HOUSTON AMERICAN ENERGY CORP
Form 10QSB/A
November 07, 2005

UNITED STATES
SECURITIES AND EXCHANGE COMMISSION
Washington, DC 20549

FORM 10-QSB/A
Amendment No. 1

(Mark One)

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

For the quarterly period ended March 31, 2005

OR

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

For the transition period from ___________ to ______________.

Commission File Number 0-33027.

HOUSTON AMERICAN ENERGY CORP.
(Exact name of small business issuer as specified in its charter)

Delaware	76-0675953
(State or other jurisdiction of incorporation or organization)	(IRS Employer Identification No.)

801 Travis Street, Suite 2020, Houston, Texas 77002
(Address of principal executive offices)(Zip Code)

(713) 222-6966
(Registrant's telephone number, including area code)

(Former name, former address and former fiscal year, if changed since last report)

Indicate by check mark whether the registrant (1) has filed all reports required to be filed by section 13 or 15(d) of the Securities Exchange Act of 1934 during the preceding 12 month (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 [X] No [ ]

As of May 10, 2005, we had 19,970,089 shares of $.0001 par value Common Stock outstanding.

Transitional Small Business Disclosure Format (check one) Yes [ ] No [X]

EXPLANTORY NOTE

This Amendment No. 1 on Form 10-QSB/A hereby amends Part I, Item 3. Controls and

Procedures of Houston American Energy Corp's Quarterly Report on Form 10-QSB for the quarter ended March 31, 2005, which was filed on May 13, 2005. This Amendment No. 1 is being filed for the purpose of providing additional details to our disclosures in the original report pursuant to comments we received from the Staff of the U.S. Securities and Exchange Commission. This Amendment No. 1 is not intended to revise other information presented in our quarterly report on Form 10-QSB for the quarter ended March 31, 2005 as originally filed and all such other information in the original filing, which remains unchanged.

This Amendment No. 1 on Form 10-QSB/A does not reflect events occurring after the filing of the original Form 10-QSB and does not modify or update the disclosure therein in any way other than as required to reflect the amendments discussed above.

HOUSTON AMERICAN ENERGY CORP.

FORM 10-QSB/A

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PART I - FINANCIAL INFORMATION

ITEM 1. Financial Statements

HOUSTON AMERICAN ENERGY CORP.

BALANCE SHEET
March 31, 2005
(Unaudited)

ASSETS

CURRENT ASSETS:	
Cash	$ 282,930
Accounts receivable	334,575
Prepaid expenses	24,400
Total current assets	641,905
PROPERTY, PLANT AND EQUIPMENT	
Oil and gas properties - full cost method	
Costs subject to amortization	2,600,391
Costs not being amortized	314,758
Office equipment	10,878
Total property, plant and equipment	2,926,027
Accumulated depreciation and depletion	(1,071,982)
Total property, plant and equipment, net	1,854,045
OTHER ASSETS	3,167
Total Assets	$ 2,499,117

LIABILITIES AND SHAREHOLDERS' EQUITY

CURRENT LIABILITIES:	
Accounts payable	$ 272,085
Accrued expenses	41,452
Accrued interest on shareholder's loan	4,400
Total current liabilities	317,937
LONG-TERM DEBT:	
Notes payable to principal shareholder	1,000,000
SHAREHOLDERS' EQUITY:	
Common stock, $.001 par value; 100,000,000 shares Authorized; 19,968,089 shares outstanding	19,968
Additional paid-in capital	2,800,027
Treasury stock, at cost; 100,000 shares	(85,834)
Accumulated deficit	(1,552,981)
Total shareholders' equity	1,181,180
Total liabilities and shareholders' equity	$ 2,499,117

The accompanying notes are an integral part of these financial statements

HOUSTON AMERICAN ENERGY CORP.
STATEMENT OF OPERATIONS
(Unaudited)

