

Edgar Filing: American Petroleum Group Inc - Form 10QSB/A

American Petroleum Group Inc
Form 10QSB/A
May 27, 2005

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

FORM 10-QSB/A

Quarterly Report Pursuant to Section 13 or 15(D) of The Securities Act of
1934

For the quarterly period ended: March 31, 2005

Commission file number: 000-49950

AMERICAN PETROLEUM GROUP, INC.
(Exact name of small business issuer as specified in its charter)

Nevada 98-0232018
(State or other jurisdiction of (IRS Employee Identification No.)
incorporation or organization)

1400 N. Gannon Drive, 2nd Floor, Hoffman Estates, IL 60194
(Address of principal executive offices)

(847) 805-0125 (Issuer's telephone number)

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

| | |
|----------------------------------|----------------------------------|
| Common Stock, \$0.0001 par value | 12,036,750 |
| (Class) | (Outstanding as of May 17, 2005) |

AMERICAN PETROLEUM GROUP, INC.
FORM 10-QSB
March 31, 2005

INDEX

| | Page |
|--|------|
| | ---- |
| Part I - FINANCIAL INFORMATION | |
| Item 1. Financial Statements (Unaudited) | |
| Consolidated Balance Sheets..... | F-2 |
| Consolidated Statements of Operations..... | F-3 |
| Consolidated Statements of Cash | |

Edgar Filing: American Petroleum Group Inc - Form 10QSB/A

| | |
|--|-----|
| Flows..... | F-4 |
| Consolidated Statements of Stockholders' Equity..... | F-5 |
| Notes to Consolidated Financial Information..... | F-6 |
| Item 2 Management's Discussion and Analysis or Plan of Operation..... | 3 |
| Item 3 Controls and Procedures..... | 9 |
| Part II - OTHER INFORMATION | |
| Item 1. Legal Proceedings..... | 10 |
| Item 2. Unregistered Sales of Equity Securities and use of Proceeds..... | 10 |
| Item 3. Defaults Upon Senior Securities..... | 10 |
| Item 4. Submission Of Matters To A Vote Of Security Holders..... | 10 |
| Item 5. Other Information..... | 10 |
| Item 6. Exhibits..... | 10 |
| Signatures..... | 10 |
| Certifications..... | 11 |

2

PART I: FINANCIAL INFORMATION

AMERICAN PETROLEUM GROUP, INC.
AND SUBSIDIARY

CONSOLIDATED FINANCIAL STATEMENTS
(UNAUDITED)

MARCH 31, 2005

TABLE OF CONTENTS

| | PAGE |
|--|------|
| CONSOLIDATED FINANCIAL STATEMENTS | |
| Consolidated Balance Sheets..... | 2 |
| Consolidated Statements of Operations..... | 3 |
| Consolidated Statements of Stockholders' Equity (Deficit)..... | 4 |
| Consolidated Statements of Cash Flows..... | 5 |
| Notes to Consolidated Financial Statements..... | 6 |

Edgar Filing: American Petroleum Group Inc - Form 10QSB/A

AMERICAN PETROLEUM GROUP, INC. AND SUBSIDIARY

Interim Balance Sheets
March 31, 2005 and December 31, 2004

=====

| | (UNAUDITED) MARCH 31, 2005 | (Audited) December 31, 2004 |
|--|----------------------------------|-----------------------------------|
| | ----- | ----- |
| ASSETS | | |
| CURRENT ASSETS | | |
| Cash and cash equivalents | \$ 139,705 | \$ 801 |
| Trade accounts receivable, net of allowance of \$22,700 for doubtful accounts | 241,579 | 291,846 |
| Advances to others | 236,837 | 100,000 |
| Acquisition deposits | 12,500 | -- |
| Inventory | 230,187 | 254,944 |
| | ----- | ----- |
| TOTAL CURRENT ASSETS | 860,808 | 647,591 |
| EQUIPMENT | | |
| Equipment | 6,068 | 6,068 |
| Less accumulated depreciation | 2,523 | 2,023 |
| | ----- | ----- |
| | 3,545 | 4,045 |
| | ----- | ----- |
| TOTAL ASSETS | \$ 864,353 | \$ 651,636 |
| | ===== | ===== |
| LIABILITIES AND STOCKHOLDERS' EQUITY (DEFICIT) | | |
| CURRENT LIABILITIES | | |
| Book overdraft | \$ -- | \$ 5,523 |
| Trade accounts payable | 490,929 | 629,825 |
| Accrued interest | 11,392 | 32,000 |
| Accrued professional fees | -- | 45,000 |
| Accrued expenses | 10,497 | 11,187 |
| Notes payable to stockholders | 925,000 | 500,000 |
| Loans payable to officers/stockholders | 647,915 | 713,269 |
| | ----- | ----- |
| TOTAL CURRENT LIABILITIES | 2,085,733 | 1,936,804 |
| COMMITMENTS AND CONTINGENCES (NOTES B, F, G, I AND K) | | |
| STOCKHOLDERS' EQUITY (DEFICIT) | | |
| Preferred stock; 5,000,000 shares; 3,677,500 shares and 2,527,500 issued and outstanding in 2004 and 2003, respectively | 36,775 | 25,275 |
| Common stock, \$0.001 par value; 100,000,000 shares authorized; 8,723,000 and 3,635,000 shares issued and outstanding in 2004 and 2003, respectively | 8,723 | 3,740 |
| Additional paid-in capital | 15,416,783 | 11,523,435 |
| Retained deficit | (16,683,661) | (12,837,618) |

Edgar Filing: American Petroleum Group Inc - Form 10QSB/A

| | | |
|--|--------------|--------------|
| | (1,221,380) | (1,285,168) |
| TOTAL LIABILITIES AND STOCKHOLDERS' EQUITY (DEFICIT) | \$ 1,789,353 | \$ 1,151,636 |

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

F-2

AMERICAN PETROLEUM GROUP, INC. AND SUBSIDIARY

Interim Statements of Operations
Three Month Periods Ended March 31, 2005 and 2004

| | (UNAUDITED) MARCH 31, 2005 | (Unaudited) March 31, 2004 |
|---------------------------|----------------------------------|----------------------------------|
| NET SALES | \$ 384,901 | \$ -- |
| COST OF GOODS SOLD | 280,595 | -- |
| GROSS PROFIT | 104,306 | -- |
| EXPENSES | | |
| Acquisition expense | -- | 10,000 |
| Professional fees | 72,647 | 33,715 |
| Office expenses | 37,340 | 350 |
| Compensation expenses | 690,000 | -- |
| Payroll and payroll taxes | 266,433 | -- |
| Licenses and insurance | 12,954 | -- |
| Outside sales | 36,300 | -- |
| Rent and taxes | 4,000 | -- |
| Repairs and maintenance | 595 | -- |
| Utilities | 9,735 | -- |
| Vehicles | 693 | -- |
| Telephone | 7,251 | -- |
| Plant equipment | 2,743 | -- |
| Depreciation | 500 | -- |
| Advertising and promotion | 395 | -- |
| Travel and entertainment | 16,146 | 3,977 |
| Financing expense | 2,782,500 | -- |
| Other | 5,106 | 1,783 |
| TOTAL EXPENSES | 3,945,338 | 49,825 |
| LOSS BEFORE OTHER ITEMS | (3,841,032) | (49,825) |

Edgar Filing: American Petroleum Group Inc - Form 10QSB/A

OTHER INCOME (EXPENSE)

| | | |
|---|----------------|-------------|
| Interest expense | (10,417) | -- |
| Other income | 5,406 | -- |
| | ----- | ----- |
| TOTAL OTHER INCOME (EXPENSE) | (5,011) | -- |
| | ----- | ----- |
| NET LOSS | \$ (3,846,043) | \$ (49,825) |
| | ===== | ===== |
| Loss per share | \$ (0.71) | \$ (0.066) |
| | ===== | ===== |
| Weighted average number of shares outstanding | 5,401,000 | 750,000 |
| | ===== | ===== |

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

F-3

AMERICAN PETROLEUM GROUP, INC. AND SUBSIDIARY

Interim Statements of Stockholders' Equity (Deficit)

Three Month Periods Ended March 31, 2005 and Year Ended December 31, 2004

=====

| (AUDITED) | Preferred Stock | | Common Stock | | Addi Pa Ca |
|------------------------------|-----------------|-----------|--------------|-----------|------------------|
| | Number | Par Value | Number | Par Value | |
| | ----- | ----- | ----- | ----- | ----- |
| BALANCE AT DECEMBER 31, 2003 | -- | \$ -- | 1,415,000 | \$ 1,415 | \$ 9 |
| Net loss | -- | -- | -- | -- | -- |
| Stock shares issued | 2,527,500 | 25,275 | 2,598,700 | 2,599 | 2 |
| Retired common shares | -- | -- | (273,700) | (274) | -- |
| | ----- | ----- | ----- | ----- | ----- |
| (AUDITED) | | | | | |
| BALANCE AT DECEMBER 31, 2004 | 2,527,500 | 25,275 | 3,740,000 | 3,740 | 11 |
| Net loss | -- | -- | -- | -- | -- |
| Stock shares issued | 1,150,000 | 11,500 | 4,983,000 | 4,983 | 3 |
| | ----- | ----- | ----- | ----- | ----- |
| (UNAUDITED) | | | | | |
| BALANCE AT MARCH 31, 2005 | 3,677,500 | \$ 36,775 | 8,723,000 | \$ 8,723 | \$ 15 |
| | ===== | ===== | ===== | ===== | ===== |

