

HOUSTON AMERICAN ENERGY CORP  
Form 10-Q  
August 12, 2015

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UNITED STATES  
SECURITIES AND EXCHANGE COMMISSION  
Washington, DC 20549

FORM 10-Q

(Mark One)

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

For the quarterly period ended June 30, 2015

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 1-32955

HOUSTON AMERICAN ENERGY CORP.  
(Exact name of registrant as specified in its charter)

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

801 Travis Street, Suite 1425, 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 No

Indicate by check mark whether the registrant has submitted electronically and posted on its corporate Web site, if any, every Interactive Data File required to be submitted and posted pursuant to Rule 405 of Regulation S-T (§232.405 of this chapter) during the preceding 12 months (or for such shorter period that the registrant was required to submit and post such files). Yes No

Indicate by check mark whether the registrant is a large accelerated filer, an accelerated filer, a non-accelerated filer or a smaller reporting company. See definition of "large accelerated filer," "accelerated filer" and "smaller reporting company"

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in Rule 12b-2 of the Exchange Act. (Check one):

Large accelerated filer   Accelerated filer   Non-accelerated filer   Smaller reporting company

Indicate by check mark whether the registrant is a shell company (as defined in Rule 12b-2 of the Exchange Act). Yes  
No

As of August 11, 2015, we had 52,169,945 shares of \$0.001 par value Common Stock outstanding.

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## PART I - FINANCIAL INFORMATION

## ITEM 1 Financial Statements

HOUSTON AMERICAN ENERGY CORP.  
CONSOLIDATED BALANCE SHEETS  
(Unaudited)

|  | June 30,<br>2015 | December<br>31,<br>2014 |
|--|------------------|-------------------------|
| <u>ASSETS</u>  |                  |                         |
| CURRENT ASSETS   |                  |                         |
| Cash   | \$2,775,556      | \$4,052,212             |
| Escrow receivable  | 262,016          | 321,428                 |
| Insurance claim receivable   | 28,812           | 8,612,681               |
| Prepaid expenses and other current assets  | 216,764          | 124,960                 |
| TOTAL CURRENT ASSETS   | 3,283,148        | 13,111,281              |
| PROPERTY AND EQUIPMENT   |                  |                         |
| Oil and gas properties – full cost method  |                  |                         |
| Costs subject to amortization  | 54,814,739       | 54,025,617              |
| Costs not being amortized  | 2,933,314        | 3,586,284               |
| Office equipment   | 90,004           | 90,004                  |
| Total property, plant and equipment  | 57,838,057       | 57,701,905              |
| Accumulated depreciation, depletion, amortization and impairment   | (53,157,004)     | (52,201,878)            |
| TOTAL PROPERTY AND EQUIPMENT, NET  | 4,681,053        | 5,500,027               |
| Other assets   | 3,167            | 3,167                   |
| TOTAL ASSETS   | \$7,967,368      | \$18,614,475            |
| <u>LIABILITIES AND SHAREHOLDERS' EQUITY</u>  |                  |                         |
| CURRENT LIABILITIES  |                  |                         |
| Accounts payable   | \$130,341        | \$181,683               |
| Litigation settlement payable  | —                | 7,000,000               |
| Accrued legal fees   | 28,812           | 1,722,681               |
| Contingent liabilities   | —                | 400,000                 |
| Accrued expenses   | 6,265            | 10,100                  |
| TOTAL CURRENT LIABILITIES  | 165,418          | 9,314,464               |
| LONG-TERM LIABILITIES  |                  |                         |
| Reserve for plugging and abandonment costs   | 29,200           | 28,147                  |
| TOTAL LIABILITIES  | 194,618          | 9,342,611               |
| COMMITMENTS AND CONTINGENCIES  |                  |                         |
| SHAREHOLDERS' EQUITY   |                  |                         |
| Common stock, \$0.001 par value; 150,000,000 shares authorized; 52,169,945 shares issued and outstanding | 52,170           | 52,170                  |
| Additional paid-in capital   | 65,967,814       | 65,928,056              |

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|  |              |              |
|--|--------------|--------------|
| Accumulated deficit                        | (58,247,234) | (56,708,362) |
| TOTAL SHAREHOLDERS' EQUITY                 | 7,772,750    | 9,271,864    |
| TOTAL LIABILITIES AND SHAREHOLDERS' EQUITY | \$7,967,368  | \$18,614,475 |

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

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HOUSTON AMERICAN ENERGY CORP.  
CONSOLIDATED STATEMENTS OF OPERATIONS  
FOR THE THREE AND SIX MONTHS ENDED JUNE 30, 2015 AND 2014  
(Unaudited)

