

HOUSTON AMERICAN ENERGY CORP
Form SB-2/A
January 29, 2004

=====

SECURITIES AND EXCHANGE COMMISSION
WASHINGTON, D.C. 20549

AMENDMENT NO. 1
TO
FORM SB-2

REGISTRATION STATEMENT
UNDER THE SECURITIES ACT OF 1933

HOUSTON AMERICAN ENERGY CORP.
(NAME OF SMALL BUSINESS ISSUER IN ITS CHARTER)

| | | |
|---|---|--------------------------------------|
| DELAWARE ----- | 1311 ---- | 76-0675953 ----- |
| (STATE OR JURISDICTION OF INCORPORATION OR ORGANIZATION) | (PRIMARY STANDARD INDUSTRIAL CLASSIFICATION CODE NUMBER) | (IRS EMPLOYER IDENTIFICATION NO.) |

801 TRAVIS STREET, SUITE 2020
HOUSTON, TEXAS 77002
(713) 222-6966

(ADDRESS AND TELEPHONE NUMBER OF PRINCIPAL EXECUTIVE OFFICES)

MR. JOHN TERWILLIGER
801 TRAVIS STREET, SUITE 2020
HOUSTON, TEXAS 77002
(713) 222-6966

(NAME, ADDRESS AND TELEPHONE NUMBER OF AGENT FOR SERVICE)

with a copy to:

MICHAEL SANDERS, ESQUIRE
20333 S.H. 249, SUITE 600
HOUSTON, TEXAS 77070
(832) 446-2599

APPROXIMATE DATE OF PROPOSED SALE TO THE PUBLIC: As soon as practicable
after the effective date of this registration statement.

If any of the securities being registered on this Form are to be offered on
a delayed or continuous basis pursuant to Rule 415 under the Securities Act of
1933, check the following box:

If this Form is filed to register additional securities for an offering
pursuant to Rule 462(b) under the Securities Act, check the following box and
list the Securities Act registration statement number of the earlier effective
registration statement for the same offering: _____

Edgar Filing: HOUSTON AMERICAN ENERGY CORP - Form SB-2/A

If this Form is a post-effective amendment filed pursuant to Rule 462(c) under the Securities Act, check the following box and list the Securities Act registration statement number of the earlier effective registration statement for the same offering: [] _____

If this Form is a post-effective amendment filed pursuant to Rule 462(d) under the Securities Act, check the following box and list the Securities Act registration statement number of the earlier effective registration statement for the same offering: [] _____

If delivery of the prospectus is expected to be made pursuant to Rule 434, please check the following box: [] _____

In accordance with Rule 429 under the Securities Act of 1933, the Prospectus contained in this Registration Statement relates to a total of 3,542,907 shares of the Registrant's Common Stock, 1,908,958 of which were registered, and remain unsold, in the Company's Registration Statement on Form SB-2 (No. 333-108654) filed with the Securities and Exchange Commission on September 10, 2003, and declared effective on September 26, 2003. An aggregate filing fee of \$68.46 was paid on the filing of the initial Registration Statement (No. 333-108654) on September 9, 2003. This Registration Statement, which is a new Registration Statement, also constitutes Post-Effective Amendment No. 1 to Registration Statement No. 333-108654, which shall hereafter become effective concurrently with the effectiveness of this Registration Statement in accordance with Section 8(a) of the Securities Act of 1933.

THE REGISTRANT HEREBY AMENDS THIS REGISTRATION STATEMENT ON SUCH DATE OR DATES AS MAY BE NECESSARY TO DELAY ITS EFFECTIVE DATE UNTIL THE REGISTRANT SHALL FILE A FURTHER AMENDMENT WHICH SPECIFICALLY STATES THAT THIS REGISTRATION STATEMENT SHALL THEREAFTER BECOME EFFECTIVE IN ACCORDANCE WITH SECTION 8(a) OF THE SECURITIES ACT OF 1933 OR UNTIL THE REGISTRATION STATEMENT SHALL BECOME EFFECTIVE ON SUCH DATE AS THE COMMISSION, ACTING PURSUANT TO SAID SECTION 8(a), MAY DETERMINE.

=====

The Information in this prospectus is not complete and may be changed. We may not sell these securities until the registration statement filed with the Securities and Exchange Commission is effective. This prospectus is not an offer to sell these securities and it is not soliciting an offer to buy these securities in any state where the offer or sale is not permitted.

PRELIMINARY PROSPECTUS SUBJECT TO COMPLETION JANUARY 28, 2004

HOUSTON AMERICAN ENERGY CORP.

3,542,907 Shares of Common Stock

The selling security holders, identified as "Selling Shareholders" in this Prospectus, may offer and sell, from time to time, up to 3,542,907 shares of Common Stock of Houston American Energy Corp. The Selling Shareholders may sell all or a portion of their shares through public or private transactions at prevailing market prices or at privately negotiated prices. We will not receive

Edgar Filing: HOUSTON AMERICAN ENERGY CORP - Form SB-2/A

any part of the proceeds from the sale of these shares by the Selling Shareholders.

Our Common Stock is traded on the OTC Electronic Bulletin Board under the symbol "HUSA". The last reported sale price of our Common Stock on the OTC Electronic Bulletin Board on January 22, 2004 was \$0.77 per share.

INVESTING IN OUR COMMON STOCK INVOLVES A HIGH DEGREE OF RISK. SEE "RISK FACTORS" BEGINNING ON PAGE 5 OF THIS PROSPECTUS.

THESE SECURITIES HAVE NOT BEEN APPROVED OR DISAPPROVED BY THE SECURITIES AND EXCHANGE COMMISSION NOR HAS THE COMMISSION PASSED UPON THE ACCURACY OR ADEQUACY OF THIS PROSPECTUS. ANY REPRESENTATION TO THE CONTRARY IS A CRIMINAL OFFENSE.