Edgar Filing: American Petroleum Group Inc - Form 10QSB/A

| (AUDITED) | Retained Earnings (Deficit) | Total |
|------------------------------|-----------------------------------|----------------|
| | ----- | ----- |
| BALANCE AT DECEMBER 31, 2003 | \$ (9,662,160) | \$ (332,160) |
| Net loss | (3,175,458) | (3,175,458) |
| Stock shares issued | -- | 2,222,450 |
| Retired common shares | -- | -- |
| | ----- | ----- |
| (AUDITED) | | |
| BALANCE AT DECEMBER 31, 2004 | (12,837,618) | (1,285,168) |
| Net loss | (3,846,043) | (3,846,043) |
| Stock shares issued | -- | 3,909,831 |
| | ----- | ----- |
| (UNAUDITED) | | |
| BALANCE AT MARCH 31, 2005 | \$ (16,683,661) | \$ (1,221,380) |
| | ===== | ===== |

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

F-4

AMERICAN PETROLEUM GROUP, INC. AND SUBSIDIARY

Interim Statements of Cash Flows
Three Month Periods Ended March 31, 2005 and 2004

| | (UNAUDITED) MARCH 31, 2005 | (Unaudited) March 31, 2004 |
|---|----------------------------------|----------------------------------|
| | ----- | ----- |
| CASH FLOWS FROM OPERATING ACTIVITIES: | | |
| Net loss | \$ (3,846,043) | \$ (49,825) |
| Compensation, consulting, financing and termination expenses in exchange for shares | 3,472,500 | -- |
| Adjustments to reconcile net loss to net cash used in operating activities: | | |
| Depreciation | 500 | -- |
| (Increase) decrease in operating assets: | | |
| Trade accounts receivable | 50,267 | -- |
| Advances to others | (136,837) | -- |
| Inventory | 24,757 | -- |
| Acquisition deposits | (12,500) | (26,000) |
| Book overdraft | (5,523) | -- |

Edgar Filing: American Petroleum Group Inc - Form 10QSB/A

| | | |
|---|------------|----------|
| Increase (decrease) in operating liabilities: | | |
| Trade accounts payable | (138,896) | 23,347 |
| Accrued expenses | (66,298) | -- |
| | ----- | ----- |
| NET CASH USED IN OPERATING ACTIVITIES | (658,073) | (52,478) |
| CASH FLOWS FROM FINANCING ACTIVITIES: | | |
| Issuance of common stock | 1,008 | -- |
| Increase in additional paid-in capital | 424,823 | 18,000 |
| Issuance of preferred stock | 11,500 | -- |
| Proceeds from loans payable | 359,646 | -- |
| | ----- | ----- |
| NET CASH PROVIDED BY FINANCING ACTIVITIES | 796,977 | 18,000 |
| | ----- | ----- |
| INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS | 138,904 | (34,478) |
| CASH AND CASH EQUIVALENTS, BEGINNING OF PERIOD | 801 | 35,432 |
| | ----- | ----- |
| CASH AND CASH EQUIVALENTS, END OF PERIOD | \$ 139,705 | \$ 954 |
| | ===== | ===== |

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

F-5

AMERICAN PETROLEUM GROUP, INC. AND SUBSIDIARY

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

March 31, 2005

(Unaudited)

=====

NOTE A - COMPANY

The Board of Directors (the "Board") by unanimous written consent dated as of November 18, 2003, and certain stockholders (the "Majority Stockholders") owning a majority of issued and outstanding capital stock of the Company entitled to vote, by written consent dated as of November 18, 2003, approved and adopted resolutions to amend the Company's Certificate of Incorporation. The Certificate of Amendment to the Company's Certificate of Incorporation, already filed with the Secretary of State of Nevada, changed the Company's name to "American Capital Alliance, Inc." from Prelude Ventures, Inc. The name of the Company was changed again on November 1, 2004 to American Petroleum Group, Inc. ("APG") by a vote of the security holders.

APG is a Chicago based holding company with an agenda to acquire, merge, and manage various business opportunities. APG's current direction is in the manufacturing and distribution of petroleum and related products for the automotive industry. On July 1, 2004, APG acquired 100% of the outstanding stock of American Petroleum

Edgar Filing: American Petroleum Group Inc - Form 10QSB/A

Products Company ("APPC"). The accompanying consolidated financial statements include the results of operations of APPC beginning on July 1, 2004. After the above acquisition, the Company is no longer considered a "development stage entity".

NOTE B - CONTINUANCE OF OPERATIONS

The financial statements have been prepared using accounting principles generally accepted in the United States of America applicable for a going concern which assumes that the Company will realize its assets and discharge its liabilities in the ordinary course of business. At March 31, 2005, the Company had accumulated losses of \$16,683,661 since its inception. Its ability to continue as a going concern is dependent upon the ability of the Company to obtain the necessary financing to meet its obligations and pay its liabilities arising from normal business operations when they come due. The Company is currently pursuing new debt and equity financing in conjunction with future acquisitions. Additionally, approximately \$264,000 was raised during the quarter ended March 31, 2005 from loans payable to officers/stockholders (see Note I) whose proceeds were used for working capital needs, as well as a down payment toward the purchase of an option on one of the proposed acquisitions.

NOTE C - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

PRINCIPLES OF CONSOLIDATION

The consolidated financial statements include the accounts of American Petroleum Group, Inc. and its wholly owned subsidiary, American Petroleum Products Company (the "Company") after elimination of significant intercompany transactions and accounts.

F-6

AMERICAN PETROLEUM GROUP, INC. AND SUBSIDIARY

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

March 31, 2005

(Unaudited)

=====

NOTE C - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

REVENUE

Revenue is recognized when the title to inventory is transferred.

TRADE RECEIVABLES

Concentration of credit risk with respect to receivables, which are unsecured are generally limited due to the wide variety of customers and markets using the Company's products, as well as their dispersion across many geographic areas. The Company maintains allowances for potential credit losses, and such losses have been minimal and within management's expectations. The allowance for doubtful accounts is estimated based on various factors including revenue, historical credit losses and current trends.

INVENTORY

Inventory consisted of primarily raw materials (oil, additives and packaging material) and is valued at the lower of cost or market applied on a first-in, first-out basis.

Edgar Filing: American Petroleum Group Inc - Form 10QSB/A

USE OF ESTIMATES IN FINANCIAL STATEMENT PREPARATION

The preparation of financial statements, in conformity with accounting principles generally accepted in the United States of America, requires management to make estimates and assumptions that affect the reported amounts 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 vary from the estimates that were used.

CASH AND CASH EQUIVALENTS

For purposes of reporting cash flows, the Company considers all highly liquid debt instruments purchased with a maturity of three months or less to be cash equivalents.

DEPRECIATION

Depreciation of equipment is computed using the straight-line method for financial statements and income tax reporting purposes.

ADVERTISING COSTS

Advertising costs are expenses as incurred.

F-7

AMERICAN PETROLEUM GROUP, INC. AND SUBSIDIARY

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

March 31, 2005

(Unaudited)

=====

NOTE C - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

INCOME TAXES

The Company uses the liability method of accounting for income taxes pursuant to Statement of Financial Accounting Standards, No. 109, "Accounting for Income Taxes". Under this method, deferred taxes are determined based on the estimated future tax effects of differences between the financial statement and tax basis of assets and liabilities given the provisions of the enacted tax laws. Valuation allowances are recorded to reduce deferred tax assets when it is more likely than not that a tax benefit will not be realized (see Note D).

BASIC LOSS PER SHARE

The Company reports basic loss per share in accordance with the Statement of Financial Accounting Standards No. 128, "Earnings Per Share". Basic loss per share is computed using the weighted average number of shares outstanding during the period. Diluted earnings per share is not presented (see Note I). On August 25, 2004, the Company approved a one-for-twenty reverse stock split; all per share amounts have been retroactively adjusted.

FAIR VALUE OF FINANCIAL INSTRUMENTS

The carrying amounts of cash and cash equivalents, accounts receivable, accounts payable, and accrued expenses approximate fair value because of the short maturity of those instruments. At March 31, 2005 and December 31, 2004, the Company estimates that the fair

Edgar Filing: American Petroleum Group Inc - Form 10QSB/A

value of its notes payable are not materially different from its financial statement carrying value, except for the liability for stock borrowings (see Note G).

