HOUSTON AMERICAN ENERGY CORP
Form 10QSB
May 17, 2004

UNITED STATES
SECURITIES AND EXCHANGE COMMISSION
Washington, DC 20549

FORM 10-QSB

(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, 2004

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 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 [X] No [ ]

As of May 14, 2004, we had 19,563,089 shares of $.0001 par value Common Stock outstanding.

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

HOUSTON AMERICAN ENERGY CORP.

FORM 10-QSB

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PART I - FINANCIAL INFORMATION

ITEM 1. Financial Statements

HOUSTON AMERICAN ENERGY CORP.
BALANCE SHEET
March 31, 2004
(Unaudited)

ASSETS

CURRENT ASSETS:	
Cash and cash equivalents	$ 531,245
Accounts receivable	75,073
Prepaid expenses	144,338
Total current assets	750,656
PROPERTY, PLANT AND EQUIPMENT	
Oil and gas properties - full cost method	
Costs subject to amortization	1,737,568
Costs not being amortized	264,778
Furniture and equipment	10,878
Total property, plant and equipment	2,013,224
Accumulated depreciation and depletion	(825,651)

Total property, plant and equipment, net	1,187,573
OTHER ASSETS	3,167
Total Assets	$ 1,941,396

LIABILITIES AND STOCKHOLDERS' EQUITY

CURRENT LIABILITIES:	
Accounts payable	$ 165,217
Accrued interest on shareholder's loan	4,400
Total current liabilities	169,617
LONG-TERM DEBT:	
Notes payable to principal shareholder	1,000,000
STOCKHOLDERS' EQUITY:	
Common stock, $.001 par value; 100,000,000 shares Authorized; 19,563,089 shares outstanding	19,563
Additional paid-in capital	2,438,182
Accumulated deficit	(1,685,966)
Total stockholders' equity	771,779
Total liabilities and stockholders' equity	$ 1,941,396

The accompanying notes are an integral part of these financial statements

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HOUSTON AMERICAN ENERGY CORP.
STATEMENT OF OPERATIONS
(Unaudited)

	For the Quarter Ended March 31,	
	2004	2003
Revenue		
Oil and gas	$ 122,808	$ 44,075
Interest	2,766	-
Total revenue	125,574	44,075
Expenses of operations		
Lease operating expense	53,642	15,646
Joint venture expenses	-	20,158

General and administrative expense		
Accounting and legal	20,318	28,736
Rent	10,372	9,636
Shareholder relations	2,442	5,319
Travel and meals	2,730	-
Registration fees	2,413	362
Telephone and fax	1,250	1,838
Dues and subscription	4,019	1,639
Miscellaneous	2,214	3,767
Depreciation and depletion	22,806	6,808
Interest expense	18,000	33,334
Total expenses	140,206	127,243
Net loss	$ 14,632	$ 83,168
Basic and diluted loss per share	$ 0.00	$ 0.01
Basic and diluted weighted average shares	19,509,304	13,870,254

The accompanying notes are an integral part of these financial statements

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

	For the Quarter Ended March 31,	
	2004	2003
CASH FLOWS FROM OPERATING ACTIVITIES		
Loss from operations	$ (14,632)	$ (83,168)
Adjustments to reconcile net loss to net cash from operations		
Depreciation and depletion	22,806	6,535
Non-cash expenses	-	4,890
Changes in operating assets and liabilities:		
(Increase) in accounts receivable	(9,070)	(20,877)
(Increase) decrease in prepaid expense	(138,400)	1,381
(Increase) decrease in other assets	36,863	-
Increase in accounts payable and accrued expenses	89,453	85,413
Net cash provided (used) by operations	(12,980)	(5,826)
CASH FLOWS FROM INVESTING ACTIVITIES		
Acquisition of properties and assets	(210,391)	(434,777)

Net cash used by investing activities	(210,391)	(434,777)
CASH FLOWS FROM FINANCING ACTIVITIES		
Sale of common stock	91,193	325,000
Loans from shareholders	-	127,000
Net cash provided by financing activities	91,193	452,000
Increase (decrease) in cash and equivalents	(132,178)	11,397
Cash, beginning of period	663,422	939
Cash, end of period	$ 531,245	$ 12,336
SUPPLEMENT CASH FLOW INFORMATION:		
Interest paid	$ 18,000	$ -
SUPPLEMENT NON-CASH INVESTING AND FINANCING ACTIVITIES		
Notes payable for oil and gas properties and expense	$ -	$ 5,000
Stock issued for oil and gas activity	$ 47,500	$ -

The accompanying notes are an integral part of these financial statements

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HOUSTON AMERICAN ENERGY CORP.
Notes to Financial Statements
March 31, 2004
(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, 2003.

NOTE 2. - CHANGES IN PRESENTATION

Certain financial presentations for the periods presented for 2003 have been reclassified to conform to the 2004 presentation.