|  | Six Months Ended<br>June 30, |                | Three Months Ended<br>June 30, |              |
|--|------------------------------|----------------|--------------------------------|--------------|
|  | 2015                         | 2014           | 2015                           | 2014         |
| OIL AND GAS REVENUE  | \$216,093                    | \$173,473      | \$114,122                      | \$67,450     |
| <b>EXPENSES OF OPERATIONS</b>                                |                              |                |                                |              |
| Lease operating expense and severance tax                    | 59,648                       | 49,331         | 30,735                         | 22,428       |
| General and administrative expense                           | 732,576                      | 1,289,552      | 276,703                        | 681,043      |
| Impairment of oil and gas properties                         | 677,051                      | —              | —                              | —            |
| Depreciation and depletion                                   | 278,075                      | 55,423         | 146,172                        | 48,707       |
| Total operating expenses                                     | 1,747,350                    | 1,394,306      | 453,610                        | 752,178      |
| Loss from operations   | (1,531,257 )                 | (1,220,833 )   | (339,488 )                     | (684,728 )   |
| <b>OTHER INCOME (EXPENSE)</b>                                |                              |                |                                |              |
| Interest income  | 10,445                       | 3,177          | 4,989                          | 1,704        |
| Other expense  | —                            | (3 )           | —                              | (3 )         |
| Total other income (expense)                                 | 10,445                       | 3,174          | 4,989                          | 1,701        |
| Net loss before taxes  | (1,520,812 )                 | (1,217,659 )   | (334,499 )                     | (683,027 )   |
| Income tax expense (benefit)                                 | 18,060                       | 1,353          | 17,309                         | 617          |
| Net loss   | \$(1,538,872 )               | \$(1,219,012 ) | \$(351,808 )                   | \$(683,644 ) |
| Basic and diluted loss per common share                      | \$(0.03 )                    | \$(0.02 )      | \$(0.01 )                      | \$(0.01 )    |
| Based and diluted weighted average common shares outstanding | 52,169,945                   | 52,169,945     | 52,169,945                     | 52,169,945   |

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

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HOUSTON AMERICAN ENERGY CORP.  
CONSOLIDATED STATEMENTS OF CASH FLOWS  
FOR THE SIX MONTHS ENDED JUNE 30, 2015 AND 2014  
(Unaudited)

|   | For the Six Months Ended<br>June 30, |               |
|---|--------------------------------------|---------------|
|   | 2015                                 | 2014          |
| <b>CASH FLOWS FROM OPERATING ACTIVITIES</b>                               |                                      |               |
| Net loss  | \$(1,538,872)                        | \$(1,219,012) |
| Adjustments to reconcile net loss to net cash used in operations:         |                                      |               |
| Depreciation and depletion  | 278,075                              | 55,423        |
| Accretion of asset retirement obligation                                  | 1,053                                | 276           |
| Impairment of oil and gas properties                                      | 677,051                              | —             |
| Stock-based compensation  | 39,758                               | 412,278       |
| Changes in operating assets and liabilities:                              |                                      |               |
| Decrease in insurance receivable  | 8,583,869                            | —             |
| Increase in prepaid expenses and other current assets                     | (91,804 )                            | (251,004 )    |
| Decrease in accounts payable, contingent liabilities and accrued expenses | (455,178 )                           | (117,063 )    |
| Decrease in settlement payable  | (7,000,000)                          | —             |
| Decrease in accrued legal costs   | (1,693,869)                          | (2,000 )      |
| Net cash used in operating activities                                     | (1,199,917)                          | (1,121,102)   |
| <b>CASH FLOWS FROM INVESTING ACTIVITIES</b>                               |                                      |               |
| Cash paid for oil and gas development costs                               | (192,856 )                           | (2,310,396)   |
| Proceeds from sale of mineral interest                                    | 56,705                               | —             |
| Proceeds from escrow receivables  | 59,412                               | 1,565,862     |
| Net cash used in investing activities                                     | (76,739 )                            | (744,534 )    |
| Decrease in cash  | (1,276,656)                          | (1,865,636)   |
| Cash, beginning of period   | 4,052,212                            | 7,578,730     |
| Cash, end of period   | \$2,775,556                          | \$5,713,094   |
| <b>SUPPLEMENTAL CASH FLOW INFORMATION</b>                                 |                                      |               |
| Interest paid   | \$—                                  | \$3           |
| Income taxes paid   | \$18,060                             | \$96,444      |

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

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HOUSTON AMERICAN ENERGY CORP.

Notes to Consolidated Financial Statements

(Unaudited)

NOTE 1 – BASIS OF PRESENTATION AND SIGNIFICANT ACCOUNTING POLICIES

The accompanying unaudited consolidated 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-Q. 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 consolidated financial statements. Operating results for the periods presented are not necessarily indicative of the results that may be expected for the full year.

These unaudited consolidated financial statements should be read in conjunction with the Company’s audited consolidated financial statements and footnotes, which are included as part of the Company’s Form 10-K for the year ended December 31, 2014.

Consolidation

The accompanying consolidated financial statements include all accounts of the Company and its subsidiaries (HAEC Louisiana E&P, Inc., HAEC Oklahoma E&P, Inc. and HAEC Caddo Lake E&P, Inc.). All significant inter-company balances and transactions have been eliminated in consolidation.

Accounting Principles and Use of Estimates

The consolidated financial statements have been prepared in conformity with accounting principles generally accepted in the United States of America. In preparing financial statements, management makes informed judgments and estimates that affect the reported amounts of assets and liabilities as of the date of the financial statements and affect the reported amounts of revenues and expenses during the reporting period. On an ongoing basis, management reviews its estimates, including those related to such potential matters as litigation, environmental liabilities, income taxes and the related valuation allowance, determination of proved reserves of oil and gas and asset retirement obligations. Changes in facts and circumstances may result in revised estimates and actual results may differ from these estimates.

Concentration of Credit Risk

Financial instruments that potentially subject the Company to a concentration of credit risk include cash, cash equivalents and any marketable securities. The Company had cash deposits of \$2,411,188 in excess of the FDIC’s current insured limit on interest bearing accounts of \$250,000 as of June 30, 2015. The Company has not experienced any losses on its deposits of cash and cash equivalents.