NEW ACCOUNTING PRONOUNCEMENTS

Management does not believe that any recently issued, but not yet effective, accounting standards if currently adopted could have a material effect on the accompanying financial statements.

IMPAIRMENT OF LONG LIVED ASSETS

The Company evaluates whether events and circumstances have occurred that indicate the remaining estimated useful life of long lived assets may warrant revision or that the remaining balance of an asset may not be recoverable. The measurement of possible impairment is based on the ability to recover the balance of assets from expected future operating cash flows on an undiscounted basis. In the opinion of management, no such impairment existed at March 31, 2005. See Note F concerning impairment of goodwill.

F-8

AMERICAN PETROLEUM GROUP, INC. AND SUBSIDIARY

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

March 31, 2005

(Unaudited)

=====

NOTE C - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

RECLASSIFICATIONS

Certain prior period amounts have been reclassified to conform to the current year presentation.

NOTE D - INCOME TAXES

DEFERRED TAX ASSETS

The Financial Accounting Standards Board issued Statement No. 109 in Accounting for Income Taxes ("FAS 109") which is effective for fiscal years beginning after March 15, 1992. FAS 109 requires the use of the asset and liability method of accounting for income taxes. Under the assets and liability method of FAS 109, deferred tax assets and liabilities are recognized for the future tax consequences attributable to temporary differences between the financial statements 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.

The following table summarizes the significant components of the Company's deferred tax assets:

| | 2005 | 2004 |
|---|--------------|-----------|
| | ----- | ----- |
| Gross deferred tax assets (non-capital loss carryforward) | \$ 5,673,000 | 4,365,000 |

Edgar Filing: American Petroleum Group Inc - Form 10QSB/A

| | | |
|--|-------------|-------------|
| Valuation allowance for deferred tax asset | (5,673,000) | (4,365,000) |
| | ----- | ----- |
| | \$ -- | \$ -- |
| | ===== | ===== |

INCOME TAXES

No provision for income taxes has been provided in these consolidated financial statements due to the net loss. At March 31, 2005 and December 31, 2004, the Company has net operating loss carryforwards, which expire commencing in 2022, totaling approximately \$16,650,000 and \$12,800,000, respectively, the benefit of which has not been recorded in the financial statements due to the future uncertainty of the generations of earnings by the Company.

NOTE E - NON-CASH TRANSACTIONS

Investing and financing activities that do not have a direct impact on current cash flows are excluded from the cash flow statement.

F-9

AMERICAN PETROLEUM GROUP, INC. AND SUBSIDIARY

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

March 31, 2005

(Unaudited)

NOTE E - NON-CASH TRANSACTIONS (CONTINUED)

The Company has recorded a termination expense in respect to the termination of its former President and has issued 200,000 common shares at \$2.35 per share to satisfy the total liability which includes the termination expense, unpaid management fees and unpaid advances to the Company (see Note I).

During 2004, the Company entered into a business combination and acquired certain operating assets of APPC in exchange for Company stock (see Note F).

NOTE F - BUSINESS COMBINATIONS

BUSINESS ACQUISITION CANCELLED

On April 1, 2003, the Company entered into an agreement to acquire 100% of the issued and outstanding shares of Pascal Energy, Inc., a Canadian corporation, by the issuance of 5,000,000 common shares, restricted under Rule 144 of the Securities and Exchange Act and at a later date, issue an additional 5,000,000 common shares, restricted under Rule 144 of Securities and Exchange Act, subject to the Company paying not less than \$1,000,000 in accumulated dividends to its shareholders of record. Pascal Energy, Inc.'s business is to provide servicing for the oil and gas industry.

The Company has determined that the transaction cannot be completed due to the inability to complete a comprehensive due diligence. Therefore, the shares previously outstanding were returned to the treasury of the Company on February 25, 2004.

Edgar Filing: American Petroleum Group Inc - Form 10QSB/A

"TSG" ACQUISITION

On October 9, 2003, the Company acquired an option for \$500,000 to purchase the assets and certain liabilities of Tri-State Stores, Inc., an Illinois Corporation ("Tri-State"), GMG Partners LLC, an Illinois Limited Liability Company ("GMG"), and SASCO Springfield Auto Supply Company, a Delaware Corporation ("SASCO"). Tri-State, GMG and SASCO are collectively referred to herein as "TSG." Upon exercise of the option, the Company was to pay \$3,000,000 and assume certain liabilities, not exceeding \$700,000. TSG is involved in the automotive after market. During the first quarter of 2004, the Company elected not to continue to pursue this acquisition. The contractual amount of the option was never fully paid, however, amounts advanced for the option purchase and associated acquisition expenses resulted in an \$185,000 charge to operations for the year ended December 31, 2003 and \$10,000 for the year ended December 31, 2004.

F-10

AMERICAN PETROLEUM GROUP, INC. AND SUBSIDIARY

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

March 31, 2005

(Unaudited)

=====

NOTE F - BUSINESS COMBINATIONS (CONTINUED)

MOTOR PARTS WATERHOUSE, INC.

The Company issued 5,000,000 shares of common stock for an option to acquire all the outstanding stock of Motor Parts Warehouse, Inc. ("MPW"), of St. Louis, Missouri. In order to exercise the option, the Company must issue an additional 5,000,000 shares of common stock to the shareholders of MPW and pay \$2,200,000. This MPW option cannot be exercised until after the refinancing of the TSG debt of approximately \$3,000,000. MPW is also an auto parts distributor. As a result of the financing not being completed, the Company elected not to continue to pursue this acquisition.

ALLIANCE PETROLEUM PRODUCTS COMPANY

On October 9, 2003, the Company also entered into a Stock Purchase Agreement ("Alliance Agreement") with Alliance Petroleum Products Company ("Alliance"), an Illinois Corporation, and a Rider to the Alliance Agreement ("Rider"). Alliance is in the business of blending and bottling motor oil and anti-freeze. Under the Alliance Agreement, the Company issued 5,000,000 shares of common stock for 100% of the issued and outstanding shares of the common stock of Alliance (757,864 common shares). An additional 5,000,000 shares of common stock of the Company is to be issued to Worldlink International Network, Inc. upon 24 months from the above date. Under the terms of the Rider, the Company is required to provide funding of at least \$3,500,000 to pay Harris Bank, a secured creditor of Alliance. The shareholders of Alliance have the option to have the 757,864 issued and outstanding shares of common stock of Alliance returned and the Alliance Agreement rescinded if they choose, if the Company did not arrange the funding within 150 days from the date of the execution of the Alliance Agreement. Since the option period has expired, the principals of the transactions have verbally agreed to extend the option period pending completion of the financing. This was a material contingency to the transactions

Edgar Filing: American Petroleum Group Inc - Form 10QSB/A

and as a result had to be resolved prior to recognition of a business combination. On June 24, 2004 (effective date July 1, 2004) the Company ("Prelude") then known as American Capital Alliance, Inc., ("AMAI") and Alliance Petroleum Products Company ("Alliance"), entered into an Amendment to the original Alliance Agreement, dated October 9, 2003 whereby all previous conditions and contingencies were deemed to have been completed or waived and the agreement amended as follows:

F-11

AMERICAN PETROLEUM GROUP, INC. AND SUBSIDIARY

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

March 31, 2005

(Unaudited)

=====

NOTE F - BUSINESS COMBINATIONS (CONTINUED)

ALLIANCE PETROLEUM PRODUCTS COMPANY (CONTINUED)

- o 5,000,000 shares of AMAI voting capital stock are to be issued to the shareholders of Alliance in the same proportions as the first 5,000,000 shares were issued to them pursuant to the exchange of securities contemplated in the Agreement and Plan of Reorganization upon the execution of this Amendment. The exchange of securities also includes, 1,000,000 shares of preferred shares, with the necessary Certificate of Designation, to allow conversion at the rate of 1 share of preferred to ten (10) shares of common, and to permit the preferred shareholders to vote their shares, at any time after issuance, and after they have been converted, the shares be issued to the shareholders of American in the same proportions as the first 5,000,000 shares were issued to them pursuant to the Agreement and Plan of Reorganization.
- o All the shares to the Alliance shareholders are no longer subject to a two year restriction prior to sale or transfer, but are now only subject to those transfer restrictions under Rule 144 of the Securities Laws.
- o AMAI assumes all payment obligations and all other agreements of Alliance as set forth in the including four "Promissory Notes"; and AMAI assumes all payment obligations and all other agreements of Alliance to the Harris Bank. (See Note K)

The operations of Alliance have been consolidated with the results of AMAI since July 1, 2004.

The aggregate acquisition price was \$856,200, which consisted of 1,107,500 of the Company's common stock valued at \$0.54 and cash advances outstanding to Company at the time of consummation of the transactions. The value of the stock was determined based on the approximate average market price of the shares on August 11, 2004 (change in control date) and discounted for factors such a limited market for the stock.