	For the Three Months Ended March 31,	
	2005	2004
Revenue	$ 445,510	$ 122,808
Oil and gas	2,204	2,766
Interest	447,714	125,574
Total revenue		
Expenses of operations		
Lease operating expense and severance taxes	182,099	53,642
Joint venture expenses	13,823	-
General and administrative expense		
Accounting and legal	95,915	20,318
Salary expense	48,742	-
Rent	10,244	10,372
Shareholder relations	1,203	2,442
Miscellaneous	11,992	12,626
Depreciation and depletion	62,627	22,806
Interest expense	18,000	18,000
Total expenses	444,645	140,206
Net income (loss)	$ 3,069	$ (14,632)
Basic and diluted income (loss) per share	$ 0.00	$ (0.01)
Basic and diluted weighted average shares	19,968,089	19,509,304

The accompanying notes are an integral part of these financial statements

HOUSTON AMERICAN ENERGY CORP.
STATEMENTS OF CASH FLOWS
(Unaudited)

	For the Three Months Ended March 31, 2005	For the Three Months Ended March 31, 2004
CASH FLOWS FROM OPERATING ACTIVITIES		
Income (loss) from operations	$ 3,069	$ (14,632)
Adjustments to reconcile net loss to net cash from operations		
Depreciation and depletion	62,627	22,806
Changes in operating assets and liabilities:		
(Increase) in accounts receivable	(94,433)	(9,070)
(Increase) decrease in prepaid expense	65,546	(138,400)
Decrease in other assets	-	36,864
Increase in accounts payable and accrued expenses	36,129	89,453
Net cash provided (used) by operations	72,938	(12,979)
CASH FLOWS FROM INVESTING ACTIVITIES		
Acquisition of oil and gas properties	(511,621)	(210,391)
Net cash used by investing activities	(511,621)	(210,391)
CASH FLOWS FROM FINANCING ACTIVITIES		
Sale of common stock - net of costs	-	91,193
Net cash provided by financing activities	-	91,193
Decrease in cash	(438,683)	(132,177)
Cash, beginning of period	721,613	663,422
Cash, end of period	$ 282,930	$ 531,245
SUPPLEMENT CASH FLOW INFORMATION:		
Interest paid	$ 18,000	$ 18,000
SUPPLEMENT NON-CASH INVESTING AND FINANCING ACTIVITIES		
Stock issued for oil and gas activity	$ -	$ 47,500

The accompanying notes are an integral part of these financial statements

HOUSTON AMERICAN ENERGY CORP.
Notes to Financial Statements
March 31, 2005
(Unaudited)

NOTE 1. - BASIS OF PRESENTATION

The accompanying unaudited financial statements of Houston American Energy Corp., a Delaware corporation (the "Company") have been prepared in accordance with accounting principles generally accepted in the United States of America for interim financial information and with the instructions to Form 10-QSB and Item 310(b) of Regulation S-B. They do not include all of the information and footnotes required by accounting principles generally accepted in the United States of America for a complete financial presentation. In the opinion of management, all adjustments, consisting only of normal recurring adjustments, considered necessary for a fair presentation, have been included in the accompanying unaudited financial statements. Operating results for the periods presented are not necessarily indicative of the results that may be expected for the full year.

These financial statements should be read in conjunction with the financial statements and footnotes, which are included as part of the Company's Form 10-KSB for the year ended December 31, 2004.

NOTE 2. - CHANGES IN PRESENTATION

Certain financial presentations for the periods presented for 2004 have been reclassified to conform to the 2005 presentation.

NOTE 3. - SUBSEQUENT EVENTS

On May 4, 2005, the Company entered into Purchase Agreements (the "Purchase Agreements") with multiple investors pursuant to which the Company sold $2,125,000 of 8% Subordinated Convertible Notes Due 2010 (the "Notes").

The Notes bear interest at 8%, provide for semi-annual interest payments and mature May 1, 2010. The Notes are convertible, at the option of the holders, into common stock of the Company at a price of $1.00 per share (the "Conversion Price"), subject to standard anti-dilution provisions relating to splits, reverse splits and other transactions, including issuances of common stock at prices below the Conversion Price. The Notes are subject to automatic conversion in the event the Company conducts an underwritten public offering of its common stock from which the Company receives at least $5 million and the public offering price is at least 150% of the then applicable Conversion Price. The Company has the right to cause the Notes to be converted into common stock after May 1, 2006 if the price of the Company's common stock exceeds 200% of the then applicable Conversion Price on the date of conversion and for at least 20 trading days over the preceding 30 trading days. The Company has the right to repurchase the Notes after May 1, 2007 at 103% of the face amount during 2007, 102% of the face amount during 2008, 101% of the face amount during 2009 and 100% of the face amount thereafter. The Notes are unsecured general obligations of the Company and are subordinated to all other indebtedness of the Company unless the other indebtedness is expressly made subordinate to the Notes.