Loss per Share

Basic loss per share is computed by dividing net loss available to common shareholders by the weighted average common shares outstanding for the period. Diluted earnings per share reflects the potential dilution that could occur if securities or other contracts to issue common shares were exercised or converted into common shares that then shared in the earnings of the Company. The Company’s only outstanding potentially dilutive securities are options and warrants. Using the treasury stock method, outstanding ‘in-the-money’ options would have increased our diluted



weighted average shares outstanding by approximately 55,600 and 55,600 shares, respectively, for the three and six months ended June 30, 2015 and by approximately 55,600 and 55,600 shares, respectively, for the three and six months ended June 30, 2014; however, due to losses during these periods, these options were excluded from the diluted earnings per share calculation because their effect would have been anti-dilutive.

#### Subsequent Events

The Company has evaluated all transactions from June 30, 2015 through the financial statement issuance date for subsequent event disclosure consideration.

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## Recent Accounting Pronouncements

No accounting standards or interpretations issued recently are expected to have a material impact on our consolidated financial position, operations or cash flows.

## NOTE 2 – ESCROW RECEIVABLE

At June 30, 2015 and December 31, 2014, the Company's balance sheets reflected the following current escrow receivables relating to various oil and gas properties previously held by the Company:

|                                 | June 30,<br>2015 | December<br>31, 2014 |
|---------------------------------|------------------|----------------------|
| Tambaqui Escrow                 | \$—              | \$4,331              |
| HDC LLC & HL LLC 15% Escrow     | 251,125          | 294,383              |
| HDC LLC & HL LLC 5% Contingency | 10,891           | 11,256               |
| HC LLC 5% Contingency           | —                | 11,458               |
| TOTAL                           | \$262,016        | \$321,428            |

During the six months ended June 30, 2015, the Company received distributions of \$59,412 from escrow accounts relating to properties sold in previous years.

## NOTE 3 – OIL AND GAS PROPERTIES

During the six months ended June 30, 2015, the Company invested \$192,856 for the development of oil and gas properties, consisting of (1) preparation and evaluation costs in Colombia of \$28,639, and (2) costs on U.S. properties of \$164,217. Of the amount invested, the Company capitalized \$58,164 to oil and gas properties subject to amortization, and \$134,693 to oil and gas properties not subject to amortization.

During the six months ended June 30, 2015, the Company disposed of a portion of its interest in three non-producing domestic prospects for proceeds of \$56,705. Proceeds received from disposal of such interests were accounted for as a reduction in capitalized cost of oil and gas properties.

## Geographical Information

The Company currently has operations in two geographical areas, the United States and Colombia. Revenues for the six months ended June 30, 2015 and long lived assets (net of depletion, amortization, and impairments) as of June 30, 2015 attributable to each geographical area are presented below:

|               | Six<br>Months<br>Ended<br>June 30,<br>2015 | As of<br>June<br>30, 2015    |
|---------------|--|------------------------------|
|               | Revenues                                   | Long<br>Lived<br>Assets, Net |
| United States | \$216,093                                  | \$2,618,676                  |
| Colombia      | —  | 2,062,377                    |
| Total         | \$216,093                                  | \$4,681,053                  |



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## NOTE 4 – STOCK-BASED COMPENSATION EXPENSE

The Company periodically grants options to employees, directors and consultants under the Company’s 2005 Stock Option Plan and the Company’s 2008 Equity Incentive Plan (together, the “Plans”). The Company is required to make estimates of the fair value of the related instruments and recognize expense over the period benefited, usually the vesting period.

## Stock Option Activity

A summary of stock option activity and related information for the six months ended June 30, 2015 is presented below:

|                                | Options   | Weighted-<br>Average<br>Exercise<br>Price | Aggregate<br>Intrinsic<br>Value |
|--------------------------------|-----------|---|---------------------------------|
| Outstanding at January 1, 2015 | 3,392,832 | \$ 3.21                                   |                                 |
| Granted                        | 1,108,333 | 0.21                                      |                                 |
| Exercised                      | -         | -   |                                 |
| Forfeited                      | -         | -   |                                 |
| Outstanding at June 30, 2015   | 4,501,165 | \$ 3.42                                   | \$ -                            |
| Exercisable at June 30, 2015   | 2,292,832 | \$ 4.56                                   | \$ -                            |

In April 2015, options to purchase an aggregate of 8,333 shares were granted to a new non-employee director and options to purchase an aggregate of 900,000 shares were granted to a new officer. In June 2015, options to purchase an aggregate of 200,000 shares were granted to non-employee directors.

The 8,333 options granted to a non-employee director vested 20% on the grant date and vest as to the remaining 80% nine months from the grant date, have a ten-year life and have an exercise price of \$0.2158 per share. The option grant to the non-employee director was valued on the date of grant at \$792 using the Black-Scholes option-pricing model with the following parameters: (1) risk-free interest rate of 1.36%, (2) expected life in years of 4.98, and (3) expected stock volatility of 105%. The Company determined the option qualifies as ‘plain vanilla’ under the provisions of SAB 107 and the simplified method was used to estimate the expected option life.