PROSPECTUS DATED , 2004

TABLE OF CONTENTS

| | PAGE |
|--|------|
| | ---- |
| About this Prospectus | .2 |
| Prospectus Summary. | .3 |
| Risk Factors. | .4 |
| Caution about Forward-Looking Statements. | .9 |
| Use of Proceeds | 10 |
| Market for Registrant's Common Equity and Related Stockholder Matters | 10 |
| Dividend Policy | 10 |
| Management's Discussion and Analysis of Financial Condition and Results of Operations | 11 |
| Business. | 16 |
| Management. | 26 |
| Certain Relationships and Related Transactions. | 27 |
| Security Ownership of Certain Beneficial Owners and Management. | 28 |
| Selling Shareholders. | 28 |
| Plan of Distribution. | 29 |
| Description of Securities | 31 |
| Legal Matters | 32 |
| Experts | 32 |
| Where You Can Find More Information | 33 |
| Index to Consolidated Financial Statements. | 34 |

ABOUT THIS PROSPECTUS

You should only rely on the information contained in this prospectus. We have not authorized anyone to provide you with information different from that contained in this prospectus. The Selling Shareholders are offering to sell, and seeking offers to buy, shares of common stock only in jurisdictions where offers and sales are permitted. The information contained in the prospectus is accurate only as of the date of this prospectus, regardless of the time of delivery of this prospectus or of any sale of common stock.

PROSPECTUS SUMMARY

You should read the following summary together with the more detailed information regarding our company and the common stock being sold in this offering appearing elsewhere in this prospectus and in our Financial Statements and related notes and other documents incorporated herein by reference.

OUR COMPANY

Houston American Energy Corp. is an oil and gas exploration and production company. In addition to seeking out oil and gas prospects using advanced seismic techniques, we utilize the contacts of John F. Terwilliger, our sole director and executive officer, to identify potential acquisition targets in the Onshore Texas Gulf Coast Region of the State of Texas, where Mr. Terwilliger has been involved in oil and gas exploration and production activities since 1983. Further, we have through an interest in a limited liability company, interests in two concessions in the South American country of Colombia. As a result, we expect to be active in Colombia for the foreseeable future. Moreover, as well as our own drilling activities and acquisition strategy, we may also encourage others in the oil and gas industry to enter into partnerships or joint ventures with us for the purpose of acquiring properties and conducting drilling and exploration activities.

Our principal executive offices are located at 801 Travis Street, Suite 2020, Houston, Texas 77007 and our telephone number is (713) 222-6966.

THE OFFERING

| | |
|--|---|
| Common stock offered by the selling shareholders | 3,542,907 |
| Common stock to be outstanding after this offering | 19,513,089 shares |
| Use of proceeds | We will not receive any proceeds from the sale of common stock by the selling shareholders |
| OTCBB symbol | HUSA |
| Risk Factors | Purchase of the common stock offered hereby involves certain risk, including risks associated with need for additional capital, operating losses, uncertain value or decline in value of reserves, dependence upon management and third parties, and operating risks in the oil and gas industry, among others. See "Risk Factors." |

RISK FACTORS

An investment in our common stock involves certain risks. Prospective investors should carefully review the following factors, together with the other information contained in this prospectus, prior to making a decision to invest in our common stock. The future trading price of shares of our common stock will be affected by the performance of our business relative to, among other things, competition, market conditions and general economic and industry

Edgar Filing: HOUSTON AMERICAN ENERGY CORP - Form SB-2/A

conditions.

RISKS RELATED TO OUR FINANCIAL CONDITION AND OUR BUSINESS

Need for additional financing

Our revenue is currently insufficient to cover our ongoing exploration and development expenses and our general operating costs. Our auditors have issued a going concern opinion, which means that there is doubt that we can continue as an ongoing business for the next 12 months. Our ability to continue our operations is dependent on the success of our ongoing drilling efforts and the revenues resulting therefrom and, to the extent such drilling activities produce inadequate revenues to operate profitably, the willingness and ability of John F. Terwilliger, our sole director and executive officer, to continue funding our operations and our ability to obtain additional sources of financing as discussed below in "Management's Discussion and Analysis of Financial Condition and Results of Operations - Liquidity and Capital Resources." As of the date of this prospectus, our relationship with Mr. Terwilliger is stable and we have no reason to doubt his willingness to continue providing additional funding. However, if Mr. Terwilliger discontinues funding our operations and we are unable to obtain alternative financing when needed on acceptable terms, if at all, we may be unable to continue our operations.

We may be unable to meet our capital requirements which may slow down or curtail our business plans

Since our inception on April 2, 2001 to September 30, 2003, we have suffered operational losses totaling \$1,605,149 and we expect to continue to have substantial capital expenditure and working capital needs. If low natural gas and oil prices, operating difficulties or other factors, many of which are beyond our control, cause our revenues or cash flows from operations to decrease, we may be limited in our ability to obtain the capital necessary to complete our development, exploitation and exploration programs. We have not thoroughly investigated whether this capital would be available, who would provide it, and on what terms. If we are unable, on acceptable terms, to raise the required capital, our business may be seriously harmed or even terminated.

Revenue from our oil and gas properties often depends on factors beyond our control

The profitability of our oil and gas operations depends upon factors which are beyond our control, including:

- o Natural gas and crude oil prices, which are subject to substantial fluctuations as a result of variations in supply and demand and seasonality;
- o Future market, economic and regulatory factors which may materially affect our sales of gas production; and
- o Business practices of our competitors in the oil and gas operating sector.

4

The estimates of any proved reserves on our leaseholds are currently unknown

As of the date of this prospectus, we have not obtained an engineering study of the estimates of the proved natural gas and oil reserves on our leaseholds, if any, since December 31, 2002. Determining the estimates of proved reserves is a complex process that requires significant decisions and

Edgar Filing: HOUSTON AMERICAN ENERGY CORP - Form SB-2/A

assumptions in the evaluation of available geological, geophysical, engineering and economic data for each reservoir. The actual survey of our leaseholds may determine that our properties do not have proved natural gas and oil reserves, which could have a material adverse effect on our business, financial condition, results of operations and ability to continue our operations.

Our current oil and gas reserves may be depleted

Unless we continue to acquire additional properties containing proven reserves and expand our reserves through successful exploration and development activities, our reserves will decline as they are produced. This, in turn, will reduce cash flow for future growth as well as the assets available to secure financing for capital expenditures.

Impairment of our oil and gas properties

Although we have not obtained an engineering study to determine the estimates of the proved oil and gas reserves on our properties, if any, we have conducted internal studies of the results of our producing wells, which indicated that there was an impairment to our oil and gas properties. As a result, in both 2001 and 2002, we wrote down the value of our oil and gas properties to the estimated recoverable amount of oil and gas, which increased our losses through December 31, 2002 by \$683,904. Should it be necessary to further write down the value of our oil and gas properties as a result of the engineering study of our proved reserves, if any, when it is completed, such additional write down could have a material adverse effect on our business, financial condition, results of operations and ability to continue our operations.