The Notes were offered and sold in private placement transaction pursuant to the exemption from registration provided by Section 4(2) of the Securities Act of 1933 and Rule 506 promulgated thereunder. Each of the investors is either an "accredited investor", as defined in Rule 501 promulgated under the Securities Act, or a "qualified institutional buyer", as defined in Rule 144A promulgated under the Securities Act.

Pursuant to the terms of the Purchase Agreements, the Company and the investors entered into Registration Rights Agreements under which the Company agreed to file with the Securities and Exchange Commission, within 90 days, a registration statement covering the Notes and the common stock underlying the Notes and to use its best efforts to cause the registration statement to become effective within 180 days.

In connection with the placement of the Notes, the Company issued to the placement agent in the offering a three year warrant (the "Placement Agent Warrant") to purchase 191,250 shares of the Company's common stock at $1.00 per share and paid commissions totaling $127,500. The Registration Rights Agreements provide that the shares of common stock underlying the Placement Agent Warrant are to be included in the registration statement required to be filed.

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

FORWARD-LOOKING INFORMATION

This Form 10-QSB quarterly report of Houston American Energy Corp. (the "Company") for the three months ended March 31, 2005, contains certain forward-looking statements within the meaning of Section 27A of the Securities Act of 1933, as amended, and Section 21E of the Securities Exchange Act of 1934, as amended, which are intended to be covered by the safe harbors created thereby. To the extent that there are statements that are not recitations of historical fact, such statements constitute forward-looking statements that, by definition, involve risks and uncertainties. In any forward-looking statement, where the Company expresses an expectation or belief as to future results or events, such expectation or belief is expressed in good faith and believed to have a reasonable basis, but there can be no assurance that the statement of expectation or belief will be achieved or accomplished.

The following are factors that could cause actual results or events to differ materially from those anticipated, and include, but are not limited to: general economic, financial and business conditions; the Company's ability to minimize expenses and exposures related to its oil and gas properties in which other companies have control over the operations conducted on such properties; changes in and compliance with governmental laws and regulations, including various state and federal environmental regulations; the Company's current dependency on John F. Terwilliger, its sole director and executive officer; and the Company's ability to obtain additional necessary financing from outside investors and/or bank and mezzanine lenders.

Readers are cautioned not to place undue reliance on the forward-looking statements contained herein, which speak only as of the date hereof. The Company believes the information contained in this Form 10-QSB to be accurate as of the date hereof. Changes may occur after that date, and the Company will not update that information except as required by law in the normal course of its public disclosure practices.

The oil and gas industry is subject to volatile price movements based on various factors including supply and demand and other factors beyond the control of the Company. While the industry has generally benefited from higher prices during the past two years, sudden and/or sustained decreases in energy prices can occur, which could limit our ability to fund planned levels of capital expenditures.

Additionally, the following discussion regarding the Company's financial condition and results of operations should be read in conjunction with the financial statements and related notes contained in Item 1 of Part 1 of this Form 10-QSB, as well as the financial statements in Item 7 of Part II of the Company's Form 10-KSB for the fiscal year ended December 31, 2004.