F-12

Edgar Filing: American Petroleum Group Inc - Form 10QSB/A

AMERICAN PETROLEUM GROUP, INC. AND SUBSIDIARY

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

March 31, 2005

(Unaudited)

=====

NOTE F - BUSINESS COMBINATIONS (CONTINUED)

ALLIANCE PETROLEUM PRODUCTS COMPANY (CONTINUED)

Following is a condensed balance sheet showing the fair values of the assets acquired and the liabilities assumed as of the date of acquisition:

| | | |
|--------------------------------------|----|-----------|
| Current assets | \$ | 498,087 |
| Property and equipment | | 3,068 |
| Goodwill arising in the acquisition | | 822,262 |
| | | ----- |
| | \$ | 1,323,417 |
| | | |
| Current liabilities | \$ | 341,642 |
| Current maturities of long-term debt | | 125,575 |
| Net assets acquired | | 856,200 |
| | | ----- |
| | \$ | 1,323,417 |

The Company acquired only minimal property, plant and equipment in the transaction; Alliance does not have title to these production assets. Additionally, no expense has been recognized during the quarter ended March 31, 2005 for compensation for the use of the machinery and equipment to a corporation representing the predecessor operation to Alliance and to an entity that owned the real estate. The predecessor company was owned by the former officers of APPC who are also stockholders and directors of the Company; the real estate company is owed by the former president and a major stockholder of the Company; The assets of these entities secure obligations to Harris Bank as a result of certain transactions entered into by the predecessor company, the real estate company or their owners. A security interest had been entered into to as a result of these prior lending activities with appropriate lien filed and personal guarantee of the principals, some who are currently officers of the Company or Alliance. Harris Bank has threatened foreclosure if the prior borrowers can not reach terms allowing the bank to forebear the defaults. (See Note K)

Goodwill (excess of purchase price over net assets acquired) of \$822,262 arising in the above described acquisition had been recognized at the time of purchase. Subsequently, management determined that the goodwill value was totally impaired as APPC is operating on a negative cash flow basis and, therefore, the recoverability of the asset is uncertain and was fully written off in December 31, 2004.

F-13

AMERICAN PETROLEUM GROUP, INC. AND SUBSIDIARY

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

March 31, 2005

(Unaudited)

Edgar Filing: American Petroleum Group Inc - Form 10QSB/A

=====

NOTE F - BUSINESS COMBINATIONS (CONTINUED)

PRO FORMA INFORMATION

On July 1, 2004, the company purchased 100% of the voting stock of APPC. Results of operations for APPC are included in the consolidated financial statements since that date. The acquisition was made for the purpose of the reasons as stated above. Following are pro forma amounts assuming that the acquisition was made on January 1, 2004:

| | |
|-------------------|---------------|
| Net sales | \$ 1,487,007 |
| Cost of good sold | 1,217,846 |
| | ----- |
| Gross profit | 269,161 |
| Expenses | 3,836,886 |
| | ----- |
| Net income (loss) | \$(3,567,725) |
| | ===== |
| Loss per share: | |
| Basic | \$ 1.82 |
| | ===== |

NOTE G - NOTES PAYABLE

The Company entered into a stock borrowing arrangement whereby several stockholder/officers of the Company transferred approximately 1,000,000 shares pre-split or 50,000 shares on a post split basis of common stock into an escrow account. The shares were subsequently sold with the proceeds of \$500,000 being transferred to the Company. The Company is obligated to return the shares to the original holders by April 2005. If the Company had to repurchase its stock at March 31, 2005, it would be required to pay \$38,000 to acquire the aggregate shares using a \$0.76 approximate share price in order to replace such shares for the original contributors of the stock. The balance sheet as of December 31, 2003 was restated to record the \$500,000 liability and reduce additional paid-in capital.

F-14

AMERICAN PETROLEUM GROUP, INC. AND SUBSIDIARY

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

March 31, 2005

(Unaudited)

=====

NOTE G - NOTES PAYABLE (CONTINUED)

HIGHGATE HOUSE FUNDS, LTD. TRANSACTION

In order to raise capital for operations of the parent Company and to complete the Oilmatic transaction, the Company entered into a transaction with Cornell Capital Partners LP and Highgate House Funds, Ltd., dated March 8, 2005, whereby the Company entered into a Convertible Debenture for a total amount of \$500,000 at 7% interest. The Note is convertible into shares of common stock at a conversion price of \$0.85 per share, at the option of the Lender. At the same time the Company entered into with Cornell Capital Partners LP a

Edgar Filing: American Petroleum Group Inc - Form 10QSB/A

total Standby Equity. Distribution Agreement for up to \$10,000,000 equity line. As part of this transaction, the Company paid fees to Cornell Capital of 750,000 shares (of which 15,000 was given to Newbridge Securities as Placement Agent for the SEDA Agreement), plus a commitment fee and Structuring fee to Yorkville Advisors Management, LLC of a total of \$75,000. In addition, as part of the Secured Debenture, Highgate House Funds, Ltd. was issued 3,100,000 shares of common stock as collateral by the Company. Upon payment, or conversion of the Convertible Debenture, these shares are to be returned to the Company and returned to treasury. An additional 50,000 shares of common stock were issued as additional compensation for the Convertible Debenture. As of March 31, 2005, the Company had received \$425,000 in advances against the Convertible debenture. A financing expense of \$2,782,500 was charged to operations for this transaction.

NOTE H - RELATED PARTY TRANSACTIONS

PAYROLL SERVICES

The Company had its payroll processed through a "professional employer organization" owned by a publicly traded corporation that has common shareholders, directors and officers. For the quarter ended March 31, 2005, this company processed \$261,829 of payroll, taxes and benefits, along with an administration fee of \$15,700.

EXPENSE REIMBURSEMENTS

The Company reimburses Company officer/directors for travel, office and other expenses. In addition, certain officers make temporary advances.

F-15

AMERICAN PETROLEUM GROUP, INC. AND SUBSIDIARY

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

March 31, 2005

(Unaudited)

=====

NOTE H - RELATED PARTY TRANSACTIONS (CONTINUED)

DUE ALPHA ADVISORS

A professional services agreement dated October 9, 2003 was entered into with Alpha Advisors, LLC for a term of one year and renewable for an additional year. Alpha Advisors LLC is an entity owned by stockholders/directors/officers of the Company. The fee for these services was the issuance of 1,000,000 shares of common stock of the Company upon execution of the agreements, \$25,000 due at signing of the Tri-State Stores and Alliance Petroleum Group, Inc. agreements and \$6,000 payable on the first of each month thereafter. In addition, a finder's fee of 10% of any new financing was to be paid on funds being committed. Accounts Payable includes \$31,000 of such amounts due as of September 30, 2004. The Company and Alpha are currently in the process of converting the debt into equity based upon a discount of 80% from the market price.

OPERATING ASSETS

The operations of APPC are performed in a plant owned by the former President and current shareholder of the Company. The Company does

Edgar Filing: American Petroleum Group Inc - Form 10QSB/A

not have a lease and is presently not paying rent for this property due to a dispute with the former President (see Notes F and K).

NOTE I - RELATED PARTY LOANS PAYABLE TO OFFICERS/STOCKHOLDERS

| | 3/31/05 AMOUNT | 12/31/04 Amount |
|---------------------------------------|-------------------|--------------------|
| | ----- | ----- |
| Rick Carter | \$ 150,000 | \$ 6,000 |
| Ron Shapps | -- | 200,000 |
| Michael Cahr | 100,000 | 100,000 |
| Warren Field | 50,000 | 50,000 |
| New Century Capital Consultants, Inc. | 50,000 | 50,000 |
| Keystone Nittany Ventures | -- | 113,353 |
| Former President | 142,915 | 142,916 |
| Malibu Management Company | -- | 16,000 |
| Alliance Finance Network | 85,000 | 35,000 |
| Jeff Neimen | 50,000 | -- |
| John Niestrom | 20,000 | -- |
| | ----- | ----- |
| Total | \$ 647,915 | \$ 713,269 |
| | ===== | ===== |

F-16

AMERICAN PETROLEUM GROUP, INC. AND SUBSIDIARY

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

March 31, 2005

(Unaudited)

NOTE I - RELATED PARTY LOANS PAYABLE TO OFFICERS/STOCKHOLDERS (CONTINUED)

NEW CENTURY CAPITAL CONSULTANTS, INC.-NOTE PAYABLE

The Company on March 16, 2004 entered into a convertible unsecured revolving promissory note agreement with New Century Capital Consultants, Inc. The lender is a stockholder in the Company via compensation it received (see Note H). The agreement allows for borrowings up to \$500,000 of which \$50,000 has been advanced currently. Interest accrues at the rate of 9% per annum payable along with the any outstanding principle balance on March 16, 2005, unless the note is in default. The lender may convert the principal amount and any accrued interest into common stock of the Company based upon a formula equal to 40% below the closing bid price of the stock starting after six months from execution of this agreement. Additionally, on a one time basis the lender upon written demand after the six months can require the Company to prepare and file a registration statement under the Securities and Exchange Act of 1933 for an offering of up to 1,000,000 shares. Also, the agreement allows for "piggyback registration" rights in that the Company must notify the lender and allow the lender to register its shares if the companies file such a registration statement. The agreement contains events of default such as bankruptcy, insolvency, defaults or rendering of judgments on indebtedness in excess of \$75,000 on from

Edgar Filing: American Petroleum Group Inc - Form 10QSB/A

any other lender. Additionally, the agreement contains certain covenants as prohibition of payment of dividends, retirements or redemptions of capital stock, or the transfer of material assets of the Company. Upon these acts of defaults, the entire amount of principal and interest is immediately due, and interest accrues at a rate of 15% per annum.

