.00	17.8	26.3	6.6
Natural Gas^d (\$/mcf)	12.12	11.18	11.36	12.22	-7.8	1.6	7.5
Electricity^d (cents/kwh)	11.51	11.58	11.84	11.85	0.6	2.3	0.1

^a West Texas Intermediate. ^d Average regular pump price.
^c On-highway retail. ^e U.S. Residential average.

Source: EIA (5/18/11) <http://www.eia.doe.gov/steo/>

Also like most commodities, investment in oil has performed phenomenally well (outperforming stocks - as evidenced by the chart below comparing the AMEX Oil Index (XOI) with the S&P 500 and NASDAQ over the past year.



Regional Production

According to The U.S. Geological Service (USGS) website, with current technology, the U.S. (including Alaska) has approximately 50 billion barrels of producible oil in place. Most of the assessments were made before the current horizontal drilling and fracking (a process in which fluid is injected at high pressure into oil deposits to fracture the rock above and release the liquid below) procedures were developed, however, which make oil easier to find and extract.

Current recovery factors for oil fields around the world typically range between 10 and 60 percent; some are over 80 percent. The wide variance is due largely to the diversity of fluid and reservoir characteristics for different deposits.¹

Production in the Lower 48 states is highly fragmented and is divided into six primary regions as evidenced by the map below. The Company's three producing properties are located in Kansas and Oklahoma on the Mississippi and Woodford formations.



According to the latest statistics, Kansas ranks among the top ten U.S. states in crude oil production, with its \$6.3 billion oil and gas industry. Oklahoma is the fifth-largest producer of crude oil (at \$23 billion) in the U.S., with the second-greatest number of active drilling rigs. The state also ranks fifth in crude oil reserves and is home to some of the country's largest oil companies including Devon Energy Corporation, Chesapeake Energy Corporation, and SandRidge Energy Corporation.

Speaking of SandRidge, during our analysis of the Company's projects, we came across an article on *Seeking Alpha* by "The Patient Investor". In the article the author states, "I did this same type of analysis (referring to a formula found at http://en.wikipedia.org/wiki/Oil_in_place) in another article I wrote regarding SandRidge Energy (NYSE:SD). When I did the same type of analysis, I came up with 1.5 billion potential oil reserves in the land they held and 10 billion barrels of potential oil in Mid Continent Mississippian Play in Kansas and Oklahoma. When I looked at the USGS information, I couldn't find any estimate of reserves on this specific oil play, but they had a low estimate for a basin that overlays part of this play."² Note: part of the discrepancy alluded to by the author could be the difference between "reserves" and "oil-in-place", which the formula calculates.

BUSINESS & STRATEGY

As stated previously, the oil industry in the U.S. is very fragmented, which is why we like the fact that American Petro has geographically concentrated its operations, which better suits a fledgling E&P company in our opinion. The downside to this has been the dynamic nature of the Company's properties, which might be difficult for some to keep straight, but in general are divided into: 1) Producing properties; and 2) Exploration properties. So for simplicity, our discussion and analysis is based on this point in time for the currently producing, or very near-term producing properties (with the exception of one well that is uncertain regarding the timeline but accounts for a small portion of our production estimate).

One thing is very apparent, however; American Petro is actively seeking to capitalize on burgeoning demand and high oil prices by strategically acquiring and consolidating the operations of various properties (where possible), based on estimated reserves, ease of extraction and location.

¹ ^ "Defining the Limits of Oil Production". *International Energy Outlook 2008*. U.S. Department of Energy. June 2008

² <http://seekingalpha.com/article/256403-how-much-oil-does-the-u-s-have-in-the-ground-what-does-it-mean-for-investors>

Mississippi Formation. The Mississippi formation (also called the “Mississippian”) is located on the Anadarko Shelf in Northern Oklahoma and Southern Kansas. The top of this expansive carbonate hydrocarbon system is encountered between 4,000 and 6,000 feet and lies stratigraphically between the Pennsylvanian-aged Morrow Sand and the Devonian-aged Woodford Shale formations. The formation’s geology is well understood as a result of the thousands of vertical wells drilled and produced there since the 1940s. Beginning in 2007, the application of horizontal drilling and multi-stage hydraulic fracturing (“fracking”) treatments have demonstrated the potential for extracting significant additional quantities of oil and natural gas from the formation.