NOTE 3. - COMMON STOCK

During the quarter ended March 31, 2004, the Company issued 227,983 shares of its common stock for cash consideration of $91,193. In addition, in conjunction with an agreement with an individual to assist the Company in locating viable oil and gas prospects, the Company (1) issued 50,000 shares of its common stock, which were valued at $47,500, and (2) granted an interest equal to 10% of the Company's interest from any prospects generated by the individual's contacts.

NOTE 4. - CONTINGENCY

During the quarter ended March 31, 2004, the Company was named as defendant in a suit filed in the United States Bankruptcy Court for the Southern District of Texas. The plaintiff alleges that expenses relating to the formation and operation of the Company were paid by Moose Oil and Gas or Moose Operating Company, that interests in certain oil and gas properties were transferred to the Company from Moose Oil and Gas or Moose Operating Company and that the alleged payments and transfers constituted fraudulent transfers and voidable preferences. The plaintiff seeks to recover all properties alleged to have been wrongfully transferred as well as costs of suit and other relief. The Company believes that the action is without merit and intends to vigorously contest the same.

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, 2004, 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, to continue funding the Company's operations and, to the extent he should ever become unwilling to do so, the Company's ability to obtain additional necessary financing from outside investors and/or bank and mezzanine lenders; and the ability of the Company to generate sufficient revenues to cover operating losses and position it to achieve positive cash flow.

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, 2003.

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, 2003. As of, and for the quarter ended, March 31, 2004, 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, 2004:

	March 31,2004
Acquistion costs	$ 128,555
Evalution costs	136,223
Total	$ 264,778

The carrying value of unevaluated oil and gas prospects include $55,371 expended for properties in the South American country of Colombia at March 31, 2004. We are maintaining our interest in these properties and development has or is anticipated to commence within the next twelve months.

CURRENT YEAR DEVELOPMENTS

A test well in San Patricio County, Texas, the Saint Paul Prospect Garza #1, was drilled in January 2004 and completed as a natural gas well. Natural gas sales from the well began March 1, 2004 and production from the well totaled 11,330 mcf gross for the one month of operations during the current quarter. The Company holds a 5% working interest in the well.

Drilling of three offset wells on the Cara Cara concession in Colombia was completed with production commencing on the Jaguar #2 in March 2004 and the Bengala #2 in April 2004. The third well, the Cara Cara #1 is shut in pending evaluation. The Company holds a 1.59% working interest in each of the wells.

Drilling of 13,500 test well, the LaFurs #F-16, in Vermillion Parish, Louisiana commenced, and expected to be completed, in May 2004. The Company holds a 3% working interest in the well.

The Company has agreed to participate in the Crowley Prospect, a 620 acre prospect, in Acadia Parish, Louisiana. Tests are planned in a series of sands that have produced downdip and nearby. The Company will own a 3% working interest in the well and the prospect. No schedule has as yet been set for drilling of the prospect.

RESULTS OF OPERATIONS

Oil and Gas Revenues. Total oil and gas revenues increased $78,733 to $122,808 in the three months ended March 31, 2004 when compared to the three months ended March 31, 2003. 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 2003 and the first quarter of 2004 and (2) increases in oil prices. The Company had interests in 3 producing wells in Columbia and 6 producing wells in the U.S. during the 2004 quarter as compared to 2 producing wells in Columbia and 1 producing well in the U.S. during the 2003 quarter. Average prices from sales were $26.89 per barrel of oil and $5.24 per mcf of gas during the 2004 quarter as compared to $18.92 per barrel of oil and $5.28 per mcf of gas during the 2003 quarter.

	Columbia	U.S.	Total
2004 Quarter			
Oil sales	$ 47,100	$ 2,656	$49,756
Gas sales	-	73,052	73,052
2003 Quarter			
Oil sales	20,914	-	20,914
Gas sales	-	23,160	23,160

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Lease Operating Expenses. Lease operating expenses, excluding joint venture expenses relating to our Columbian operations discussed below, increased 41% to $53,642 in the 2004 quarter from $37,996 in the 2003 quarter. The increase in lease operating expenses was attributable to the increase in the number of wells (6) operated during the 2004 period. Following is a summary comparison of lease operating expenses for the periods.

	Columbia	U.S.	Total
2004 Quarter	$ 47,786	$5,856	$53,642
2003 Quarter	12,228	3,358	15,646

Joint Venture Expenses. Adjustment made by the operator reduced our share of the cost to operate the Columbian Joint Venture to $0 for the first quarter of 2004. During the same period in 2003 joint venture expense was $20,158.

Depreciation and Depletion Expense. Depreciation and depletion expense was $22,193 and $3,767 for the quarter ended March 31, 2004 and 2003 respectively. The increase is due to increase in domestic and Columbian production.

Interest Expense. Interest expense was reduced by $15,334 to $18,000 when compared to first quarter of 2003. The reduction in interest expense was attributable to reduced debt relating to the conversion of certain debt to equity in 2003 and a reduction in the interest rate.