The 900,000 options granted to an employee have a ten year life and an exercise price of \$0.2158 per share and vest 1/3 on each of the first three anniversaries of the grant date, subject to acceleration of vesting in the event of certain changes in control or (i) the receipt of \$10 million or more in aggregate gross proceeds from the sale of equity securities or securities convertible into equity securities, or (ii) the acquisition by the Company of \$10 million or more in aggregate purchase price of oil and gas properties. The option grant to the employee was valued on the date of grant at \$78,967 using the Black-Scholes option-pricing model with the following parameters: (1) risk-free interest rate of 1.36%, (2) expected life in years of 4.98, and (3) expected stock volatility of 105%. The Company determined the option qualifies as ‘plain vanilla’ under the provisions of SAB 107 and the simplified method was used to estimate the expected option life.

The 200,000 options granted to non-employee directors vested 20% on the grant date and vest as to the remaining 80% nine months from the grant date, have a ten-year life and have an exercise price of \$0.2028 per share. The option grants to non-employee directors were valued on the date of grant at \$16,802 using the Black-Scholes option-pricing model with the following parameters: (1) risk-free interest rate of 1.73 (2) expected life in years of 5.01, and (3) expected stock volatility of 105%. The Company determined the options qualify as ‘plain vanilla’ under the provisions

of SAB 107 and the simplified method was used to estimate the expected option life.

During the three and six months ended June 30, 2015, the Company recognized \$19,962 and \$39,758, respectively, of stock compensation expense attributable to the amortization of unrecognized stock-based compensation.

As of June 30, 2015, total unrecognized stock-based compensation expense related to non-vested stock options was \$177,000. The unrecognized expense is expected to be recognized over a weighted average period of 2.25 years and the weighted average remaining contractual term of the outstanding options and exercisable options at June 30, 2015 is 7.62 years and 6.93 years, respectively.

Shares available for issuance under the Plans as of June 30, 2015 totaled 1,498,835 shares.

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## Restricted Stock Activity

During 2011, the Company granted to officers an aggregate of 45,000 shares of restricted stock, which shares vest over a period of three years. The fair value of \$743,400 was determined based on the fair market value of the shares on the date of grant. This value was amortized over the vesting period and, during the three and six months ended June 30, 2014, \$16,696 and \$36,821 was amortized to expense. As of June 30, 2014, the compensation cost related to restricted stock had been fully recognized. Accordingly, no expense associated with amortization of the cost of restricted stock during the three and six months ended June 30, 2015.

## Share-Based Compensation Expense

The following table reflects share-based compensation recorded by the Company for the three months ended June 30, 2015 and 2014:

|   | Three Months<br>Ended<br>June 30, |            |
|---|-----------------------------------|------------|
|   | 2015                              | 2014       |
| Share-based compensation expense included in general and administrative expense   | \$ 19,962                         | \$ 182,268 |
| Earnings per share effect of share-based compensation expense – basic and diluted | \$(0.00 )                         | \$(0.00 )  |

The following table reflects share-based compensation recorded by the Company for the six months ended June 30, 2015 and 2014:

|   | Six Months Ended<br>June 30, |            |
|---|------------------------------|------------|
|   | 2015                         | 2014       |
| Share-based compensation expense included in general and administrative expense   | \$ 39,758                    | \$ 412,278 |
| Earnings per share effect of share-based compensation expense – basic and diluted | \$(0.00 )                    | \$(0.00 )  |

## NOTE 5 - COMMITMENTS AND CONTINGENCIES

## Lease Commitment

The Company leases office facilities under an operating lease agreement that expires on May 31, 2017. As of June 30, 2015, the lease agreement requires future payments as follows:

| <u>Year</u> | Amount    |
|-------------|-----------|
| 2015        | \$47,390  |
| 2016        | 96,162    |
| 2017        | 40,479    |
| Total       | \$184,031 |

For the three and six months ended June 30, 2015, the total base rental expense was \$27,113 and \$48,489, respectively. The Company does not have any capital leases or other operating lease commitments.

## Legal Contingencies

The Company is subject to legal proceedings, claims and liabilities that arise in the ordinary course of its business. The Company accrues for losses associated with legal claims when such losses are probable and can be reasonably estimated. These accruals are adjusted as further information develops or circumstances change.

Silverman Shareholder Class Action Suit. On April 27, 2012, a purported class action lawsuit was filed in the U.S. District Court for the Southern District of Texas against the Company and certain of its executive officers: Steve Silverman v. Houston American Energy Corp. et al., Case No. 4:12-CV-1332. The complaint generally alleged that, between March 29, 2010 and April 18, 2012, all of the defendants violated Sections 10(b) of the Securities Exchange Act of 1934 and SEC Rule 10b-5 and the individual defendants violated Section 20(a) of the Exchange Act in making materially false and misleading statements including certain statements related to the status and viability of the Tamandua #1 well on the Company's CPO 4 prospect. Two additional class action lawsuits were filed against us in May 2012. The complaints sought unspecified damages, interest, attorneys' fees, and other costs. On September 20, 2012, the court consolidated the class action lawsuits and appointed a lead plaintiff and, on November 15, 2012, the lead plaintiffs filed an amended complaint. The amended complaint, among other things, expanded the putative class period to November 9, 2009 to April 18, 2012 and added allegations challenging a November 2009 estimate concerning the CPO 4 prospect. On January 14, 2013, the Company filed a motion to dismiss and, on August 22, 2013, the court granted the motion and dismissed the complaint. The plaintiffs subsequently filed a Notice of Appeal of the dismissal of the complaint. On July 15, 2014, the U.S. Court of Appeals for the Fifth Circuit reversed the dismissal of the case. The appellate court ruling focused on the sufficiency of the pleadings in the case, made no determination regarding the merits of the factual allegations, and remanded the case to the District Court for further proceedings. In October 2014, the parties reached an agreement in principle to settle the consolidated lawsuit. The settlement, which provided for a \$7,000,000 payment expected to be fully funded by the Company's insurance, was subject to preliminary and final approval of the court. The parties submitted the settlement to the court for approval on December 31, 2014. The court signed an order on April 16, 2015 preliminarily approving the settlement. Pursuant to the terms of the settlement, the Company, through its insurer, was required to escrow settlement funds in the amount of \$7,000,000. In May 2015, the Company's insurer deposited the required funds into an escrow account to fund the settlement. On July 29, 2015, the court rendered a final judgment approving the settlement and dismissed the case with prejudice. As a result, the \$7,000,000 litigation settlement payable and the related insurance claim receivable were each reflected as settled on the Company's balance sheet at June 30, 2015.