CRITICAL ACCOUNTING POLICIES

The Company's discussion and analysis of its financial condition and results of operations are based upon the Company's financial statements, which have been prepared in accordance with accounting principles generally accepted in the United States of America. The Company believes certain critical accounting policies affect its more significant judgments and estimates used in the preparation of its financial statements. A description of the Company's critical accounting policies is set forth in the Company's Form 10-KSB for the year ended December 31, 2004. As of, and for the quarter ended, March 31, 2005, there have been no material changes or updates to the Company's critical accounting policies other than the following updated information relating to Unevaluated Oil and Gas Properties:

UNEVALUATED OIL AND GAS PROPERTIES. Unevaluated oil and gas properties not subject to amortization include the following at March 31, 2005:

	31-Mar-05
Acquisition costs	$ 58,756
Evaluation costs	256,002
Total	$ 314,758

The carrying value of unevaluated oil and gas prospects include $242,628 expended for properties in the South American country of Colombia at March 31, 2005. We are maintaining our interest in these properties and development has or is anticipated to commence within the next twelve months.

CURRENT YEAR DEVELOPMENTS

Drilling of a 10,600-foot well, the first well, on the South Sibley Prospect in Webster Parish, Louisiana began in April 2005 with drilling ongoing as of May 11, 2005. The Company has a 7.5% working interest at an 8.3% net revenue interest carried to point of sales for the well.

Drilling of a 12,100-foot well, the Baronet #2 well, on the Crowley Prospect in Acadia Parish, Louisiana was completed in April 2005. The well tested the Hayes Sand and flanks a natural gas well that produced 1.6 BCF of natural gas from the Hayes Sand. After logging 21-feet of apparent net pay, hole conditions deteriorated before logging could be completed. A completion attempt is planned in May 2005. The Company has a 3% working interest and 2.25% net revenue interest until payout for the well.

Drilling of 2 offset wells on the Cara Cara concession in Colombia was completed with production commencing on the Bengala #4 in January 2005 and the Jaguar #5 in February 2005. The Company holds a 1.59% working interest in each of the wells subject to a 30% reversionary interest to Ecopetrol at payout.

The Tambaqui #5 well commenced drilling, and production, in March 2005. The Company holds a 12.6% working interest in the well.

Seismic surveying began on our Cara Cara concession in Colombia as part of our planned delineation of additional drilling prospects on the concession. Seismic surveying also began on our Dorotea and Cabiona concessions to establish drilling prospect locations.

RESULTS OF OPERATIONS

Oil and Gas Revenues. Total oil and gas revenues increased 263% to $445,510 in the three months ended March 31, 2005 when compared to the three months ended March 31, 2004. The increase in revenue is due to (1) increased production resulting from the development of the Columbian fields and the new domestic wells that have come on line during 2004, and (2) increases in oil prices. The Company had interests in 11 producing wells in Colombia and 7 producing wells in the U.S. during the 2005 quarter as compared to 3 producing wells in Columbia and 6 producing wells in the U.S. during the 2004 quarter. Average prices from sales were $42.12 per barrel of oil and $5.33 per mcf of gas during the 2005 quarter as compared to $26.89 per barrel of oil and $5.24 per mcf of gas during the 2004 quarter.

	Columbia	U.S.	Total
2005 Quarter			
Oil sales	$ 323,892	$21,855	$345,747
Gas sales	-	99,763	99,763
2004 Quarter			
Oil sales	47,100	2,656	49,756
Gas sales	-	73,052	73,052

Lease Operating Expenses. Lease operating expenses, excluding joint venture expenses relating to our Columbian operations discussed below, increased 239% to $182,099 in the 2005 quarter from $53,642 in the 2004 quarter. The increase in lease operating expenses was attributable to the increase in the number of wells operated during the 2005 period (18 wells as compared to 9 wells). Following is a summary comparison of lease operating expenses for the periods.

	Columbia	U.S.	Total
2005 Quarter	$ 174,930	$7,169	$182,099
2004 Quarter	47,786	5,856	53,642

Joint Venture Expenses. The Company's allocable share of joint venture expenses attributable to the Colombian Joint Venture totaled $13,823 during the 2005 quarter and $0 for the first quarter of 2004. The increase in joint venture expenses was attributable to an increase in operational activities of the joint venture in acquiring new concessions.

Depreciation and Depletion Expense. Depreciation and depletion expense was $62,627 and $22,806 for the quarter ended March 31, 2005 and 2004, respectively. The increase is due to increases in domestic and Colombian production.