On October 18, 2004, the Company received notice from the lender that, in its opinion, the Company was in default on the arrangement as a result of distributions of to classes of equity holders and possibly transfer of material assets. The lender has made assertions about misappropriation of corporate funds. Management of the Company finds these assertions as unfounded and feel the Company is in compliance with the terms of the agreement.

KEYSTONE NITTANY VENTURES, MALIBU MANAGEMENT COMPANY AND ALLIANCE FINANCIAL NETWORK

Keystone Nittany Ventures, Inc. (Keystone) and Malibu Management Company (Malibu) are corporations owned by the President of the Company who is also a director and a major shareholder. Alliance Financial Network ("AFN") is a corporation owned by a Vice President of the Company who is also a director and shareholder. Keystone, Malibu and AFN have from time-to-time made advances to the Company. The loans are unsecured due on demand and call for interest of 8% per annum. During the quarter ended March 31, 2005, the outstanding loans were converted to equity in the Company.

F-17

AMERICAN PETROLEUM GROUP, INC. AND SUBSIDIARY

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

March 31, 2005

(Unaudited)

=====

NOTE I - RELATED PARTY LOANS PAYABLE TO OFFICERS/STOCKHOLDERS (CONTINUED)

FORMER PRESIDENT

The amount recorded by the Company represents the estimated fair value of the liability of the amount assumed at the time of purchase of APPC. It appears that the liability represents funds advanced for working capital. The obligation is unsecured, as no terms for repayment, and non-interest bearing. As a result of other contingencies that of the purchase of AAPC the final settled amount of this liability could be significantly different from the present recorded amount.

OTHER STOCKHOLDERS

Warren Field, Rick Carter, Michael Cahr and Ron Shapps are related to the Company by virtue of being stockholders. The loans payable are unsecured, due on demand, and accrue interest of 7% per annum. Certain notes have provisions including options to purchase additional common shares at \$.01 per share. During the quarter ended March 31, 2005, the outstanding loans to Ron Shapps were converted to equity in the Company.

NOTE J - STOCKHOLDERS' EQUITY

Edgar Filing: American Petroleum Group Inc - Form 10QSB/A

A consulting services agreement was entered into on October 9, 2003, with National Securities Corporation, Inc. for a term of six months renewable on a monthly basis. The fee for this service is the issuance of 12,500 shares post split of common stock of the Company.

A consulting services agreement was entered into on October 9, 2003, with New Century Consultants, Inc. for a term of six months renewable on a monthly basis. The fee for this service is the issuance of 50,000 shares post split of common stock of the Company.

A consulting agreement was entered into on October 10, 2003, with Commonwealth Partners NY, LLC for a term of three years. The fee for this service is the issuance of 10,000 free trading shares post split and 15,000 restricted shares post split of common stock of the Company.

On January 27, 2004, the Company entered into a manufacturing agreement with the shareholders of International Pit Crew Express, Inc. ("IPC"), a Texas corporation, to acquire the exclusive right to manufacture petroleum products for IPC's customers within the United States, including the United States convenience store industry. As consideration for these rights, the Company issued 75,000 shares post split of common stock on April 2, 2004 to the shareholders of IPC. Additionally, the Company is to provide one half of the funds necessary for the purchase of machinery, and all related parts, supplies, and installation costs.

F-18

AMERICAN PETROLEUM GROUP, INC. AND SUBSIDIARY

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

March 31, 2005

(Unaudited)

=====

NOTE J - STOCKHOLDERS' EQUITY (CONTINUED)

In conjunction with the change of control of the Company on August 11, 2004, 649,375 shares post split of common and 2,527,500 shares of preferred stock were issued to newly elected officers of the Company. The Company recognized the issuance as compensation expense of \$1,516,500 for the year ended December 31, 2004. The value was based upon the closing price of the stock as quoted on the "electronic bulletin board market" on August 11, 2004. Series A Preferred Stock is convertible at a ratio of one share of Series A Preferred Stock to .5 shares of common stock. In addition, the Company entered into certain compensation agreements with these newly elected officers (see Note K).

NOTE K - COMMITMENTS AND CONTINGENCIES

COMPENSATION AGREEMENTS

In August 2004, the Company entered into a compensation agreement with Mr. William Bossung for the position of Vice President of Corporate Finance and a Director of the Company through December 2005 with a one year renewal. Compensation includes fees of \$100,000 per annum and issuance of common and preferred stock.

Edgar Filing: American Petroleum Group Inc - Form 10QSB/A

In August 2004, the Company entered into a compensation agreement with Mr. Rick Carter for the position of Vice President through December 2005 with a one year renewal. Compensation includes fees of \$80,000 per annum and issuance of common and preferred stock.

In August 2004, the Company entered into a compensation agreement with Mr. James W. Zimble for the position of President and a Director of the Company through December 2005 with a one year renewal. Compensation includes fees of \$144,000 per annum and issuance of common and preferred stock.

Effective January 1, 2005, the Company entered into a compensation agreement with Ronald Shapps for the position of Chairman of the Board of Directors through December 2005 with a one year renewal. Compensation includes fees of \$144,000 and the issuance of common and preferred stock.

F-19

AMERICAN PETROLEUM GROUP, INC. AND SUBSIDIARY

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

March 31, 2005

(Unaudited)

=====

NOTE K - COMMITMENTS AND CONTINGENCIES (CONTINUED)

HARRIS BANK

In conjunction with the Harris Bank attempting to collect their debt against certain parties as indicated above in Note F, the bank is requesting that the Company become a party to any forbearance as to collection of the debt, such as becoming a guarantor or buying life insurance for the original makers of the debt. The basis of their claims is that the Company is using facilities that secure the original borrowings. It is the opinion of management and counsel of the Company that there is no basis and claims or commitments since APPC or APG was not a borrower or a guarantor on the debt (management of Alliance are guarantors of the original debt based on their role as former shareholders/officers of Alliance before its acquisition by the Company). The Company entered into negotiations with the bank and is attempting to secure financing to purchase the operating assets being utilized in the operations at fair value. It is anticipated that an agreement will be signed by the end of the second fiscal quarter of 2005.

COMPENSATION FOR UTILIZING OPERATING ASSETS

As indicated in Note H, no rent or compensation of any type has been paid to the entities that claim to have legal title to the operating assets of APPC. Management has taken the position that since there was no contract or agreement to purchase or for the payment of rentals for these assets, therefore nothing is owed. The consolidated operations for the period since APPC was acquired do not contain any provision for compensation for use of the facilities. The owner (and former President of the Company and major shareholder) of the entity that owns the real estate is claiming a monthly rental amount of \$15,000. This is a contingency relating to the business combination that could potentially result in an adjustment of the purchase price

Edgar Filing: American Petroleum Group Inc - Form 10QSB/A

of APPC and additional charges to the Company's operations. The Company is in negotiations with the owner and anticipates that the dispute will be resolved and an agreement will be signed by the end of the second fiscal quarter of 2005.