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SEC Administrative Proceeding. On August 4, 2014, following a multi-year investigation, the SEC instituted administrative cease-and-desist proceedings pursuant to Section 8A of the Securities Act of 1933 and 21C of the Securities Exchange Act of 1934, styled In the Matter of Houston American Energy Corp., John F. Terwilliger, Jr., Undiscovered Equities, Inc. and Kevin T. McKnight. The administrative proceeding alleged that Mr. Terwilliger and, in turn, Houston American Energy, made false and misleading statements with respect to the CPO 4 prospect and promoted those statements through Undiscovered Equities and its principal, Kevin McKnight. The SEC was seeking a determination from an administrative law judge as to whether (i) the allegations of the SEC were true; (ii) Houston American Energy and Mr. Terwilliger should be ordered to (A) cease-and-desist from committing or causing violations of Section 10(b) of the Exchange Act and Rule 10b-5 thereunder, (B) pay a civil penalty pursuant to Section 8A(g) of the Securities Act and Section 21B(a) of the Exchange Act, and (C) pay disgorgement pursuant to Section 8A(e) of the Securities Act and Sections 21B(e) and 21C(e) of the Exchange Act; and (iii) Mr. Terwilliger should be prohibited from acting as an officer and director of a public company pursuant to Section 8A(f) of the Securities Act and Section 21C(f) of the Exchange Act.

At December 31, 2014, the administrative proceeding was pending and was scheduled for trial in January 2015. The trial was stayed in January 2015 pending consideration by the Commission of a proposed settlement. On April 16, 2015, the Commission formally approved the settlement. Pursuant to the terms of the settlement, among other things, the Company paid a penalty of \$400,000 and the Company's Chief Executive Officer resigned and paid a penalty of \$150,000. The Company, at December 31, 2014, had recorded on its balance sheet a contingent liability, and on its statement of operations a contingent loss of \$400,000 relating to the settlement. The Company has an insurance policy that insures for legal fees incurred in connection with the above administrative proceeding. At December 31, 2014, the Company had recorded an insurance claim receivable of \$1,612,681 for fees which have been incurred, but not yet reimbursed by its insurance company. As of June 30, 2015, there was an outstanding insurance claim receivable of \$28,812 related to unpaid accrued legal fees.

NOTE 6 – TAXES

The Company has estimated that its effective tax rate for U.S. purposes will be zero for 2015, and consequently, recorded no U.S. income tax liability or tax expense for the three and six months ended June 30, 2015.

During the three and six months ended June 30, 2015, significant temporary differences between financial statement net loss and estimated taxable income related primarily to the stock compensation expense recognized for book purposes during the period.



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## ITEM 2 MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS

## Forward-Looking Information

This Form 10-Q quarterly report of Houston American Energy Corp. (the "Company") for the six months ended June 30, 2015, 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 we express 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 actual results or events may differ materially from those anticipated and as reflected in forward-looking statements included herein. Factors that may cause actual results or events to differ from those anticipated in the forward-looking statements included herein include the Risk Factors described in Item 1A herein and in our Form 10-K for the year ended December 31, 2014.

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

Additionally, the following discussion regarding our 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-Q, as well as the Risk Factors in Item 1A and the financial statements in Item 7 of Part II of our Form 10-K for the year ended December 31, 2014.

## Critical Accounting Policies

The discussion and analysis of our financial condition and results of operations is based upon our consolidated financial statements, which have been prepared in accordance with accounting principles generally accepted in the United States of America. We believe certain critical accounting policies affect the more significant judgments and estimates used in the preparation of our financial statements. A description of our critical accounting policies is set forth in our Form 10-K for the year ended December 31, 2014. As of, and for the six months ended, June 30, 2015, there have been no material changes or updates to our critical accounting policies.

## Unevaluated Oil and Gas Properties

Unevaluated oil and gas properties not subject to amortization, include the following at June 30, 2015:

|                                  |                  |
|----------------------------------|------------------|
|                                  | June 30,<br>2015 |
| Acquisition costs                | \$902,863        |
| Development and evaluation costs | 2,030,451        |
| Total                            | \$2,933,314      |

Of the carrying value of unevaluated oil and gas prospects above, \$2,062,377 was attributable to properties in the South American country of Colombia and \$870,937 was attributable to properties in the United States. We are

maintaining our interest in these properties and development has or is anticipated to commence within the next twelve months.

#### Recent Developments

##### Drilling and Related Activity

During the six months ended June 30, 2015, we drilled one well, located in the United States. The 11,996 foot test well was a dry hole.