Since the beginning of 2009, there have been over 95 horizontal wells drilled and completed in the Mississippi formation in Oklahoma. During that time, SandRidge Energy has drilled 37 of those, of which 29 were producing and eight were awaiting completion at December 31, 2010.³



The Company has a diversified portfolio of assets with two production and one field development properties. In short, the Company is currently operating three projects: **Ripley** in Oklahoma (one well soon), **Poston** in Trego County, Kansas (2 wells) and **Yale** in Oklahoma (4 wells). Ripley and Yale are collectively referred to as **North Oklahoma**.

To ascertain 2011’s production, we have deferred to management’s estimates and, on the side of conservatism, pushed the timeline out 30-60 days. Therefore, our estimates could actually prove to be on the modest side, particularly with horizontal drilling that could lead to more – and faster - production. Also, we are omitting much of the specific geological detail from our discussion. Interested parties can refer to the Company’s website or 10-K filing for property/well descriptions. The following table summarizes the three projects:

American Petro-Hunter Project Matrix

<i>Project</i>	<i>Formation</i>	<i>Well(s)</i>	<i>Acquisition Cost (\$)</i>	<i>Working Interest</i>	<i>Net BBLs/D</i>	<i>Production Timeline</i>	<i>Est. 2011 Prod.</i>	<i>% of Total</i>
Ripley*	Mississippi	NOM1H	20,000	25%	200	Aug. 2011; Nov. 2011 another 600	36,800	59.35%
Yale*	Mississippi	NOJ226**	18,000	50%	8	May; Aug. 2011 another 2	2,266	3.65%
	Mississippi	NOS227**	12,000	50%	50	Aug. 2011	7,650	12.34%
	Sand	NOS122 ***	16,000	50%	60	May 2011, Full prod. June	12,840	20.71%
	Shale	No.1 **	12,000	25%	4	Nov-10	1,958	3.16%
Poston	Mississippi	Lutters 1 & 3 **	18,750	25%	6	May 2011; Aug. another 4	488	0.79%
Total							62,002	

* - collectively, "North Oklahoma"
 ** - currently producing
 *** - production to commence any day

As stated previously, things are changing fast with the Company. Already producing small amounts at Poston and the Lutters wells at Yale, Since we started our analysis, American Petro recently released news that the well designated as NOS122 (also at Yale) has been re-entered, swab tested and deemed ready for immediate commercial production. Tests have shown a final rate of five barrels per hour or the equivalent of 120 barrels per day at 2,700 feet. The testing showed 100% oil cut with no water from six feet of sand within the Skinner Formation. We have used 60 BBL/D net to the Company starting in June.

³ SandRidge Energy, Inc. 10-K, filed Feb. 28, 2011

OUTLOOK / FINANCIALS

As previously stated, for purposes of our valuation, we are only focusing on producing or near-production wells, that is, Kansas Poston, and Oklahoma Yale and Ripley.

Historical / Projected Financials

\$000s Actual - A Estimates - E	Fiscal 2009-A 31-Dec-09		Fiscal 2010-A 31-Dec-10		Q1 2011-A 31-Mar-11	Q2 2011-E 30-Jun-11	Q3 2011-E 30-Sep-11	Q4 2011-E 31-Dec-11	Fiscal 2011-E 31-Dec-11	
Revenue	\$ 78	100.0%	\$ 93	100.0%	\$ 46	\$ 313	\$ 1,028	\$ 4,913	\$ 6,300	100.0%
Cost of Goods Sold	13	14.0%	63	67.7%	26	132	434	1,451	2,044	32.4%
Gross Profit	65	69.9%	30	32.3%	20	181	594	3,462	4,257	67.6%
Operating Expenses										
General & Administrative	348	446.2%	376	404.3%	95	124	309	927	1,455	23.1%
Executive Compensation	174	223.1%	430	462.4%	66	66	66	165	363	17.8%
Rent	1	1.3%	41	44.1%	8	8	8	16	40	0.9%
Impairment Expense	765	980.8%	759	816.1%	-	-	-	-	-	0.0%
Total Operating Expenses	1,288	1651.3%	1,606	1726.9%	169	198	383	1,108	1,858	29.5%
Operating Income	(1,223)	-1315.1%	(1,576)	-1694.6%	(149)	(17)	211	2,353	2,399	38.1%
Other Expense/(Income)										
Interest Expense/(Income), Net	265	339.7%	888	954.8%	411	411	411	411	1,644	26.1%
Other Expense/(Income)	167	214.1%	-	-	-	-	-	-	-	-
Income (Loss) Before Taxes	(1,655)	-2121.8%	(2,464)	-2649.5%	(560)	(428)	(200)	1,942	755	12.0%
Provision for Income Taxes*	-	0.0%	-	0.0%	-	-	-	-	-	0.0%
Effective Tax Rate	0%		0%		0%	0%	0%	0%	0%	
Net Income (Loss)	\$ (1,655)	-2121.8%	\$ (2,464)	-2649.5%	\$ (560)	\$ (428)	\$ (200)	\$ 1,942	\$ 2,399	38.1%
Basic EPS	\$ (0.08)		\$ (0.09)		\$ (0.02)	\$ (0.01)	\$ (0.01)	\$ 0.06	\$ 0.08	
Fully Diluted EPS	\$ (0.08)		\$ (0.09)		\$ (0.02)	\$ (0.01)	\$ (0.01)	\$ 0.06	\$ 0.08	
Weighted Average Shares:										
Basic Shares Out.	20,348,579		26,736,127		27,060,561	28,727,228	30,393,894	32,060,561	29,560,561	
Fully Diluted Shares Out.	20,348,579		26,736,127		27,060,561	28,727,228	30,393,894	32,060,561	29,560,561	