We are not the operator of our oil and gas properties

Under the terms of the Operating Agreements related to our oil and gas properties, third parties act as the operator of our oil and gas wells and control the drilling activities to be conducted on our properties. Therefore, we have limited control over certain decisions related to activities on our properties, which could effect our results of operations. Decisions over which we have limited control include:

- o the timing and amount of capital expenditures;
- o the timing of initiating the drilling and recompleting of wells;
- o the extent of operating costs; and
- o the level of ongoing production.

5

Our success depends on our management team and other key personnel, the loss of any of whom could disrupt our business operations

Our success will depend on our ability to retain John F. Terwilliger, our sole director and executive officer, and to attract other experienced management and non-management employees, including engineers, geoscientists and other technical and professional staff. We will depend, to a large extent, on the efforts, technical expertise and continued employment of such personnel and members of our management team. If members of our management team should resign or we are unable to attract the necessary personnel, our business operations could be adversely affected.

Our management owns a significant amount of our common stock, giving them

Edgar Filing: HOUSTON AMERICAN ENERGY CORP - Form SB-2/A

influence or control in corporate transactions and other matters, and their interests could differ from those of other shareholders

John F. Terwilliger, our sole director and executive officer, owns approximately 43.9 percent of our outstanding common stock. As a result, he is in a position to significantly influence or control the outcome of matters requiring a shareholder vote, including the election of directors, the adoption of any amendment to our certificate of incorporation or bylaws, and the approval of mergers and other significant corporate transactions. His control of Houston American may delay or prevent a change of control on terms favorable to the other shareholders and may adversely affect the voting and other rights of other shareholders.

Our operations in Colombia are subject to risks relating to political and economic instability

We currently have interests in two oil and gas concessions in Colombia and anticipate that operations in Colombia will constitute a substantial element of our strategy going forward. The political climate in Colombia is unstable and could be subject to radical change over a very short period of time. In the event of a significant negative change in the political or economic climate in Colombia, we may be forced to abandon or suspend our operations in Colombia.

RISKS RELATED TO THE NATURAL GAS AND OIL INDUSTRY

Our operations may expose us to environmental liabilities

Any leakage of crude oil and saltwater from the subsurface portions of our wells could cause degradation of fresh groundwater resources, as well as surface damage, potentially resulting in suspension of operation of the wells, fines and penalties from governmental agencies, expenditures for remediation of the affected resource, and liabilities to third parties for property damages and personal injuries.

Oil and natural gas prices are volatile, which could have a material adverse effect on our business

Natural gas and oil prices are subject to wide fluctuations in response to relatively minor changes in or perceptions regarding supply and demand. Historically, the markets for natural gas and oil have been volatile, and they are likely to continue to be volatile in the future. It is impossible to predict oil and natural gas price movements with certainty. Lower natural gas and oil prices may not only decrease our revenues on a per unit basis but also may reduce the amount of natural gas and oil that we can produce economically. A substantial or extended decline in natural gas and oil prices may have a material adverse affect on our future business, financial condition, results of operations, liquidity and ability to finance planned capital expenditures.

6

Drilling wells is speculative, often involving significant costs

Developing and exploring for natural gas and oil reserves involves a high degree of operational and financial risk. The budgeted costs of drilling, completing and operating wells are often exceeded and can increase significantly when drilling costs rise due to a tightening in the supply of various types of oilfield equipment and related services. If our actual drilling and development costs are significantly more than our estimated costs, our business could be negatively affected.

The natural gas and oil business involves many uncertainties and operating risks

Edgar Filing: HOUSTON AMERICAN ENERGY CORP - Form SB-2/A

that can prevent us from realizing profits and cause substantial losses

Development, exploitation and exploration activities may be unsuccessful for many reasons, including title problems, weather, cost overruns, fire, explosions, blow-outs and other mechanical difficulties. Moreover, the successful drilling of a natural gas or oil well does not ensure a profit on investment. Exploratory wells bear a much greater risk of loss than development wells. A variety of factors, both geological and market-related, can cause a well to become uneconomical or only marginally economical. If we experience any of these problems, it could have a material adverse effect on our results of operations and we could suffer substantial losses.

Competition in our industry is intense and we may not be able to compete effectively

Competition for the acquisition of natural gas and oil properties and the equipment and labor required to operate and to develop properties is very intense in the oil and gas industry. We compete with many major and independent companies, many of which have greater financial and other resources than Houston American. Therefore, our future results of operations will depend on our ability to conduct operations, to evaluate and select suitable properties and to consummate transactions in this highly competitive environment.

We are subject to complex laws and regulations, including environmental regulations, which can adversely affect the cost, manner or feasibility of doing business

The natural gas and oil industry is subject to extensive laws and regulations, including environmental laws and regulations. Compliance with environmental and other governmental regulations often requires large expenditures. Additionally, failure to comply with these laws and regulations, which are subject to change over time, may subject us to administrative, civil and criminal penalties and, in some instances, could result in the suspension or termination of our operations. Accordingly, the costs of complying with these laws and regulations and any penalties, suspensions, terminations or regulatory changes could have a material adverse effect on our business, financial condition and results of operations.

7

RISKS RELATED TO THIS OFFERING

Our stock price has been, and is likely to continue to be, highly volatile and could drop unexpectedly.

The trading price of our common stock has been highly volatile and may continue to be volatile in response to the following factors:

- quarterly variations in our operating results;
- limited trading volume;
- announcements of results of drilling efforts, acquisitions and disposals of properties;
- investor perception of us or the energy market in general;
- changes in financial estimates by securities analysts; and
- general economic and market conditions.

Declines in the market price of our common stock could also materially adversely affect employee morale and retention, our access to capital and other aspects of our business.

Shares of our common stock may be "penny stocks"

Edgar Filing: HOUSTON AMERICAN ENERGY CORP - Form SB-2/A

If the market price per share of our common stock is less than \$5.00, the shares of our common stock will be "penny stocks" as defined in the Exchange Act. As a result, an investor may find it more difficult to dispose of or obtain accurate quotations as to the price of the shares of our common stock being registered under this prospectus. In addition, the "penny stock" rules adopted by the SEC under the Exchange Act subject the sale of shares of our common stock to regulations which impose sales practice requirements on broker-dealers. For example, broker-dealers selling penny stocks must, prior to effecting the transaction, provide their customers with a document that discloses the risks of investing in penny stocks.