General and Administrative Expenses. General and administrative expense decreased by 11% to $45,758 during the first quarter 2004 from $51,297 in the first quarter 2003. The reduction in general and administrative expense was primarily attributable to ongoing cost control measures and related principally to a reduction in professional fees and reduced shareholder relations costs.

FINANCIAL CONDITION

Liquidity and Capital Resources. At March 31, 2004 we had a cash balance of $531,245 and working capital of $581,039 compared to a cash balance of $663,422 and working capital of $654,451 at December 31, 2003. Part of that working capital for March 31, 2004 consisted of prepaid drilling cost and prepaid legal. The joint venture agreement covering the Columbian operation requires the prepayment of drilling cost. As of March 31, 2004 we had prepaid drilling costs on the Tambaqui #2 of approximately $120,000. This well is scheduled to be drilled in the second quarter of 2004. The Company paid a retainer of $20,000 for legal costs associated with claims against the Company arising from the bankruptcy of Moose Oil Company. The Company believes there is no merit to the claims made against the Company.

As discussed in our prior financial statements, our revenue was 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, have previously provided us the funds needed to continue our development and operations. Our current business plan projects positive cash flows from operation by the second quarter of fiscal 2004 and management anticipates raising any necessary funds for major capital expenditures from outside investors or commercial bank or mezzanine lenders.

During the quarter ended March 31, 2004, the Company issued 227,983 shares of its common stock for cash consideration of $91,193. In addition, the Company issued 50,000 shares of its common stock, which were valued at $47,500, to an individual to help locate viable oil and gas prospects.

Loans from shareholders totaled $1,000,000 at March 31, 2004.

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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 have 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, we expect that future capital and exploration expenditures will be funded principally through additional stock offerings, mezzanine loans, funds on hand and funds generated from operations.

During the first quarter of 2004, we invested approximately $257,000 for the acquisition and development of oil and gas properties, consisting of (1) acquisition of a 3% interest in the North Freshwater Bayou Field in Louisiana, (2) acquisition of a 100% interest in the South Sibley Prospect, (3) a 50% interest in the Southern Star Wharton Prospect, (4) consulting fee in forming the joint venture with a private company and (5) drilling and/or completing expenses for the Jaguar #2 Bengala #1 and Cara Cara #1 wells in Colombia.

Our only material contractual obligations requiring determinable future payments on our part are a note payable to our principal shareholder and our lease relating to our executive offices which were unchanged when compared to the 2003 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.

At March 31, 2004, we had two revenue producing wells in Columbia, three revenue producing wells in south Texas, one revenue producing wells in south Louisiana and one producing well in Oklahoma. Preliminary indications are that these wells will more than double current monthly revenue at the current equivalent per barrel price in the mid-thirty dollar range.

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.

OFF-BALANCE SHEET ARRANGEMENTS

We had no off-balance sheet arrangements or guarantees of third party obligations at March 31, 2004.

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. There have been no significant changes in our internal controls or in other factors that could significantly affect internal control subsequent to the evaluation.

PART II

ITEM 1. LEGAL PROCEEDINGS

During the quarter ended March 31, 2004, the Company was named as defendant in a suit styled *Alan Gerger, Trustee for the Substantially Consolidated Bankruptcy Estate of Moose Oil and Gas Company and Moose Operating Company v. John Terwilliger, Marlin Data Research, Inc. and Houston American Energy Corp.*, filed in the United States Bankruptcy Court for the Southern District of Texas. The plaintiff alleges that expenses relating to the formation and operation of the Company were paid by Moose Oil and Gas or Moose Operating Company, that interests in certain oil and gas properties were transferred to the Company from Moose Oil and Gas or Moose Operating Company and that the alleged payments and transfers constituted fraudulent transfers and voidable preferences. The plaintiff seeks to recover all properties alleged to have been wrongfully transferred as well as costs of suit and other relief. The Company believes that the action is without merit and intends to vigorously contest the same.

ITEM 2. CHANGES IN SECURITIES

During the quarter ended March 31, 2004, the Company issued 227,983 shares of its common stock to 4 investors for cash consideration of $91,193. In addition, the Company issued 50,000 shares of its common stock, which were valued at $47,500, to an individual to help locate viable oil and gas prospects.

The issuances of the shares of our common stock described above were pursuant to the exemption from registration provided by Section 4(2) of the Securities Act of 1933, as amended and related state private offering exemptions. The purchasers were Accredited Investors as defined in the Securities Act who took the shares for investment purposes without a view to distribution and had access to information concerning the Company and its business prospects, as required by the Securities Act.

In addition, there was no general solicitation or advertising in connection with the issuance of the shares. All certificates for our shares contain a restrictive legend. Finally, our stock transfer agent has been instructed not to transfer any of such shares, unless such shares are registered for resale or there is an exemption with respect to their transfer.

No commissions were paid in connection with the issuances described above.

ITEM 6. EXHIBITS AND REPORTS ON FORM 8-K

(a) 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

(b) Reports on Form 8-K

None

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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.

Date: May 14, 2004

By: /s/ John Terwilliger

John Terwilliger
CEO and President