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Domestic Developments

During the six months ended June 30, 2015, we disposed of some or all of our interest in three non-producing domestic prospects for which we received \$56,705 of proceeds. Proceeds received from disposal of such interests were accounted for as a reduction in capitalized cost of oil and gas properties.

With the continuing weakness in oil and natural gas prices, we are not presently planning additional domestic drilling operations during 2015. We intend to evaluate other opportunities that may arise in the domestic energy sector, including possible acquisitions of non-core assets and other assets that may become available as other operators divest or otherwise address excess leverage and other issues in the current low price environment.

Colombian Developments – Serrania, Los Picachos and Macaya

During the six months ended June 30, 2015, our capital investment expenditures in Colombia related to the preparation and evaluation of our three concessions in Colombia, which amount totaled \$28,369.

For 2015, Hupecol, the operator of our Colombian concessions, has advised us that they plan to conduct pre-drilling operations on the Serrania concession, including road work, environmental work and work in preparation for drilling, with a first exploratory well expected to be drilled before the end of 2015. Subject to prevailing conditions, drilling of a second well on the Serrania concession is planned during 2016.

Hupecol has also advised that it plans to begin seismic work on the Los Picachos and Macaya concessions during 2016. Hupecol had previously advised that those same planned operations would take place during prior years. Hupecol's plans for 2015 may change based on field conditions and other factors beyond our control or the control of Hupecol.

Our 2015 estimated net cost associated with pre-drilling activities and first test well on the Serrania concession is approximately \$984,000.

Settlement of SEC Administrative Proceeding

Our ongoing SEC Administrative Proceeding was settled in April 2015. As a result of that settlement, among other things, we paid a penalty in the amount of \$400,000. The penalty and associated expense were recorded during 2014.

Settlement of Shareholder Class Action Suit

Final settlement of our ongoing shareholder class action suit was approved in July 2015. As a result of that settlement, among other things, we paid a settlement of \$7,000,000 which was fully funded by insurance. The settlement was recorded during 2014. The associated settlement payable, accrued legal fees payable and insurance claim receivable were each reflected as settled on our balance sheet at June 30, 2015.

Changes in Officers and Directors

Under the terms of the settlement of our SEC Administrative Proceeding, John Terwilliger, our Chairman and Chief Executive Officer, resigned from all positions as an officer and director of our company.

In connection with the resignation of John Terwilliger: (1) John Boylan, a current director, was appointed Chairman, President and Chief Executive Officer of the company; (2) an additional independent director was appointed to fill the vacancy created by Mr. Terwilliger's resignation; and (3) we agreed to continue to employ Mr. Terwilliger in a non-executive capacity to assist in the management transition through at least December 31, 2015.

Mr. Boylan's compensation, in addition to benefits generally provided to company employees, consists of: (1) an annual base salary of \$120,000; and (2) a ten-year stock option grant, exercisable at fair market value on the date of grant, to purchase 900,000 shares of our common stock. The stock option vests 1/3 on each of the first three anniversaries of the date of grant subject to accelerated vesting upon either (i) our receipt, on or after the grant date and during the term of Mr. Boylan's employment, of \$10 million or more of aggregate gross proceeds from the sale of equity securities or securities convertible into equity securities, or (ii) our acquisition, on or after the grant date and during the term of Mr. Boylan's employment, of \$10 million or more in aggregate purchase price of oil and gas properties.

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## Results of Operations

Oil and Gas Revenues. Total oil and gas revenues increased by 69% to \$114,122 in the three months ended June 30, 2015 compared to \$67,450 in the three months ended June 30, 2014. For the six month period, oil and gas revenues increased 25% to \$216,093 in the six months ended June 30, 2015 compared to \$173,473 in the six months ended June 30, 2014. The increase in revenue was due to increases in production from wells brought onto production during the past year which were partially offset by a steep decline in commodity prices.

The following table sets forth the gross and net producing wells, net oil and gas production volumes and average hydrocarbon sales prices for the quarter and six months ended June 30, 2015 and 2014:

|   | Three Months |          | Six Months |         |
|---|--------------|----------|------------|---------|
|   | Ended        |          | Ended      |         |
|   | June 30,     |          | June 30,   |         |
|   | 2015         | 2014     | 2015       | 2014    |
| Gross producing wells                       | 11           | 8        | 11         | 8       |
| Net producing wells                         | 0.72         | 0.32     | 0.72       | 0.32    |
| Net oil production (bbl)                    | 1,790        | 528      | 3,084      | 1,488   |
| Net gas production (mcf)                    | 6,919        | 2,304    | 13,181     | 5,831   |
| Average sales price – oil (per barrel)      | \$50.76      | \$103.05 | \$54.51    | \$96.50 |
| Average sales price – natural gas (per mcf) | \$3.36       | \$5.68   | \$3.64     | \$5.13  |

The change in well count and production reflects the three wells coming on line during the twelve months ended June 30, 2015.

The change in average sales prices realized reflects a steep decline in global commodity prices beginning in late 2014 and continuing into 2015.