Interest Expense. Interest expense was $18,000 in the 2005 and 2004 quarter. The interest expense has been steady since the conversion of certain loans by shareholders to equity in December 2003. Interest expense will increase commencing in the second quarter of 2005 with the issuance of $2,125,000 of 8% Subordinated Convertible Notes.

General and Administrative Expenses. General and administrative expense increased by 267% to $168,096 during the first quarter 2005 from $45,758 in the first quarter 2004. The increase in general and administrative expense was primarily attributable to the payment of salary (up $48,742 from $0) to the Company's principal officer beginning in the fourth quarter of 2004 and increases in professional fees (up $75,597, or 372%) relating primarily to legal fees associated with the ongoing Moose Oil litigation.

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FINANCIAL CONDITION

Liquidity and Capital Resources. At March 31, 2005 we had a cash balance of $282,930 and working capital of $323,968 compared to a cash balance of $721,613 and working capital of $771,392 at December 31, 2004. The decline in cash and working capital during the period was primarily attributable to investing activities relating to oil and gas properties that were partially offset by improved operating cash flow.

Operating cash flows for the 2005 quarter totaled $72,938 as compared to cash used in operations during the 2004 quarter of $12,979. The improvement in operating cash flow was primarily attributable to improved profitability and increases in depreciation and depletion.

Investing activities used $511,621 during the 2005 quarter as compared to $210,391 used during the 2004 quarter. The increase in funds used in investing activities during the current quarter was primarily attributable to the payment of the Company's portion of seismic survey costs on Colombian prospects totaling $261,918.

Financing activities provided $91,193 during the 2004 quarter attributable to the issue of 227,983 shares of its common stock for cash consideration of $91,193. The Company had no financing activities during the 2005 quarter.

Subsequent to March 31, 2005, the Company completed a sale of $2,125,000 of 8% Subordinated Convertible Notes due 2010 (the "Convertible Notes") pursuant to which the Company received net proceeds of approximately $1,950,000 after commissions and offering costs.

Notes Payable. At March 31, 2005, our long-term debt was $1,000,000, unchanged from December 31, 2004. Notes payable at that date consisted of loans from our principal shareholder bearing interest at 7.2% and maturing January 1, 2007.

Effective May 4, 2005, we sold $2,125,000 in principal amount of Convertible Notes. The Convertible Notes bear interest at 8%, provide for semi-annual interest payments and mature May 1, 2010. The Convertible Notes are convertible, at the option of the holders, into common stock of the Company at a price of $1.00 per share (the "Conversion Price"), subject to standard anti-dilution provisions relating to splits, reverse splits and other transactions, including issuances of common stock at prices below the Conversion Price. The Convertible Notes are subject to automatic conversion in the event the Company conducts an underwritten public offering of its common stock from which the Company receives at least $5 million and the public offering price is at least 150% of the then applicable Conversion Price. The Company has the right to cause the Convertible Notes to be converted into common stock after May 1, 2006 if the price of the Company's common stock exceeds 200% of the then applicable Conversion Price on the date of conversion and for at least 20 trading days over the preceding 30 trading days. The Company has the right to repurchase the Convertible Notes after May 1, 2007 at 103% of the face amount during 2007, 102% of the face amount during 2008, 101% of the face amount during 2009 and 100% of the face amount thereafter. The Convertible Notes are unsecured general obligations of the Company and are subordinated to all other indebtedness of the Company unless the other indebtedness is expressly made subordinate to the Convertible Notes.

Capital and Exploration Expenditures and Commitments. Our principal capital and exploration expenditures relate to our ongoing efforts to acquire, drill and complete prospects. Historically, we funded our capital and exploration expenditures from funds borrowed from John F. Terwilliger, our principal shareholder and officer. With the receipt of additional equity financing in 2003, 2004 and the May 2005 sale of convertible notes, and the increase in our revenues, profitability and operating cash flows, we expect that future capital and exploration expenditures will be funded principally through funds on hand and funds generated from operations.

During the first quarter of 2005, we invested approximately $511,000 for the acquisition and development of oil and gas properties, consisting of (1) seismic surveying in Colombia ($262,000), (2) drilling the well on the Crowley Prospect, and (3) drilling 3 wells in Colombia.