Furthermore, if the person purchasing the securities is someone other than an accredited investor or an established customer of the broker-dealer, the broker-dealer must also approve the potential customer's account by obtaining information concerning the customer's financial situation, investment experience and investment objectives. The broker-dealer must also make a determination whether the transaction is suitable for the customer and whether the customer has sufficient knowledge and experience in financial matters to be reasonably expected to be capable of evaluating the risk of transactions in penny stocks. Accordingly, the SEC's rules may limit the number of potential purchasers of shares of our common stock. Moreover, various state securities laws impose restrictions on transferring "penny stocks," and, as a result, investors in our common stock may have their ability to sell their shares impaired.

If our stock price remains volatile, we may become subject to securities litigation, which is expensive and could divert our resources.

In the past, following periods of market volatility in the price of a company's securities, security holders have instituted class action litigation. Many companies in our industry have been subject to this type of litigation. If the market value of our stock experiences adverse fluctuations, and we become involved in this type of litigation, regardless of the outcome, we could incur substantial legal costs and our management's attention could be diverted, causing our business to suffer.

8

The sale of a substantial number of shares of our common stock after this offering may affect our stock price.

The market price of our common stock could decline as a result of sales of substantial amounts of common stock in the public market after the closing of this offering or the perception that substantial sales could occur. These sales also might make it difficult for us to sell equity securities in the future at a time and at a price that we deem appropriate.

Our certificate of incorporation and bylaws and the Delaware General Corporation Law contain provisions that could discourage an acquisition or change of control of Houston American

Our certificate of incorporation authorizes our board of directors to issue preferred stock and common stock without shareholder approval. If our board of directors elects to issue preferred stock, it could be more difficult for a third party to acquire control of us. In addition, provisions of our certificate of incorporation and bylaws could also make it more difficult for a third party to acquire control of us. These provisions include a denial of cumulative voting rights, limitations on shareholder proposals at meetings of shareholders, and restrictions on the ability of our shareholders to call special meetings. Our certificate of incorporation provides that our board of directors is divided into three classes, each elected for staggered three-year terms. Although we

Edgar Filing: HOUSTON AMERICAN ENERGY CORP - Form SB-2/A

currently have only one director, we anticipate additional directors will be added to our board of directors. Thus, control of our board of directors cannot be changed in one year; rather, at least two annual meetings must be held before a majority of the members of our board of directors could be changed. In addition, the Delaware General Corporation Law imposes restrictions on mergers and other business combinations between us and any holder of 15 percent or more of our outstanding common stock.

These provisions of Delaware law and our certificate of incorporation and bylaws may delay, defer or prevent a tender offer or takeover attempt that a shareholder might consider in his best interest, including attempts that might result in a premium over the market price for the common stock.

CAUTION ABOUT FORWARD-LOOKING STATEMENTS

Some of the statements under the captions "Prospectus Summary," "Risk Factors," "Use of Proceeds," "Business" and elsewhere in this prospectus are "forward-looking statements." These forward-looking statements include, but are not limited to, statements about our plans, objectives, expectations and intentions and other statements contained in this prospectus that are not historical facts. When used in this prospectus, the words "anticipates," "believes," "continue," "could," "estimates," "expects," "intends," "may," "plans," "seeks," "should" or "will" or the negative of these terms or similar expressions are generally intended to identify forward-looking statements. Because these forward-looking statements involve risks and uncertainties, there are important factors that could cause actual results to differ materially from those expressed or implied by these forward-looking statements, including our plans, objectives, expectations and intentions and other factors discussed under "Risk Factors."

9

USE OF PROCEEDS

We will not receive any proceeds from the sales, if any, of the shares being offered by the selling shareholders. The purpose of this offering is to register our common stock for resale by the selling shareholders.

MARKET FOR REGISTRANT'S COMMON EQUITY AND RELATED STOCKHOLDER MATTERS

Since January 18, 2002, our Common Stock has been listed on the over-the-counter electronic bulletin board ("OTCBB") under the symbol "HUSA". The following table sets forth the range of high and low bid prices for each quarter during the past two fiscal years.

| | High | Low |
|--------------------------|---------|---------|
| | ---- | --- |
| Calendar Year 2003 | | |
| Fourth Quarter | \$ 0.75 | \$ 0.38 |
| Third Quarter | 0.52 | 0.31 |
| Second Quarter | 0.42 | 0.23 |
| First Quarter | 0.51 | 0.30 |

Calendar Year 2002

Edgar Filing: HOUSTON AMERICAN ENERGY CORP - Form SB-2/A

| | | | | |
|--------------------------|----|------|----|------|
| Fourth Quarter | \$ | 0.40 | \$ | 0.11 |
| Third Quarter | | 0.40 | | 0.11 |
| Second Quarter | | 0.72 | | 0.23 |
| First Quarter | | 0.75 | | 0.05 |

The quotations reflect inter-dealer prices without retail mark-up, mark-down or commission and may not represent actual transactions.

At January 27, 2004, the closing bid price of the Common Stock was \$0.64.

As of January 27, 2004, there were approximately 1017 beneficial holders of our Common Stock.

DIVIDEND POLICY

We have not paid dividends in the past and we intend to retain earnings, if any, and will not pay cash dividends in the foreseeable future. Any future determination to pay cash dividends will be at the discretion of the board of directors and will be dependent upon our financial condition, results of operations, capital requirements, general business conditions and such other factors as the board of directors may deem relevant.

10

MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS

GENERAL

Houston American Energy was incorporated in April 2001, for the purposes of seeking oil and gas exploration and development prospects. Since inception, we have sought out prospects utilizing the expertise and business contacts of John F. Terwilliger, our sole director and executive officer. Through the third quarter of 2002, the acquisition targets were in the Gulf Coast region of Texas and Louisiana, where Mr. Terwilliger has been involved in oil and gas exploration for many years. In the fourth quarter 2002, we initiated international efforts through a Colombian joint venture more fully described below. Domestically and internationally, the strategy is to be a non-operating partner with exploration and production companies that have much larger resources and operations.

OVERVIEW OF BUSINESS DEVELOPMENT FROM INCEPTION TO DECEMBER 2003

We were incorporated in April 2001 and consummated a merger with Texas Nevada Oil and Gas Co. ("TNOG") in January 2002.