* - assumes 50% realization of the deferred tax asset

There are several methods to value an E&P company. One of the most common is an asset-based approach which takes into account the value of any proven reserves less the cost to extract them. Since we don't have reserve reports (commonly known as "PV10s"), we cannot accurately value the Company using this method way. Furthermore, a discounted cash flow analysis would force us to estimate production and the price of oil well into the future. Since American-Petro has no significant production run rate, this is next to impossible.

Given this, we feel that multiple comparisons, such as the price-to-sales ratio (P/S) and enterprise value-to-sales ratio, are the most reasonable value methodologies in our opinion - in that they show the current market values of similar companies from a topline standpoint. To form the basis of our valuation we are using the underlying assumption that the value of the Company should mirror that of its closest peers - based on at least one of the following: product(s), target markets, sales and corporate strategies. Peer data is shown on the following page:

Peer Data

	Jayhawk Energy Inc. (JYHW.OB)	TX Holdings, Inc. (TXHG.OB)	Arkanova Energy Corp. (AKVA.OB)	Pegasi Energy Resources Corporation (PGSI.OB)	Majestic Oil & Gas, Inc. (MJOG.PK)	Glen Rose Petroleum Corp. (GLRP.OB)	Ring Energy, Inc. (RNGE.PK)	Enerjex Resources, Inc. (ENRJ.OB)
TTM Sales (000)	\$ 570	\$ 14	\$ 996	\$ 997	\$ 47	\$ 775	\$ 8	\$ 3,910
TTM EBITDA (000)	\$ (1,970)	\$ (115)	\$ 7,030	\$ (1,940)	\$ (104)	\$ (3,230)	\$ (55)	\$ 57
EBITDA Margin	-346%	-821%	706%	-195%	-221%	-417%	-688%	1%
Net Earnings (000)	(5,490)	(959)	(13,650)	(2,850)	(130)	(5,060)	(78)	(1,170)
Shares Outstanding (000)	51,300	53,040	43,310	33,660	9,120	17,660	3,550	69,360
Earnings Per Share	\$ (0.11)	\$ (0.02)	\$ (0.32)	\$ (0.08)	\$ (0.01)	\$ (0.29)	\$ (0.02)	\$ (0.02)
Price as of 05/18/11 close	\$ 0.11	\$ 0.03	\$ 0.24	\$ 0.30	\$ 0.18	\$ 0.54	\$ 4.51	\$ 0.95
Market Capitalization (000)	\$ 5,643	\$ 1,591	\$ 10,394	\$ 10,098	\$ 1,642	\$ 9,536	\$ 16,011	\$ 65,892
Enterprise Value (000)	\$ 6,700	\$ 4,170	\$ 22,260	\$ 18,350	\$ 1,620	\$ 14,550	\$ 15,070	\$ 65,890
Price/Sales	9.90	113.66	10.44	10.13	34.93	12.31	2,001.31	16.85
EV/Sales	11.75	297.86	22.35	18.41	34.47	18.77	1,883.75	16.85

Note: All figures as of 05/18/11 as reported. EV approximate. (data source: Yahoo Finance)

Valuation Matrix

AAPH Actual and Projected

Averages:

Weighted:

P/S	15.04
EV/Sales (TTM)	20.01

AAPH Estimate

FY11E Disc. Sales (000)	\$ 5,189
Enterprise Value (5/04/11)	\$ 11,220
Shares Outstanding (000)	32,061