AMENDMENT OF ALLIANCE PETROLEUM PRODUCTS COMPANY AGREEMENT

On June 24, 2004 the Company amended the original agreement removing the contingencies contained in the original document, the most significant being of refinancing certain debt owed Harris Bank (see Note F and above). As part of this amendment the original agreement stated APPC assumed all payment obligations and all other agreements of Alliance to the Harris Bank,; and all payment obligations and all other agreements of Alliance as set forth in the following four "Promissory Notes":

F-20

AMERICAN PETROLEUM GROUP, INC. AND SUBSIDIARY

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

March 31, 2005

(Unaudited)

=====

NOTE K - COMMITMENTS AND CONTINGENCIES (CONTINUED)

AMENDMENT OF ALLIANCE PETROLEUM PRODUCTS COMPANY AGREEMENT (CONTINUED)

- o Alliance is to pay \$200,000 to Richard Stiefel after all amounts have been paid to Jesse Fuller and American Group Financial (owned by Jesse Fuller) and funding has been received from Cornell Capital Corporation. The note is non-interest bearing. Jesse Fuller was the former president and a director of the Company and a major shareholder. Richard Stiefel is an officer in Alliance and former shareholder, and currently is an officer/director/ shareholder of the Company. It is the opinion of current management that the terms of the amendment as contained above, are unenforceable against the Company. It is the belief and opinion of current management that the former control person(s) of the Company attempted to bind the Company for debts due and owing from a transaction the Company was not a party to, did not hold any assets from or any obligation to repay and monies lent against assets.
- o Alliance promises to pay American Group Financial, Inc. and/or Jesse Fuller \$407,368 and any additional sums that AGF or Jesse Fuller owes to Harris Bank. Jesse Fuller is the owner of AGF, the former president of the Company, former director and still a major shareholder. The note accrues interest at 5% per annum. The note was due December 1, 2004. It is the opinion of current management that the terms of the amendment as contained above, are unenforceable against the Company. It is the belief and opinion of current management that the former control person(s) of the Company attempted to bind the Company for debts due and owing from a transaction the Company was not a party to, did not hold any assets from or any obligation to repay and monies lent against assets.
- o Alliance is to pay \$200,000 to Virginia Gefvert after all amounts have been paid to Jesse Fuller and American Group

Edgar Filing: American Petroleum Group Inc - Form 10QSB/A

Financial (owned by Jesse Fuller) and funding has been received from Cornell Capital Corporation. The note is non-interest bearing. Jesse Fuller was the former president and a director of the Company, and a major shareholder. Virginia Gefvert was a former shareholder of Alliance. It is the opinion of current management that the terms of the amendment as contained above, are unenforceable against the Company. It is the belief and opinion of current management that the former control person(s) of the Company attempted to bind the Company for debts due and owing from a transaction the Company was not a party to, did not hold any assets from or any obligation to repay and monies lent against assets.

F-21

AMERICAN PETROLEUM GROUP, INC. AND SUBSIDIARY

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

March 31, 2005

(Unaudited)

=====

NOTE K - COMMITMENTS AND CONTINGENCIES (CONTINUED)

AMENDMENT OF ALLIANCE PETROLEUM PRODUCTS COMPANY AGREEMENT (CONTINUED)

- o Alliance is to pay \$200,000 to American Group Financial, Inc. after all amounts have been paid to Jesse Fuller and American Group Financial (owned by Jesse Fuller) and funding has been received from Cornell Capital Corporation. The note is non-interest bearing. Jesse Fuller was the former president and a director of the Company, and a major shareholder. Virginia Gefvert was a former shareholder of Alliance. It is the opinion of current management that the terms of the amendment as contained above, are unenforceable against the Company. It is the belief and opinion of current management that the former control person(s) of the Company attempted to bind the Company for debts due and owing from a transaction the Company was not a party to, did not hold any assets from or any obligation to repay and monies lent against assets.

MINING LEASE

By a lease letter agreement effective March 9, 2001, and amended March 4, 2002 and September 4, 2002, the Company was granted the exclusive right to explore, develop and mine the Medicine Project property located in Elko County of the State of Nevada. The term of the lease was for 20 years, with automatic extensions so long as the conditions of the lease are met. During the year ended December 31, 2003, management of the Company terminated the mining lease. As the Company terminated the lease, it is required to pay all federal and state mining claim maintenance fees for the current year. The Company is required to perform reclamation work on the property as required by federal state and local law for disturbances resulting from the Company's activities on the property. In the opinion of management, there will be no continuing liability.

TERMINATION

During 2003, the Company agreed to issue 10,000 common shares post split to its former President for the settlement of management fees payable (\$105,000), advances to the Company (\$10,000) and termination expense

Edgar Filing: American Petroleum Group Inc - Form 10QSB/A

(\$355,000). The shares were valued at \$2.35 per share, by prior consultants. These shares were issued to the former President and were accounted for as an addition to paid-in capital.

F-22

AMERICAN PETROLEUM GROUP, INC. AND SUBSIDIARY

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

March 31, 2005

(Unaudited)

NOTE K - COMMITMENTS AND CONTINGENCIES (CONTINUED)

OILMATIC STATUS - SUBSEQUENT EVENT

On December 3, 2004, the Registrant entered into a Letter of Intent, dated December 1, 2004, with Oilmatic Systems LLC of East Orange, New Jersey, whereby the Registrant would purchase Oilmatic Systems LLC and/Oilmatic International, Inc., for shares of common stock of the Registrant. Originally, it was anticipated that the transaction will close after the end of the first fiscal quarter of 2005. Subsequent to March 31, 2005, however, management no longer felt that the mutual goals of both parties were attainable and the transaction with Oilmatic was cancelled.

F-23

ITEM 2. MANAGEMENT'S DISCUSSION AND ANALYSIS OR PLAN OF OPERATIONS

FORWARD-LOOKING STATEMENTS

The following discussion should be read in conjunction with our audited financial statements and notes thereto included herein. In connection with, and because we desire to take advantage of, the "safe harbor" provisions of the Private Securities Litigation Reform Act of 1995, we caution readers regarding certain forward looking statements in the following discussion and elsewhere in this report and in any other statement made by, or on our behalf, whether or not in future filings with the Securities and Exchange Commission. 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 necessarily based upon estimates 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, or our behalf. We disclaim any obligation to update forward-looking statements.

OVERVIEW-

History and Organization

American Petroleum Group, Inc., formerly American Capital Alliance, Inc., formerly Prelude Ventures, Inc. (the "Company") was incorporated under the laws of the State of Nevada on May 24, 2000. Prior to its acquisition of American Petroleum Products, Inc., formally Alliance

Edgar Filing: American Petroleum Group Inc - Form 10QSB/A

Petroleum Products, Inc., the Company had limited business operations and was considered a development stage enterprise. The activities during that period principally have been limited to organizational matters, and examining business and financing opportunities for the Company.

Prior Business Matters and Failed Business Acquisitions.

On March 9, 2001, we acquired a 20-year mining lease from Steve Sutherland, the owner of 24 unpatented lode-mining claims, sometimes referred to as the Medicine Project, located in Elko County, Nevada. The lease was terminated. During the nine months ended December 31, 2003, management of the Company terminated the mining lease. As the Company terminated the lease, it is required to pay all federal and state mining claim maintenance fees for the current year. The Company is required to perform reclamation work on the property as required by federal state and local law for disturbances resulting from the Company's activities on the property. In the opinion of management, there will be no continuing liability. Please see the Company's Schedule 14C Information Statement as filed with the Securities and Exchange Commission on February 13, 2004 and mailed or furnished to Shareholders on February 17, 2004, and incorporated herein by reference, for additional details on this matter.

On April 1, 2003, the Company entered into an agreement to acquire 100% of the issued and outstanding shares of Pascal Energy, Inc., a Canadian corporation, by the issuance of 5,000,000 common shares, restricted under Rule 144 of the Securities Act of 1933 and at a later date, issue 5,000,000 common shares, restricted under Rule 144 subject to the Company paying not less than \$1,000,000 accumulated dividends to its shareholders of record. Pascal Energy, Inc.'s business has to provide servicing for the oil and gas industry.

3

The Company determined that the transaction could not be completed due to the inability to complete a comprehensive due diligence. The shares of common stock previously transferred in anticipation of the completion of the transaction were returned to the treasury of the Company and canceled.

"TSG" Acquisition

On October 9, 2003, the Company acquired an option for \$500,000 to purchase the assets and certain liabilities of Tri-State Stores, Inc., an Illinois Corporation ("Tri-State"), GMG Partners LLC, an Illinois Limited Liability Company ("GMG"), and SASCO Springfield Auto Supply Company, a Delaware Corporation ("SASCO"). Tri-State, GMG and SASCO are collectively referred to herein as "TSG." Upon exercise of the option, the Company was to pay \$3,000,000 and assume certain liabilities, not exceeding \$700,000. TSG is involved in the automotive after market. During the first quarter of 2004, the Company elected not to continue to pursue this acquisition and let the option lapse.

Motor Parts Waterhouse, Inc.

The Company issued 5,000,000 shares of common stock for an option to acquire all the outstanding stock of Motor Parts Warehouse, Inc. ("MPW"), of St. Louis, Missouri. In order to exercise the option, the Company must issue an additional 5,000,000 shares of common stock to the shareholders of MPW and pay \$2,200,000. This MPW option cannot be exercised until after the refinancing of the TSG debt of approximately \$3,000,000. MPW is also an auto parts distributor. As a result of the financing not being completed, the Company elected not to continue to pursue this acquisition and let the option lapse.