Our initial efforts in 2001 and 2002 consisted of the evaluation and assembly of various interests in oil and gas properties in the onshore Gulf Coast of Texas and Louisiana regions. Pursuant to those efforts, we acquired varying interests in (1) two properties in Lavaca County, Texas, (2) two properties in Matagorda County, Texas, and (3) one property in Jackson County, Texas.

In January 2003, we acquired, from Rio Exploration Company for \$312,500, a 12.5% interest in Hupecol, LLC and in the Tambaqui Association Contract. Through the acquisition of the interest in Hupecol and in the Tambaqui Association Contract, we acquired interests in two properties in the South American country of Colombia. Subsequently, in December 2003, we exercised our

Edgar Filing: HOUSTON AMERICAN ENERGY CORP - Form SB-2/A

right, through Hupecol, to participate in the acquisition of over 3,000 kilometers of seismic data in Colombia covering in excess of 20 million acres.

In 2003, we acquired interests in properties in St. John the Baptist Parish, Louisiana, Oklahoma and San Patricio County, Texas.

From inception through December 31, 2002, we had drilled four domestic wells in Lavaca County, Texas. Two of the wells had been completed and were awaiting a pipeline hook-up, one of the wells was dry and one was being completed at December 31, 2002. The Mavis Wharton #3 well in Lavaca County, Texas experienced production problems and was unsuccessfully reworked and, ultimately, abandoned, in 2003. Through December 31, 2003, we had drilled (1) one successful well in Matagorda County, Texas, (2) one successful well in Lavaca County, Texas, and (3) one successful well in Louisiana. A test well in San Patricio County, Texas was drilled in January 2004 with completion scheduled to follow and a test well in Jackson County, Texas (the Miller #1) is scheduled to begin drilling in the first quarter of 2004.

The acquisition of our interest in the Colombian properties included a producing well, the Tambaqui #1. An offset well to that well was drilled as a dry hole in 2003. A second offset well is scheduled to be drilled beginning in the first quarter of 2004.

The second Colombian property, the Cara Cara concession, was successfully tested with the completion of the Jaguar #1 well in April 2003. Our Colombian venture acquired 50 square miles of 3D seismic grid covering the Cara Cara concession and two other prospect areas. In December 2003, drilling began on the first of three wells planned to offset, and to delineate, the Jaguar #1 well.

11

CRITICAL ACCOUNTING POLICIES

The following describes the critical accounting policies used in reporting our financial condition and results of operations. In some cases, accounting standards allow more than one alternative accounting method for reporting, such is the case with accounting for oil and gas activities described below. In those cases, our reported results of operations would be different should we employ an alternative accounting method.

Full Cost Method of Accounting for Oil and Gas Activities. The Securities and Exchange Commission ("SEC") prescribes in Regulation S-X the financial accounting and reporting standards for companies engaged in oil and gas producing activities. Two methods are prescribed: the successful efforts method and the full cost method. We follow the full cost method of accounting for oil and gas property acquisition, exploration and development activities. Under this method, all productive and nonproductive costs incurred in connection with the exploration for and development of oil and gas reserves are capitalized. Capitalized costs include lease acquisition, geological and geophysical work, delay rentals, costs of drilling, completing and equipping successful and unsuccessful oil and gas wells and related internal costs that can be directly identified with acquisition, exploration and development activities, but does not include any cost related to production, general corporate overhead or similar activities. Gain or loss on the sale or other disposition of oil and gas properties is not recognized unless significant amounts of oil and gas reserves are involved. No corporate overhead has been capitalized as of December 31, 2002. The capitalized costs of oil and gas properties, plus estimated future development costs relating to proved reserves are amortized on

Edgar Filing: HOUSTON AMERICAN ENERGY CORP - Form SB-2/A

a units-of-production method over the estimated productive life of the reserves. Unevaluated oil and gas properties are excluded from this calculation. The capitalized oil and gas property costs, less accumulated amortization, are limited to an amount (the ceiling limitation) equal to the sum of: (a) the present value of estimated future net revenues from the projected production of proved oil and gas reserves, calculated at prices in effect as of the balance sheet date (with consideration of price changes only to the extent provided by contractual arrangements) and a discount factor of 10%; (b) the cost of unproved and unevaluated properties excluded from the costs being amortized; (c) the lower of cost or estimated fair value of unproved properties included in the costs being amortized; and (d) related income tax effects. Excess costs are charged to proved properties impairment expense. An allowance for impairment of \$109,573 and \$574,331 was provided at December 31, 2002 and 2001, respectively.

Unevaluated Oil and Gas Properties. Unevaluated oil and gas properties consist principally of our cost of acquiring and evaluating undeveloped leases, net of an allowance for impairment and transfers to depletable oil and gas properties. When leases are developed, expire or are abandoned, the related costs are transferred from unevaluated oil and gas properties to depletable oil and gas properties. Additionally, we review the carrying costs of unevaluated oil and gas properties for the purpose of determining probable future lease expirations and abandonments, and prospective discounted future economic benefit attributable to the leases. We record an allowance for impairment based on a review of present value of future cash flows. Any resulting charge is made to operations and reflected as a reduction of the carrying value of the recorded asset. Unevaluated oil and gas properties not subject to amortization include the following at December 31, 2002 and September 30, 2003:

| | At December 31, 2002 ----- | At September 30, 2003 ----- |
|-------------------|-------------------------------|--------------------------------|
| Acquisition costs | \$ 68,000 | \$ 83,780 |
| Evaluation costs. | 120,418 | 44,853 |
| | ----- | ----- |
| Total | \$ 188,418 ===== | \$ 128,633 ===== |

12

The carrying value of unevaluated oil and gas prospects include \$57,747 and \$61,366 expended for properties in the South American country of Colombia at December 31, 2002 and September 30, 2003, respectively. We are maintaining our interest in these properties and development has or is anticipated to commence within the next twelve months.