At March 31, 2005, our only material contractual obligations requiring determinable future payments on our part were a note payable to our principal shareholder and our lease relating to our executive offices which were unchanged when compared to the 2004 Form 10-K.

In addition to the contractual obligations requiring that we make fixed payments, in conjunction with our efforts to secure oil and gas prospects, financing and services, we have, from time to time, granted overriding royalty interests (ORRI) in various properties, and may grant ORRIs in the future, pursuant to which we will be obligated to pay a portion of our interest in revenues from various prospects to third parties.

Management anticipates that our current financial resources, including funding received from the May 2005 Convertible Note offering, combined with our increases in revenues over the past year will meet our anticipated objectives and business operations, including our planned property acquisitions and drilling activities, for at least the next 12 months without the need for additional capital. Management continues to evaluate producing property acquisitions as well as a number of drilling prospects. It is possible, although not anticipated, that the Company may require and seek additional financing if additional drilling prospects are pursued beyond those presently under consideration.

OFF-BALANCE SHEET ARRANGEMENTS

We had no off-balance sheet arrangements or guarantees of third party obligations at March 31, 2005.

INFLATION

We believe that inflation has not had a significant impact on our operations since inception.

ITEM 3. CONTROLS AND PROCEDURES

As of the end of the period covered by this report, we have evaluated the effectiveness of the design and operation of our disclosure controls and procedures under the supervision and with the participation of our chief executive officer ("CEO") who also serves as chief financial officer. Based on this evaluation, our management, including the CEO, concluded that our disclosure controls and procedures were effective.

In connection with the audit of our financial statements for the fiscal year ended December 31, 2004, our independent registered public accounting firm informed us that we have significant deficiencies constituting material weaknesses as defined by the standards of the Public Company Accounting Oversight Board.

The weaknesses in question were detected during the audit of the company's financial statements for the fiscal year ended December 31, 2004, which audit occurred in February/March 2005.

The weaknesses were detected in the routine course of the audit review of accounting for certain non-routine transactions.

The specific problems identified by the auditor to the company were (1) the lack of segregation of duties necessary to maintain proper checks and balances between functions and (2) the failure of internal personnel to adequately communicate the scope and nature of non-routine transactions. The absence of qualified full time accounting personnel in the company was a contributing factor to the problems identified by the auditor. The specific circumstances giving rise to the weaknesses include the company's President serving as both Chief Executive Officer and as Chief Financial Officer and the company's utilizing the services of contract accountants on a part time basis in the absence of internal accounting personnel. As a result of the absence of full time in-house accounting personnel and the failure of in-house personnel to adequately communicate information to the company's outside contract accountants, certain journal entries were not made until the time of the audit when the need for such entries was identified by the auditor.

Because the company lacks the financial resources to support in-house accounting personnel at this time, no formal steps have as yet been taken to resolve the weaknesses identified by the auditor. The company is, however, emphasizing improvement in its communications with its outside accounting personnel to assure that non-routine transactions are accounted for in a timely manner.

Management concluded that the company's disclosure controls and procedures were effective because the relevant information and data in question were known to proper members of management to allow proper and timely disclosure in its reports filed with the SEC and was, in fact, timely reported. The weaknesses in question relate to internal control over financial reporting and not weaknesses in disclosure controls and procedures.

During the quarter ended March 31, 2005, there were no changes in our internal controls over financial reporting that materially affected, or are reasonably likely to materially affect, internal controls over financial reporting.

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PART II

ITEM 6. EXHIBITS

Exhibit Number	Description
31.1	Certification of CEO and CFO pursuant to Section 302 of the Sarbanes-Oxley Act of 2002
32.1	Certification Pursuant to 18 U.S.C. Section 1350, as Adopted Pursuant to Section 906 of the Sarbanes-Oxley

Act of 2002

SIGNATURES

Pursuant to the requirements of the Securities Exchange Act of 1934, the registrant has duly caused this report to be signed on behalf by the undersigned thereunto duly authorized.

HOUSTON AMERICAN ENERGY CORP.

By: /s/ John Terwilliger
John Terwilliger
CEO and President

Date: November 4, 2005

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