Oil and gas sales revenues by region were as follows:

|                       | Colombia | U.S.      | Total     |
|-----------------------|----------|-----------|-----------|
| 2015 First Six Months |          |           |           |
| Oil sales             | \$ —     | \$168,266 | \$168,266 |
| Gas sales             | —        | 47,827    | 47,827    |
| 2014 First Six Months |          |           |           |
| Oil sales             | \$ —     | \$143,586 | \$143,586 |
| Gas sales             | —        | 29,887    | 29,887    |

Lease Operating Expenses. Lease operating expenses increased by 37% to \$30,736 during the three months ended June 30, 2015 from \$22,428 during the three months ended June 30, 2014. During the six months ended June 30, 2015, lease operating expenses increased by 21% to \$59,648 from \$49,331 during the six months ended June 30, 2014. The increase in lease operating expenses was attributable to three additional wells coming on line during the twelve months ended June 30, 2015.

Following is a summary comparison of lease operating expenses, by region, for the periods.

|         |        | Colombia | U.S.     | Total    |
|---------|--------|----------|----------|----------|
| Quarter | - 2015 | \$ —     | \$30,735 | \$30,735 |
|         | - 2014 | \$ —     | \$22,428 | \$22,428 |

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|            |        |    |   |          |          |
|------------|--------|----|---|----------|----------|
| Six Months | - 2015 | \$ | — | \$59,648 | \$59,648 |
|            | - 2014 | \$ | — | \$49,331 | \$49,331 |

Consistent with our business model and operating history, we experience steep declines in lease operating expenses following strategic divestitures and anticipate lease operating expenses to ramp up to levels consistent with regional costs as new wells are brought on line. With additional domestic prospects coming on production and the planned drilling of our Serrania prospect, lease operating expenses in the U.S., and overall, are expected to increase in 2015.

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**Depreciation and Depletion Expense.** Depreciation and depletion expense was \$146,172 and \$48,707 for the three months ended June 30, 2015 and 2014, respectively, and \$278,075 and \$55,423 for the six months ended June 30, 2015 and 2014, respectively. The increase was due to an increase in the cost pool and increased production attributable to three new wells brought on line during the twelve months ended June 30, 2015.

**Impairment of Oil and Gas Properties.** During the three months and six months ended June 30, 2015, we recorded an impairment expense of \$0 and \$677,051, respectively, associated with the decline in energy prices.

**General and Administrative Expenses.** General and administrative expense decreased by 59% to \$276,703 during the three months ended June 30, 2015 from \$681,043 during the three months ended June 30, 2014, and decreased by 43% to \$732,576 during the six months ended June 30, 2015 from \$1,289,552 during the six months ended June 30, 2014. The decreases in general and administrative expense was primarily attributable to a decrease in stock-based compensation.

**Other Income (Expense).** Other income (expense) consisted of interest earned on cash balances, net of other bank fees. Other income (expense), net totaled \$4,999 and \$10,445 of net other income during the three and six-month periods ended June 30, 2015, respectively, as compared to \$1,701 and \$3,174 of net other income during the three and six-month periods ended June 30, 2014, respectively. The changes were attributable to higher interest rates received on bank deposits.

**Income Tax Expense/Benefit.** We reported income tax expense of \$17,309 during the three months ended June 30, 2015 compared to income tax expense of \$617 during the three months ended June 30, 2014. For the six months ended June 30, 2015, we reported income tax expense of \$18,060 compared to income tax expense of \$1,353 during the six months ended June 30, 2014.

**Financial Condition**

**Liquidity and Capital Resources.** At June 30, 2014, we had a cash balance of \$2,775,556 and working capital of \$3,117,730, compared to a cash balance of \$4,052,212 and working capital of \$3,796,817 at December 31, 2014. The change in working capital during the period was primarily attributable to the operating loss for the first six months of 2015 and investments in our drilling program.

Operating activities used cash of \$1,199,917 during the six months ended June 30, 2015 as compared to \$1,121,102 of cash used during the six months ended June 30, 2014. The increase in operating cash flow used was primarily attributable to the payment of the settlement of the SEC administrative proceeding and accrued legal fees, offset by impairment expense.

Investing activities used \$76,739 during the six months ended June 30, 2015 compared to \$744,534 of cash used during the six months ended June 30, 2014. The funds used by investing activities during the 2015 six-month period reflect the investments in oil and gas properties, totaling \$192,856, partially offset by proceeds of \$56,705 from the sale of the Company's interest in several oil and gas wells and the release of \$59,412 of funds held in escrow from the prior sale of our interests in HDC LLC, HL, LLC and the Tambaqui prospect. The funds used by investing activities during the six months ended June 30, 2014 reflect the investments in oil and gas properties, totaling \$2,310,396, partially offset by the release of \$1,565,862 of funds held in escrow from the prior sale of our interests in HDC LLC and HL, LLC.

We had no financing activities during the six months ended June 30, 2015 and 2014.

**Long-Term Liabilities.** At June 30, 2015, we had long-term liabilities of \$29,200 as compared to \$28,147 at December 31, 2014. Long-term liabilities at June 30, 2015 and December 31, 2014 consisted of a reserve for

plugging costs.

Capital and Exploration Expenditures and Commitments. Our principal capital and exploration expenditures relate to ongoing efforts to acquire, drill and complete prospects. We expect that future capital and exploration expenditures will be funded principally through funds on hand and funds generated from operations of wells being brought on line during the last twelve months.

During the six months ended June 30, 2015, we invested \$192,856 for the development of oil and gas properties, consisting of (1) preparation and evaluation costs in Colombia of \$28,639, and (2) costs on U.S. properties of \$164,217. Of the amount invested, we capitalized \$58,164 to oil and gas properties subject to amortization, and \$134,692 to oil and gas properties not subject to amortization.