Completed Transactions

Alliance Petroleum Products Company

On October 9, 2003, the Company also entered into a Stock Purchase

Edgar Filing: American Petroleum Group Inc - Form 10QSB/A

Agreement ("Alliance Agreement") with Alliance Petroleum Products Company ("Alliance"), an Illinois Corporation, and a Rider to the Alliance Agreement ("Rider"). Alliance is in the business of blending and bottling motor oil and anti-freeze. Under the Alliance Agreement, the Company issued 5,000,000 shares of common stock for 100% of the issued and outstanding shares of the common stock of Alliance (757,864 common shares). An additional 5,000,000 shares of common stock of the Company is to be issued to Worldlink International Network, Inc. upon 24 months from the date hereof. Under the terms of the Rider, the Company is required to provide funding of at least \$3,500,000 to pay Harris Bank, a secured creditor of Alliance. The shareholders of Alliance have the option to have the 757,864 issued and outstanding shares of common stock of Alliance returned and the Alliance Agreement rescinded if they choose if the Company did not arrange the funding within 150 days from the date of the execution of the Alliance Agreement. Since the expiration of the option period has expired, the principals of the transactions have verbally agreed to extend the option period pending completion of the financing. This was a material contingency to the transactions and as a result has to be resolved prior to recognition of a business combination.

On June 24, 2004 (effective date July 1, 2004) the Company ("Prelude") now known as American Petroleum Group, Inc., ("AMPE") and Alliance Petroleum Products Company ("Alliance"), entered into an Amendment to the original Alliance Agreement, dated October 9, 2003, whereby all previous conditions and contingencies were deemed to have been completed or waived and the agreement amended as follows (the number of shares indicates the amount prior to the reverse split of November 2004);

4

- o 5,000,000 shares of AMAI voting capital stock are to be issued to the shareholders of Alliance in the same proportions as the first 5,000,000 shares were issued to them pursuant to the exchange of securities contemplated in the Agreement and Plan of Reorganization upon the execution of this Amendment. The exchange of securities also includes, 1,000,000 shares of preferred shares, with the necessary Certificate of Designation, to allow conversion at the rate of 1 share of preferred to ten (10) shares of common, and to permit the preferred shareholders to vote their shares, at any time after issuance, and after they have been converted, the shares be issued to the shareholders of American in the same proportions as the first 5,000,000 shares were issued to them pursuant to the Agreement and Plan of Reorganization.
- o All the shares to the Alliance shareholders are no longer subject to a two-year restriction prior to sale or transfer, but are now only subject to those transfer restrictions under Rule 144 of the Securities Laws.
- o AMAI assumes all payment obligations and all other agreements of Alliance as set forth in the including four "Promissory Notes"; and AMAI assumes all payment obligations and all other agreements of Alliance to the Harris Bank.

It is the opinion of current management that the terms of the amendment as contained above, are unenforceable against the Company. It is the belief and opinion of current management that the former control person(s) of the Company attempted to bind the Company for debts due and owing from a transaction the Company was not a party to, did not hold any assets from or any obligation to repay and monies lent against assets. This is better described as the "threatened Litigation from Harris Bank" as set forth in Item 3. Litigation.

The operations of Alliance have been consolidated with the results of

Edgar Filing: American Petroleum Group Inc - Form 10QSB/A

AMAI since July 1, 2004. American Petroleum Group, Inc. which was formerly American Capital Alliance, Inc. (the "Company") is a Chicago based holding company with an agenda to acquire, merge, and manage various business opportunities. The Company's current direction is in the manufacturing and distribution of petroleum and related products for the automotive industry. After the above acquisition, the Company is no longer considered a "development state entity"

Subsequent Transactions

Oilmatic Systems, LLC

On December 3, 2004, the Registrant entered into a Letter of Intent, dated December 1, 2004, with Oilmatic Systems LLC of East Orange, New Jersey, whereby the Registrant would purchase Oilmatic Systems LLC and/or Oilmatic International, Inc., for shares of common stock of the Registrant.

As part of the transaction, Michael Allora, President of Oilmatic will assume, after the closing of the transaction, the position of President and Chief Operating Officer of American Petroleum as well as Oilmatic. Mr. Allora has extensive experience in the delivery of bulk liquids and related products to businesses, retail and wholesale, in the restaurant field.

5

Oilmatic is a food service distribution company that supplies a closed loop Bulk Cooking Oil Supply and Management system. Its patented state of the art handheld Dipstick(R) design dispenses and removes cooking oil with the simple push of a button at the deep fryers. The system also consists of separate fresh oil and waste oil tanks. A key switch allows management to control unnecessary oil fills and disposals. This system completely eliminates the practice of employees manually removing hot used oil which significantly reduces slips, falls and burns, as well as the hard labor of unloading and retrieving heavy boxes of oil. Additionally, the system eliminates hazardous grease spills both inside and outside of the store that cause grease fires and grease trap build-ups that pollute our environment.

Effective May 20, 2005, Management no longer felt that the mutual goals of both parties were attainable and therefore the transaction with Oilmatic was cancelled between the Parties.

PLAN OF OPERATIONS

We were a startup, development stage Company prior to the acquisition of American Petroleum Products Company ("APPC") and did not realize any revenues from our business operations until that time. However at time of acquiring APPC its sales volume was at a point below its break even point and therefore was losing money. Management of the Company feels that APPC is operating at a small percentage of its capacity with its major constraint on increasing volume being that of financing raw materials for manufacturing and some other limited variable manufacturing costs. In addition, it is currently not generating profits of sufficient amount to support the other operations of the parent Company. Accordingly, we must raise money from sources other than the operations of this business. Our only other source of cash at this time is investments by others in our Company. We must continue to raise cash to complete future acquisitions and stay in business, including funding current operations.

In order to raise capital for operations of the parent Company and to complete the Oilmatic transaction, the Company entered into a transaction with Cornell Capital Partners LP and Highgate House Funds, Ltd., dated March 8, 2005, whereby the Company entered into a Convertible Debenture for a total amount of \$500,000 at 7% interest and a Standby Equity Distribution Agreement for up to

Edgar Filing: American Petroleum Group Inc - Form 10QSB/A

\$10,000,000. The Note is convertible into shares of common stock at a conversion price of \$0.85 per share, at the option of the Lender. At the same time the Company entered into with Cornell Capital Partners LP a total Standby Equity Distribution Agreement for up to \$10,000,000 equity line. As part of this transaction, we paid fees to Cornell Capital of 750,000 shares (of which 15,000 was given to Newbridge Securities as Placement Agent for the SEDA Agreement), plus a commitment fee and Structuring fee to Yorkville Advisors Management, LLC of a total of \$75,000. In addition, as part of the Secured Debenture, Highgate House Funds, Ltd. was issued 3,100,000 shares of common stock as collateral by the Company. Upon payment, or conversion of the Convertible Debenture, these shares are to be returned to the Company and returned to treasury. An additional 50,000 shares of commons tock was issued as part of its compensation for the Convertible Debenture.

To meet our need for cash, we were investigating and attempting to raise debt and equity financing to complete the acquisition of Oilmatic (which is no longer active) as described in this document and fund the Company's on-going operations. There is no assurance that we will be able to raise these funds and stay in business. If we do not raise the funds required to complete any of the acquisitions, we will have to find alternate sources such as a secondary public offering, private placement of securities, or loans from officers or others. If we need additional cash and can not raise it, we will either have to suspend operations until we do raise the cash or cease operations entirely.

6

For its current operations, the Company has sufficient cash and revenue to support only near term operations.

Limited Operating History.

The only historical financial information about our Company on which to base an evaluation of our performance is the last six months after the acquisition of APPC which was generating losses at the time of acquisition . We cannot guarantee we will be successful in our business operations. Our business is subject to the risks inherent in the establishment of a new business enterprise, including limited capital resources and the ability to find and finance suitable acquisition candidates. We are seeking equity and debt financing to provide the capital required to fund additional proposed acquisitions and our on-going operations.

We have no assurance that future financing will be available to the Company on acceptable terms. If financing is not available on satisfactory terms, we may be unable to continue, develop or expand our operations. Equity financing could result in additional dilution to shareholders.

Liquidity, Capital Resources and Operations

Since the Company's inception, the Company has raised funds from officer/stockholder advances, from private sales of its common shares and approximately \$500,000 from sale of borrowed stock contributed by the Company's promoters. This money has been utilized for start-up costs and operating capital.

In this regard, the Company's plan of operations for the next 12 months is to pursue profitable business acquisitions, and obtain financing to increase the sale volume of APPC. Product research and development is expected to be minimal during the period. Additionally, the Company does not expect any change in number of employees other than through acquisitions.

Edgar Filing: American Petroleum Group Inc - Form 10QSB/A

Results of Operations:

For the Quarter Ending March 31, 2005 vs. March 31, 2004 Until July 1, 2004, the commencement of the third fiscal quarter of the Company's fiscal year, the Company did not have an operating unit. Therefore, a comparison of sales to the previous year is not an accurate representation of the increase or decrease of the revenues, costs and sales of the Company. For the period ended March 31, 2005, the Company had \$384,901 in sales, with the cost of revenues of \$280,595 and other expenses, including financing expenses related to Cornell capital and Highgate House of \$2,782,500 for a total expense of \$3,945,338.