RESULTS OF OPERATIONS

NINE MONTHS ENDED SEPTEMBER 30, 2003 COMPARED TO NINE MONTHS ENDED SEPTEMBER 30, 2002

Revenues. Total oil and gas revenues increased by 690.4% to \$144,138 for the nine months ended September 30, 2003 from \$18,235 for the nine months ended September 30, 2002. The increase in revenues for the 2003 period was primarily attributable to the commencement of revenue producing operations in Colombia and increased revenue from our South Texas Kalmus well. Revenues from the Columbian properties were \$85,420 for the first nine months of 2003 and were nil for the same period in the prior year. Primarily as a result of increased natural gas prices during the 2003 period, our South Texas Kalmus well produced revenues of

Edgar Filing: HOUSTON AMERICAN ENERGY CORP - Form SB-2/A

\$41,700 in 2003 as compared to \$10,700 in 2002. During May 2003 the Kalmus well went to water and was subsequently unsuccessfully reworked and then abandoned.

Operating Expenses. Lease operating expenses increased by 609.7% to \$100,108 in the 2003 period from \$14,106 in the 2002 period. The increase in lease operating expenses was attributable to the increase in the number, and duration, of wells operated during the 2003 period, including initial well operating expenses of \$72,612 on the two Columbian wells.

During the early developmental stage of exploratory oil and gas wells, daily operating costs are generally reasonably certain at the commencement of production. However, the per unit of production costs can vary greatly due to the fact that certain operating and field administration costs include a significant fixed component and that initial equivalent barrel production may be lower or higher than the sustained production achieved over the life of the well. It is management's opinion that the per unit production costs of all of its new discoveries can be reduced substantially through optimizing the level of production from existing wells or the drilling of additional wells. This may be especially true with the two new Columbian wells where the per well administrative costs can be reduced as additional successful wells are completed on the prospect acreage.

Joint Venture Expenses. Joint venture expenses totaled \$40,998 in the 2003 period. We incurred no joint venture expenses in the 2002 period. The joint venture expenses represent our allocable share of administrative expenses arising from our interest in properties in Colombia.

General and Administrative Expenses. General and administrative expense increased by 20.5% to \$134,685 in the 2003 period from \$111,733 in the 2002 period. We continue to experience disproportionately high general and administrative expense associated with being smaller enterprise including, in particular, accounting and legal costs associated with meeting our reporting obligations as a public company. The increase in general and administrative expenses in 2003 was primarily attributable to an increase in shareholder relations expense, which was up \$26,031 in the first nine months of 2003. The increase in shareholder relations expense resulted from an undertaking during 2003 to increase our profile in the investment community in light of our need to access capital to support our accelerated exploration activities.

13

Depreciation and Depletion Expense. Depreciation and depletion expense increased by 306.4% to \$41,721 in the 2003 period from \$10,267 in the 2002 period. The increase in depreciation and depletion expense was primarily attributable to the increase in production during the 2003 period which resulted in higher depletion (up \$30,750), including depletion attributable to the Columbian wells (\$17,683) and depletion attributable to the abandonment of the Kalmus well.

Interest Expense. Interest expense increased 28.4% to \$104,772 in the 2003 period compared to \$81,605 in the 2002 period. The increase in interest expense was attributable to increased borrowings from our sole officer and director to finance our operations. In December 2003, shareholders converted \$627,533 of loans to equity and reduced the interest rate on \$1 million of loans from 10% to 7.2%. Additionally, in December 2003, we raised approximately \$653,000 from the sale of common stock to support our future operations. Accordingly, interest expense is expected to decline substantially beginning in 2004.

Write-Down of Oil and Gas Properties. During the 2002 period, we incurred a charge of \$16,976 relating to the write down of oil and gas properties. We incurred no write downs during the 2003 period. The write-down during the 2002

Edgar Filing: HOUSTON AMERICAN ENERGY CORP - Form SB-2/A

period was attributable to a determination, based on the findings in an independent reserve report, that, at September 30, 2002, the capitalized cost of our oil and gas properties exceeded the maximum carrying value under the full cost method of accounting.

YEAR ENDED DECEMBER 31, 2002 COMPARED TO YEAR ENDED DECEMBER 31, 2001

Revenues. Total oil and gas revenues increased by 74.2% to \$25,805 for the year ended December 31, 2002 from \$14,814 for the period from April 2, 2001 to December 31, 2001. The increase in oil and gas revenues for the current period was attributable to an increase in both volume and prices from the sale of natural gas. Production volumes increased from 6,170 MCFE in the 2001 period to 8,957 MCFE in the 2002 period. The average price received per MCF of natural gas sold increased from \$2.40 in the 2001 period to \$2.88 in the 2002 period.

Operating Expenses. Lease operating expenses increased by 76% to \$19,397 in the 2002 period from \$11,019 in the 2001 period. The increase in lease operating expenses was attributable to the increase in the number, and duration, of wells operated during the 2002 period.

General and Administrative Expenses. General and administrative expense increased by 708% to \$197,518 in the 2002 period from \$24,420 in the 2001 period. The increase in general and administrative expenses was attributable to efforts to support our increased drilling and operations during the 2002 period and increased expenses associated with compliance with our reporting requirements as a public company.

Depreciation and Depletion Expense. Depreciation and depletion expense decreased by 35.7% to \$24,166 in the 2002 period from \$37,592 in the 2001 period. The decrease in depreciation and depletion expense was primarily attributable to the write-down of certain oil and gas properties during 2001 and 2002.

Interest Expense. Interest expense increased 158% to \$112,405 in the 2002 period compared to \$43,602 in the 2001 period. The increase in interest expense was attributable to increased borrowings from our sole officer and director to finance our operations.

14

Write-Down of Oil and Gas Properties. During the 2002 period, we incurred a charge of \$109,573 relating to the write down of oil and gas properties compared to a similar charge of \$574,331 during the 2001 period. The write-downs during the 2002 and 2001 periods were attributable to a determination, based on the findings in an independent reserve report, that, at end of those periods, the capitalized cost of our oil and gas properties exceeded the maximum carrying value under the full cost method of accounting.

Write-Down of Merger Expenses. During the 2001 period, we incurred a charge of \$256,470 relating to the write-down of capitalized expenses associated with our reverse merger with TNOG. We incurred no similar write-down during the 2002 period.

Gain on Settlement of Accounts Payable. During the 2002 period, we reported a gain on the settlement of accounts payable of \$42,870. The gain arose from the settlement, for less than face value, of certain previously recorded expenses/payables associated with our becoming a public reporting company.

LIQUIDITY AND CAPITAL RESOURCES

Edgar Filing: HOUSTON AMERICAN ENERGY CORP - Form SB-2/A

At September 30, 2003, we had a cash balance of \$230,489 and a deficit in working capital of \$1.337 million compared to a cash balance of \$939 and a deficit in working capital of \$1.27 million at December 31, 2002.