Our estimated capital expenditure budget for the balance of 2015 is approximately \$984,000 and relates to pre-drill work for, and drilling of, an initial test well on the Serrania concession. Drilling and other plans for 2015 may change based on field conditions and other factors beyond our control or the control of the operators of our prospects and, as such, there can be no assurance as to the timing of these operations or the amount actually spent on such operations.



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We anticipate that our cash on hand will be adequate to fully fund our operations during 2015, including our capital expenditure budget. If, for any reason, we are unable to fully fund our drilling budget and fail to satisfy commitments reflected therein, we may be subject to penalties or to the possible loss of some of our rights and interests in prospects with respect to which we fail to satisfy funding commitments. We have no commitments to provide any additional financing should we require and seek such financing and there is no guarantee that we will be able to secure additional financing on acceptable terms, or at all, to fully fund our 2015 drilling budget and to support future acquisitions and development activities.

### Off-Balance Sheet Arrangements

We had no off-balance sheet arrangements or guarantees of third party obligations at June 30, 2015.

### Inflation

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

## ITEM 3 QUANTITATIVE AND QUALITATIVE DISCLOSURES ABOUT MARKET RISK

### Commodity Price Risk

The price we receive for our oil and gas production heavily influences our revenue, profitability, access to capital and future rate of growth. Crude oil and natural gas are commodities and, therefore, their prices are subject to wide fluctuations in response to relatively minor changes in supply and demand. Historically, the markets for oil and gas have been volatile, and these markets will likely continue to be volatile in the future. The prices we receive for production depends on numerous factors beyond our control.

We have not historically entered into any hedges or other transactions designed to manage, or limit, exposure to oil and gas price volatility.

## ITEM 4 CONTROLS AND PROCEDURES

### Evaluation of Disclosure Controls and Procedures

Under the supervision and the participation of our management, including our principal executive officer and principal financial officer, we conducted an evaluation as of June 30, 2015 of the effectiveness of the design and operation of our disclosure controls and procedures, as such term is defined under Rule 13a-15(e) promulgated under the Securities Exchange Act of 1934, as amended. Based on this evaluation, our principal executive officer and our principal financial officer concluded that our disclosure controls and procedures were not effective as of June 30, 2015. Such conclusion reflects the 2013 departure of our chief financial officer and assumption of duties of principal financial officer by our chief executive officer and the resulting lack of segregation of duties. Until we are able to remedy these material weaknesses, we are relying on third party consultants and our accounting firm to assist with financial reporting.

### Changes in Internal Control over Financial Reporting

No change in our internal control over financial reporting (as defined in Rule 13a-15(f) under the Securities Exchange Act of 1934) occurred during the quarter ended June 30, 2015 that has materially affected, or is reasonably likely to materially affect, our internal control over financial reporting.

## PART II

ITEM 1 LEGAL PROCEEDINGS

Shareholder Class Action Settlement

On July 29, 2015, a final order was issued settling, and dismissing, the class action lawsuit filed in the U.S. District Court for the Southern District of Texas against the Company and certain of its executive officers: Steve Silverman v. Houston American Energy Corp. et al., Case No. 4:12-CV-1332. Pursuant to the settlement and order, the Company paid \$7,000,000 as full and final settlement of the suit. The settlement was fully funded by the Company's insurance carrier.

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## SEC Administrative Proceeding Settlement

On April 16, 2015, the Securities and Exchange Commission formally approved a final and full settlement of the ongoing administrative proceeding instituted against the Company and its Chief Executive Officer. Pursuant to the terms of the settlement, among other things, the Company paid a penalty of \$400,000 and the Company's Chief Executive Officer resigned and paid a penalty of \$150,000.

## ITEM 5 OTHER INFORMATION

On June 9, 2015, Houston American Energy Corp. (the "Company") held its Annual Meeting of shareholders. Two proposals were voted on at the meeting: (1) the election of two Class B directors to serve until the Company 2018 Annual Meeting of shareholders, and (2) ratification of the selection of GBH CPAs, PC as the Company's independent registered public accounting firm for the fiscal year ending December 31, 2015. Each of the proposals submitted to the shareholders was approved by the requisite vote and the vote with respect to each of the proposals was as follows:

Proposal 1: To elect two Class B directors to serve for the term of three years and until his successor is duly elected and has qualified.

| Nominee        | Votes For  | Votes Withheld | Abstentions and Broker Non-Votes |
|----------------|------------|----------------|----------------------------------|
| John P. Boylan | 16,147,377 | 222,580        | 35,799,988                       |
| Roy Jageman    | 16,147,377 | 222,580        | 35,799,988                       |

Proposal 2: To ratify the selection of GBH CPAs, PC as the independent registered public accounting firm for the fiscal year ending December 31, 2015.

| Votes For  | Votes Against | Abstentions and Broker Non-Votes |
|------------|---------------|----------------------------------|
| 38,308,344 | 1,197,648     | 12,663,953                       |

## ITEM 6 EXHIBITS

## Exhibit

Number Description

- 31.1 Certification of CEO and Principal Financial Officer pursuant to Section 302 of the Sarbanes-Oxley Act of 2002
- 32.1 Certification of CEO and Principal Financial Officer 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 of the undersigned thereunto duly authorized.

HOUSTON AMERICAN ENERGY CORP.

Date: August 12, 2015

By: /s/ John Boylan

John Boylan

CEO and President (Principal executive officer and  
Principal financial officer)