AVERAGE MKT. CAP	\$ 83,216
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FMV PER SHARE	\$ 1.45
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Proj Market Cap based on Avg.	Weight
EV/Sales (\$000) \$ 103,829	20%
P/S (\$000) \$ 78,063	80%

Small Size Discount	20%
Key Person Discount	30%
Total Discount	44%

For our final valuation, we have taken the weighted average of the P/S and EV/Sales multiples, omitting RNGE the outlier, and applied it to AAPH to get an estimate of the Company's FMV. To account for the fact we applied trailing multiples to American Petro's forward revenue, we have discounted the revenue on a quarterly basis at 30%. Further, we have applied a small size discount and a key person discount, which accounts for the fact that management, while experienced, is very limited. Thus, by applying our estimates of the Company's FY11 discounted revenue (\$5.2 million) to the weighted average of the peer multiples, adjusted for the discounts, we obtain our current fair value of **\$1.45 per share**.

Capital Resources

To say American Petro runs lean is an understatement. Net cashflow from operations in 2010 was \$750,806, while operating expenses less impairment expense was \$846,864, which included some noncash compensation. Using the cashflow figure gives us a monthly burn rate of just over \$62,500.

In May of 2010, the Company completed what amounts to an equity line of credit (but was actually convertible debt) for up to an aggregate of \$1.5 million, of which it has used \$2.3 million. Management's policy has been to drawdown funds only as needed (it took \$437,000 in Q1 '11), so it has been money in/money out. Thus, there is rarely cash on the books. While we might totally concur with management's philosophy, we cannot tell them how to run their business and the Company always appears to have funds when needed for working capital, development costs and acquisitions.

We have to assume that the Company deals mostly with friendly parties (manageable payables, negotiable debt and debt conversion). Its payables are not huge and interest expense can accrue without significant cashflow problems. Surely we expect American Petro will break this cycle, however, if its wells produce according to our estimates.

Regarding additional shares and dilution, it would be naïve to think the Company will not issue additional shares. In 2010, American Petro issued a manageable 3.3 million shares and we would expect at least the same number this year, especially with 3.3 million warrants with exercise prices of \$0.50, and – even more so - \$1.7 million of convertible debt at \$0.25. This is without any stock-based compensation or raising additional capital. Furthermore, management has said that it must raise an estimated \$3 million in additional capital in 2011 to reach the production and revenue goals we have outlined in this report.

So with all this said, we are estimating (on the conservative side) that an additional five million shares will be issued this year. This estimate could be on the high-side, and could very well be the last fiscal year the Company has to issue so much. Should the wells produce what we anticipate, the funds would have gone to accretive property acquisitions and once a run-rate is developed, any further share issuances will be a less expensive cost of capital. Furthermore, the share structure supports more shares and many of our comparable companies have more outstanding than the Company. So we feel there is some room here.

Risk Factors

Competitive Threat. The oil industry is increasingly competitive. Producing properties and undeveloped acreage are in high demand, especially with oil prices where they are today. The Company's competitors include larger companies that have significantly more financial resources and thus greater exploration and development budgets.

Lack of Proven Reserves. While we feel confident in the Company's projects, and there is data to support significant production in nearby wells, at the present time there is no geoscience and/or engineering data that proves the amount of oil and natural gas reserves on American Petro's leased properties. Management expects to commission these reserve reports in June of this year.

Revenue Concentration. Though American Petro-Hunter is working to diversify, the bulk of the near-term production (58% according to our calculations) is from the Ripley project. Therefore, any shortfalls in production from this well could significantly impact our revenue projections.

Capital Requirements. Being essentially a development-stage company, the Company has been nearly totally reliant on outside financing, sometimes at terms that seem expensive. So far, however, American Petro has been able to use existing funding vehicles to finance its operations, but of course, there is no assurance that further capital can be obtained. We want to reiterate that our revenue projections are based on additional capital of \$3 million.

Commodity Pricing. As an E&P company, American Petro is subject to commodity pricing. Along with most global natural resources, oil prices have proven extremely volatile in the past two years. Any further significant price changes could impact revenue and earnings of the Company as well as our projections.

Dilution. It appears that part of the Company's strategy is to use stock as partial payment for any future prospect acquisitions. All else being equal, the issuance of additional equity or convertible debt will cause dilution and could depress share price.