As discussed by the accountants in the audited financial statements included herewith, our revenue is currently insufficient to cover our costs and expenses. In addition to the income received from our wells, certain significant shareholders, including John F. Terwilliger, our sole director and executive officer, continue to provide us the funds needed to continue our development and operations. To the extent our revenue shortfall exceeds the willingness and ability of such shareholders to continue providing us the funds needed, management anticipates raising any necessary capital from outside investors coupled with bank or mezzanine lenders.

Loans from shareholders totaled \$1.594 million, including accrued interest, at September 30, 2003. The shareholders loans were repayable on demand, with interest accruing at 10% per annum and are unsecured.

In December 2003, we completed a private placement of 1,633,949 shares of common stock raising approximately \$653,579. These funds were raised to support our working capital requirements, including our ongoing Colombian development activities and our onshore domestic leasing, drilling and development programs.

Simultaneous with the closing of our December 2003 private placement, we issued 1,568,833 shares of common stock in full satisfaction of \$627,533 of loans from shareholders. The balance of the loans from shareholders in the amount of \$1 million, including accrued interest, was converted into unsecured demand promissory notes, with interest accruing at 7.2% per annum and with a maturity date of January 1, 2007.

15

During the first nine months of calendar 2003, we invested \$665,693 for the acquisition and development of oil and gas properties, consisting of (1) acquisition of a 12.5% interest in the Tambaqui concession in Colombia, (2) acquisition of 3D seismic on the Cara Cara concession in Colombia, (3) acquisition of a 2.36328% working interest in the Jenny #1-14 well in Oklahoma, and (4) drilling and/or completing expenses for the Jaguar #1 well in Colombia, the Tambaqui #1 and the Tambaqui #1Am wells in Colombia, the Harrison #1 well in Matagorda County, Texas, the Bougere Estate #1 well in Louisiana and the Goyen #1 well in Lavaca County, Texas.

We initially budgeted expenditures for the fourth quarter of 2003 of \$170,000, consisting of (1) \$75,000 for drilling three wells in Colombia on the Cara Cara concession, (2) \$45,000, net of carried interest, for drilling and completion of the Miller #1 well in Jackson County, Texas, and (3) \$50,000 for new leasehold prospects. As of December 31, 2003, we had (1) spent approximately \$20,000 relative to the planned Colombian wells with drilling commencing in December 2003, (2) increased from \$45,000 to \$100,000 our budgeted expenditures relating to the Miller #1 well with drilling expected to commence in the first quarter of 2004, and (3) spent \$20,000 out of a \$25,000 budget to acquire and commence drilling of the St. Paul Prospect in San Patricio County, Texas with drilling commencing in January 2004.

At September 30, 2003, we had two revenue producing wells in Columbia, one revenue producing well in south Texas, one south Texas well that commenced production September 30 and one successfully completed South Louisiana well that commenced production following connection to a sales gathering line in December 2003. Preliminary indications are that these wells will more than double

Edgar Filing: HOUSTON AMERICAN ENERGY CORP - Form SB-2/A

current monthly revenue at the current equivalent per barrel price in the mid-twenty dollar range. At the end of third quarter of 2003, our total reserves had increased to an estimated 124,700 equivalent barrels with an estimated discounted future net revenue stream in excess of \$1,000,000.

Management anticipates that our current financing strategy of private debt and equity offerings, combined with an expected increase in revenues, will meet our anticipated objectives and business operations for the next 12 months. Management continues to evaluate producing property acquisitions as well as a number of drilling prospects. Subject to our ability to obtain adequate financing at the applicable time, we may enter into definitive agreements on one or more of those projects.

BUSINESS

GENERAL

Houston American Energy Corp. is an oil and gas exploration and production company. In addition to seeking out oil and gas prospects using advanced seismic techniques, we utilize the contacts of John F. Terwilliger, our sole director and executive officer, to identify potential acquisition targets in the Onshore Texas Gulf Coast Region of the State of Texas, where Mr. Terwilliger has been involved in oil and gas exploration and production activities since 1983. Further, we have through an interest in a limited liability company, interests in two concessions in the South American country of Colombia. As a result, we expect to be active in Colombia for the foreseeable future. Moreover, as well as our own drilling activities and acquisition strategy, we may also encourage others in the oil and gas industry to enter into partnerships or joint ventures with us for the purpose of acquiring properties and conducting drilling and exploration activities.

16

EXPLORATION PROJECTS

Our exploration projects are focused on existing property interests, and future acquisition of additional property interests, in the onshore Texas Gulf Coast region, Colombia and Louisiana.

Each of our exploration projects differs in scope and character and consists of one or more types of assets, such as 3-D seismic data, leasehold positions, lease options, working interests in leases, partnership or limited liability company interests or other mineral rights. Our percentage interest in each exploration project ("Project Interest") represents the portion of the interest in the exploration project we share with other project partners. Because each exploration project consists of a bundle of assets that may or may not include a working interest in the project, our Project Interest simply represents our proportional ownership in the bundle of assets that constitute the exploration project. Therefore, our Project Interest in an exploration project should not be confused with the working interest that we will own when a given well is drilled. Each exploration project represents a negotiated transaction between the project partners. Our working interest may be higher or lower than our Project Interest.

Our principal exploration projects as of December 31, 2003 consisted on the following:

LAVACA COUNTY, TEXAS. In Lavaca County, Texas, we hold three separate interests consisting of a 5% non-participating royalty interest in a 150 acre tract known as the Mavis Wharton Lease, a 38% working interest in a 65.645 acre tract known as the West Hardys Creek Prospect and a 57.46% working interest in a

Edgar Filing: HOUSTON AMERICAN ENERGY CORP - Form SB-2/A

1,195 acre tract known as the Hardys Creek Prospect.

The Mavis Wharton #3 well was drilled on the Mavis Wharton Lease and, following completion, experienced production problems. The well was reworked and determined to be non-commercial and abandoned. We have been advised that a deep gas test is planned to include the Mavis Wharton Lease. Our royalty interest in the Mavis Wharton Lease does not bear any costs of well operations.

The Goyen #1 well was drilled on the West Hardys Creek Prospect in the third quarter of 2003. The Goyen #1 well tested the Frio and Miocene Sands to a depth of 3,000 feet. The Goyen #1 well was successfully completed in September 2003 and commenced production as a gas well with an initial production rate of 350MCF per day. We presently have no plans with respect to drilling additional wells on the West Hardys Creek Prospect.