Liquidity and Financial Resources

During the three months ended March 31, 2005, net cash used by operating activities was \$658,073. The Company incurred a net loss of \$3,846,043 for the three months ended March 31, 2005; the company still has a net operating loss even if the stock compensation expense of \$690,000 and financing expense of \$2,782,500 did not occur. Additionally at March 31, 2005, current liabilities and long-term liabilities exceed current assets by approximately \$1,221,380; these factors raise substantial doubt about the Company's ability to continue as

7

a going concern. The Company anticipates that in order to fulfill its plan of operation including payment of certain past liabilities of the company, it will need to seek financing from outside sources. The company is currently pursuing private debt and equity sources. It is the intention of the Company's management to also improve profitability by significantly reducing operating expenses and to increase revenues significantly, through growth and acquisitions. The Company is actively in discussion with one or more potential acquisition or merger candidates. There is no assurance that the company will be successful in raising the necessary funds nor there a guarantee that the Company can successfully execute any acquisition or merger transaction with any company or individual or if such transaction is effected, that the Company will be able to operate such company profitably or successfully.

Administrative expenses for the three months ended March 31, 2005, including stock compensation expenses and financing expenses were \$3,945,338, resulting in losses from operations of \$3,846,043. Included in these amounts are expenses for stock compensation and financing expense of \$3,472,500. The increases in the remainder of Administrative expensed are due to the start up of the operations due to increases in personnel, professional, professional fees, and a generally higher level of fixed administrative expenses. It is anticipated by the Registrant that General and Administrative costs will remain relatively the same, while Revenues and Gross profit will increase as a result of the business derived from APPC.

Inflation

The amounts presented in the financial statements do not provide for the effect of inflation on the Company's operations or its financial position. Amounts shown for machinery, equipment and leasehold improvements and for costs and expenses reflect historical cost and do not necessarily represent replacement cost. The net operating losses shown would be greater than reported if the effects of inflation were reflected either by charging operations with amounts that represent replacement costs or by using other inflation adjustments.

Provision for Income Taxes

The company has determined that it will more likely than not use any tax net operating loss carry forward in the current tax year and has taken and

Edgar Filing: American Petroleum Group Inc - Form 10QSB/A

therefore has a valuation amount equal to 100% of any asset.

8

ITEM 3. CONTROLS AND PROCEDURES

We recently acquired American Petroleum Products Corp., our main operating entity, after taking control of the parent Company in September 2004. As such, the company is just developing and implementing systems of internal and disclosure controls. Within the ninety-day period preceding the filing of this report, our management evaluated the effectiveness of the design and operation of its disclosure controls and procedures (the "Disclosure Controls") as of the end of the period covered by this Form 10-QSB and (ii) any changes in internal controls over financial reporting that occurred during the last quarter of our fiscal year. This evaluation ("Controls Evaluation") was done under the supervision and with the participation of management, including the Chief Executive Officer ("CEO") and Chief Financial Officer ("CFO"), who became CFO in September 2004, and the Controller, who became CFO in March 2005.

Limitations on the Effectiveness of Controls

A control system, no matter how well conceived and operated, can provide only reasonable, not absolute, assurance that the objectives of the control system are met. Further, the design of a control system must reflect the fact that there are resource constraints, and the benefits of controls must be considered relative to their costs. Because of the inherent limitations in all control systems, no evaluation of controls can provide absolute assurance that all control issues and instances of fraud, if any, have been detected. Because of the inherent limitations in a cost effective control system, misstatements due to error or fraud may occur and not be detected. We will conduct periodic evaluations of our internal controls to enhance, where necessary, our procedures and controls.

Conclusions

Based upon the Controls Evaluation, the CEO and CFO have concluded that the Disclosure Controls are effective in reaching a reasonable level of assurance that management is timely alerted to material information relating to the Company during the period when its periodic reports are being prepared. In accord with the U.S. Securities and Exchange Commission's requirements, the CEO and CFO conducted an evaluation of the Company's internal control over financial reporting (the "Internal Controls") to determine whether there have been any changes in Internal Controls that occurred during the quarter which have materially affected or which are reasonable likely to materially affect Internal Controls. Based on this evaluation, there have been no such changes in Internal Controls during the last quarter of the period covered by this report.

PART II: OTHER INFORMATION

ITEM 1. LEGAL PROCEEDINGS.

Other than described below, there are no past, pending or, to our knowledge, threatened litigation or administrative action which has or is expected by our management to have a material effect upon our business, financial condition or operations, including any litigation or action involving our officer, director or other key personnel.

9

Edgar Filing: American Petroleum Group Inc - Form 10QSB/A

There is a threatened action by the Harris Bank of Chicago, Illinois with respect to a defaulted loan agreement. Harris Bank claims to have a lien on the equipment used by the Registrant in its operations. The Registrant has had contact with Harris Bank and is attempting to resolve the matter. In the event that a resolution is not resolved in a manner satisfactory to the Registrant, it could result in the seizure of the equipment and have a material adverse effect on the operations of the Registrant. Recently, the Company has reached an oral agreement for the resolution of all claims between Harris Bank, the former control person of the Company and the Company, whereby the Company will be acquiring the real property and fixed assets involved in the dispute. This oral agreement is being reduced to a written agreement and if executed and completed, will resolve any issues outstanding. It is anticipated that the Agreements will be signed by all parties, and the transaction completed, by the end of the third fiscal quarter.

The Company received a letter, dated February 28, 2005, from the Attorney for Concentric Consumer Marketing, Inc., in connection with certain sums owed by American Petroleum Products Corporation ("APPC"), a wholly owned subsidiary of the Company, in the amount of \$13,000 per month for the past four (4) months, for services. There is no way to determine at this time the validity of the claim, or any possible outcome or if the claim is material to the Company, or even if litigation will be commenced against the Company and/or APPC. The Company has reached a settlement with Concentric Consumer Marketing, Inc., and expects to execute a Settlement Agreement shortly.

ITEM 2. UNREGISTERED SALES OF EQUITY SECURITIES AND USE OF PROCEEDS.

We issued 75,000 shares of common stock, and 150,000 shares of Series A preferred stock, to Eliot Cole, Esq. as part of his compensation for accepting the position of a Director on January 2005.

We issued 500,000 shares of common stock, and 1,000,000 shares of Series A preferred stock, to Ronald Shapss as part of his compensation for accepting the position of Chairman of the Board of Directors, on February 15, 2005.

We issued shares in relation to the Highgate House Funds, Ltd. Convertible Debenture and the Standby Equity Distribution Agreement with Cornell Capital Partners LP, as follows:

| | |
|----------------------------------|----------------------------|
| Highgate House Funds, Ltd. | 3,100,000 for collateral |
| Highgate House Funds, Ltd. | 50,000 for compensation |
| Cornell Partners, LP | 735,000 as compensation |
| Newbridge Securities Corporation | 15,000 for compensation as |

Placement Agent for the SEDA Agreement

We issued 683,000 shares from the exercise of the options granted to Holders of certain promissory Notes issued by the Company. These creditors were entitled to purchase one shares (1) at a purchase price of one cent (\$.01) for each dollar lent to the company.

The use of the proceeds from the Highgate House Funds, Ltd., transaction was for general working capital, and to fund the Oilmatic Acquisition.

The use of proceeds from the exercise of the option shares is for general working capital of the Company.

Edgar Filing: American Petroleum Group Inc - Form 10QSB/A

ITEM 3. DEFAULTS UPON SENIOR SECURITIES.

None.

ITEM 4. SUBMISSION OF MATTERS TO A VOTE OF SECURITY HOLDERS.

None.

ITEM 5. OTHER INFORMATION.

None.

ITEM 6. EXHIBITS

(a) Exhibits

- 3.1 Articles of Incorporation of the Registrant*
- 3.2 By-laws of the Registrant*
- 31.1 Rule 13A-14(A)/15D-14(A) Certification for President/Chief Executive Officer
- 31.2 Rule 13A-14(A)/15D-14(A) Certification for Chief Financial Officers
- 32.1 Section 1350 Certification for President/Chief Executive Officer
- 32.2 Section 1350 Certification for President/Chief Financial Officer

* These documents are hereby incorporated by reference to Form SB-2, as amended, June 26, 2001, and subsequent filings.

SIGNATURES

In accordance with the requirements of the Exchange Act, the registrant caused this report to be signed on its behalf by the undersigned, thereunto duly authorized.

Date: May 27, 2005

American Petroleum Group, Inc.

/s/ James W. Zimbler

James W. Zimbler,
Interim President/Chief Executive Officer

/s/ James Carroll

James Carroll,
Chief Financial Officer