Management

While perhaps limited in scope, management is certainly not lacking depth. Their experience in the oil and gas sector includes exploiting industry cycles, making opportunistic acquisitions, significantly ramping-up production and identifying suitable exit opportunities. To date, management's ability to source funds for acquisition and operations has provided liquidity for the Company required to stay afloat in volatile commodity cycle conditions. Also, simply securing leases in an extremely competitive environment and region, speaks volumes to our confidence level.

Robert B. McIntosh, President & CEO. Mr. McIntosh is a businessman and consulting geologist with a proven track record spanning the past 25 years. He brings diverse experience both as a resource exploration geoscientist alongside noteworthy strengths in all facets of corporate development. His skills encompass virtually every aspect of oil & gas exploration, well completion and production techniques along with extensive experience in project acquisition, contract negotiation, and project divestitures within the petroleum industry. He has developed singular expertise and broad 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. and Canada on projects that ultimately became producing properties by significantly contributing to full-field exploitation programs utilizing both traditional and secondary forms of drilling and completion along with ongoing wellsite supervisory management aimed at fully optimizing the potential of each asset.

Dan Holladay, Director. Mr. Holladay is oil industry management consultant based in Wichita, Kansas and an active Director for the Company. He graduated in 1983 graduate 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 advisor 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. He will continue this role for American Petro with a focus on the current Kansas asset as well as the development of future prospects.

Recommendation and Conclusion

We are initiating coverage of American Petro-Hunter, Inc. with a BUY rating. We feel that the Company is certainly in the right place at the right time, and is undervalued using traditional valuation methodology. It is obvious that demand is and will remain very strong for oil into the foreseeable future and the market itself is huge. Valuations for most natural resource stocks have remained relatively strong and prices for the most part on the rise. We see no significant, sustainable oil price risk.

Furthermore, it seems apparent that management enjoys strong relationships with various consultants, engineers and service providers in the regions in which it operates. In what appears to be the small world of regional oil and gas, we feel this could be a significant competitive advantage over similarly-sized peers.

Operating results and stock performance could be subject to greater volatility as the Company grows and we would expect fundamentals to improve once American Petro expands production. With the stock at these levels, long-term investors might be interested in using this period as an opportunity to build positions with risk capital in anticipation of stronger performance in FY2011 and beyond.

About EquityNet Research

EquityNet Research was formed to provide the investing public with professional, independent, objective research on under-followed public companies. It does this by preparing detailed research that highlights the key aspects of the subject company and its industry. Though some reports are commissioned, EquityNet prides itself on eliciting the facts, both positive and negative, about the firms it chooses to cover. EquityNet strictly maintains independence and objectivity according to the Standards of Professional Conduct of the CFA Institute (CFI). Price targets should be construed as fair-market-value (FMV) as of the date of this report, using industry-standard methodologies. Many factors can cause stock prices to deviate from FMV, including supply and demand issues, issuance of additional shares and general equity market conditions.

About the Analyst

Randy Lewis, CFA, founder and Senior Equity Analyst of EquityNet, has more than 14 years experience in equity and portfolio analysis, as well as financial consulting and strategic planning. Prior to forming EquityNet, Mr. Lewis served as an equity analyst at SSI Investment Management, Inc., a \$500-million, money management firm, specializing in sophisticated, hedged investment strategies, and serving institutional and high net worth clients. Previous to SSI, Mr. Lewis was a financial analyst for Griffin Financial Services, the securities brokerage arm of Home Savings of America, the then-largest savings and loan in the U.S. Mr. Lewis has had several articles published, most recently in HFR Journal of Hedge Fund Research on the subject of merger arbitrage. He received his Bachelors Degree with honors in Finance from California State University, Fullerton, his MBA at the Anderson School of Management at UCLA, and has earned the Chartered Financial Analyst (CFA) designation. He is also an assistant professor of business at Pierce College in Los Angeles and a member of the National Association of Certified Valuation Analysts (NACVA).

Explanation of Ratings

- **STRONG BUY** – The analyst feels that the stock is significantly undervalued and holds superior long-term price appreciation potential.
- **BUY** — The stock appears attractively valued and the analyst feels the stock's total return will exceed that of the market over the next 12 months.
- **SPECULATIVE BUY** - Under current conditions, the stock appears to be appropriately valued, but short-term event(s) could dramatically alter the future landscape of the company in terms of revenue, earnings and cash flow.
- **HOLD** — The stock appears appropriately valued and the analyst believes the stock's total return will be relatively inline with the market over the next 12 months.
- **SELL** — The stock appears overvalued and the analyst believes the stock's total return will be below the market over the next 12 months.

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