MATAGORDA COUNTY, TEXAS. In Matagorda County, Texas, we hold two separate interests consisting of a 3.5% working interest with a 2.415% net revenue interest in a 779 acre tract known as the S.W. Pheasant Prospect and an option to participate, based on a 3.5% working interest with a 2.415% net revenue interest, in a 672 acre tract known as the Turtle Creek Prospect.

A well was successfully completed on the S.W. Pheasant Prospect in July 2003 with initial production rates from the Frio K Sand of 1400 MCF and 35 barrels of oil per day. Pursuant to our option covering the adjacent Turtle Creek Prospect, we anticipate participating in the drilling of a well on the Turtle Creek Prospect within the next year. Other than the anticipated well on the Turtle Creek Prospect, we presently have no plans with respect to drilling additional wells in Matagorda County.

JACKSON COUNTY, TEXAS. In Jackson County, Texas, we hold a 100% leasehold, subject to a 27% royalty, on an 80 acre tract known as the W. Harmon Prospect. At December 31, 2003, we had developed a plan with respect to drilling of the Miller #1 well on the W. Harmon Prospect and had engaged an operator to drill a 7,300 foot test well. Drilling of the Miller #1 is expected to begin in the first quarter of 2004.

17

ST. JOHN THE BAPTIST PARISH, LOUISIANA. In St. John the Baptist Parish, Louisiana, we hold a 2% working interest with a 1.44% net revenue interest in a 726 acre leasehold known as the Bougere Estate and the Bougere Estate #1 well. The Bougere Estate #1 well was completed in June 2003 with initial production of 200 barrels of oil and 170 MCF of gas per day. Commercial production of the well commenced in December 2003 following installation of a gas sales pipeline. We presently have no additional plans with respect to drilling additional wells on the Bougere Estate.

LLANOS BASIN, COLOMBIA. In the Llanos Basin, Colombia, we hold an interest, through our ownership in Hupecol, LLC, in a 357,000 acre tract known as the Cara Cara concession. In conjunction with our acquisition of our interest in Hupecol, we also acquired, and hold, a 12.6% working interest, with an 11.31% net revenue interest, in the Tambaqui Association Contract covering 88,000 acres in the State of Casanare, Colombia.

The first well drilled in the Cara Cara concession, the Jaguar #1 well, was completed in April 2003 with initial production of 892 barrels of oil per day. In December 2003, Hupecol commenced drilling an additional three wells on the Cara Cara concession as offsets to, and to delineate, the Jaguar #1 well.

Edgar Filing: HOUSTON AMERICAN ENERGY CORP - Form SB-2/A

Included in our interest in the Tambaqui Association Contract is an interest in a producing well, the Tambaqui #1, and in two exploration wells. The first exploration well drilled as an offset to the Tambaqui #1, the Tambaqui #1Am, was dry. We expect to drill another offset to the Tambaqui #1 well in the first quarter of 2004.

In conjunction with the efforts to develop the Cara Cara concession, Hupecol has acquired 50 square miles of 3D seismic grid surrounding the Jaguar #1 well and two other prospect areas. That data is expected to be utilized to identify additional drill site opportunities to develop a field around the Jaguar #1 well and in other prospect areas within the grid.

Our working interest in our exploration projects in Colombia are subject to an escalating royalty of 8% on the first 5,000 barrels of oil per day to 20% at 125,000 barrels of oil per day. Our interest in the Tambaqui Association Contract is subject to reversionary interests of Ecopetrol, the state owned Colombian oil company, that could cause 50% of the working interest to revert to Ecopetrol after we have recouped four times our initial investment.

In December 2003, we exercised our right to participate in the acquisition, through Hupecol, of over 3,000 kilometers of seismic data in Colombia covering in excess of 20 million acres. The seismic data is expected to be utilized to map prospects in key areas with a view to delineating multiple drilling opportunities beginning in 2004. We will hold a 12.5% interest in all prospects developed by Hupecol arising from the acquired seismic data.

18

The following table sets forth certain information about each of our exploration projects:

| | Acres Leased or Under Option at December 31, 2003 (1) | | | |
|----------------------------------|--|----------------|----------------|---------------------|
| Project Area | Project Gross | Project Net | Company Net | Project Interest |
| TEXAS: | | | | |
| Lavaca County, Texas | | | | |
| Mavis Wharton | 300.00 | 150.00 | 7.50 | 5.00% |
| Hardys Creek | 1,195.00 | 418.25 | 240.33 | 57.46% |
| West Hardys Creek | 65.65 | 65.65 | 24.95 | 38.00% |
| Jackson County, Texas | | | | |
| W. Harmon Prospect | 80.00 | 80.00 | 80.00 | 100.00% |
| San Patricio County, Texas | | | | |
| St. Paul Prospect | 380.00 | 380.00 | 19.00 | 5.00% |
| Matagorda County, Texas | | | | |
| S.W. Pheasant Prospect | 779.00 | 779.00 | 27.27 | 3.50% |
| Turtle Creek Prospect | 672.00 | 672.00 | 23.52 | 3.50% |
| Texas Sub-Total | 3,471.65 | 2,544.90 | 422.57 | |
| LOUISIANA: | | | | |
| St. John the Baptist Parish, | | | | |
| Louisiana | 726.00 | 726.00 | 14.52 | 2.00% |

Edgar Filing: HOUSTON AMERICAN ENERGY CORP - Form SB-2/A

| | | | | |
|--------------------------------|------------|------------|-----------|-------|
| Louisiana Sub-Total | 726.00 | 726.00 | 14.52 | 2.00% |
| OKLAHOMA | | | | |
| Jenny #1-14 | 160.00 | 160.00 | 3.78 | 2.36% |
| Oklahoma Sub-Total. | 160.00 | 160.00 | 3.78 | |
| COLOMBIA | | | | |
| Cara Cara Concession | 357,000.00 | 357,000.00 | 5,676.30 | 1.59% |
| Tambaqui Assoc. Contract (2) | 88,000.00 | 88,000.00 | 11,088.00 | 12.6% |
| Colombia Sub-Total. | 445,000.00 | 445,000.00 | 16,764.30 | |
| Total | 449,357.65 | 448,430.90 | 17,205.17 | |