

HOUSTON AMERICAN ENERGY CORP  
Form 10-Q  
May 07, 2010

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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 AND EXCHANGE ACT OF 1934

For the quarterly period ended March 31, 2010

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  
(State or other jurisdiction of incorporation or organization)

76-0675953  
(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

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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” 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 May 6, 2010, we had 31,080,772 shares of \$0.001 par value Common Stock outstanding.

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HOUSTON AMERICAN ENERGY CORP.

FORM 10-Q

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IndexPART I - FINANCIAL INFORMATION  
ITEM 1Financial Statements  
HOUSTON AMERICAN ENERGY CORP.  
CONSOLIDATED BALANCE SHEETS  
(Unaudited)

|                                                                                        | March 31,<br>2010 | December 31,<br>2009 |
|----------------------------------------------------------------------------------------|-------------------|----------------------|
| <b>ASSETS</b>                                                                          |                   |                      |
| <b>CURRENT ASSETS</b>                                                                  |                   |                      |
| Cash                                                                                   | \$12,184,976      | \$14,010,637         |
| Accounts receivable – oil and gas sales                                                | 1,640,524         | 1,831,674            |
| Notes receivable                                                                       | 125,000           | 125,000              |
| Escrow receivable                                                                      | 830,359           | 873,871              |
| Prepaid expenses and other current assets                                              | 115,224           | 8,913                |
| Total current assets                                                                   | 14,896,083        | 16,850,095           |
| <b>PROPERTY, PLANT AND EQUIPMENT</b>                                                   |                   |                      |
| Oil and gas properties – full cost method                                              |                   |                      |
| Costs subject to amortization                                                          | 23,010,444        | 22,050,265           |
| Costs not being amortized                                                              | 8,657,115         | 5,558,324            |
| Office equipment                                                                       | 83,756            | 11,878               |
| Total property, plant and equipment                                                    | 31,751,315        | 27,620,467           |
| Accumulated depreciation, depletion, and impairment                                    | (17,090,461)      | (16,264,212)         |
| Total property, plant and equipment, net                                               | 14,660,854        | 11,356,255           |
| <b>OTHER ASSETS</b>                                                                    |                   |                      |
| Deferred tax asset                                                                     | 5,680,026         | 5,680,026            |
| Other assets                                                                           | 176,453           | 176,453              |
| Total assets                                                                           | \$35,413,416      | \$34,062,829         |
| <b>LIABILITIES AND SHAREHOLDERS' EQUITY</b>                                            |                   |                      |
| <b>CURRENT LIABILITIES</b>                                                             |                   |                      |
| Accounts payable                                                                       | \$299,619         | \$469,528            |
| Accrued expenses                                                                       | 16,532            | 14,949               |
| Foreign income taxes payable                                                           | 13,825            | 128                  |
| Total current liabilities                                                              | 329,976           | 484,605              |
| <b>LONG-TERM LIABILITIES</b>                                                           |                   |                      |
| Deferred rent obligation                                                               | 15,665            | 16,652               |
| Reserve for plugging and abandonment costs                                             | 346,097           | 316,260              |
| Total long-term liabilities                                                            | 361,762           | 332,912              |
| Commitments and Contingencies                                                          | —                 | —                    |
| <b>SHAREHOLDERS' EQUITY</b>                                                            |                   |                      |
| Preferred stock, \$0.001 par value: 10,000,000 shares authorized; 0 shares outstanding | —                 | —                    |
|                                                                                        | 31,080            | 30,891               |

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Common stock, \$0.001 par value; 100,000,000 shares authorized; 31,080,772 and 30,890,772 shares issued and outstanding, respectively

|                                            |              |              |
|--------------------------------------------|--------------|--------------|
| Additional paid-in capital                 | 36,162,856   | 35,495,395   |
| Accumulated deficit                        | (1,472,258 ) | (2,280,974 ) |
| Total shareholders' equity                 | 34,721,678   | 33,245,312   |
| Total liabilities and shareholders' equity | \$35,413,416 | \$34,062,829 |

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  
(Unaudited)

|                                             | For the Three Months<br>Ended March 31, |                |
|---------------------------------------------|-----------------------------------------|----------------|
|                                             | 2010                                    | 2009           |
| Revenue                                     |                                         |                |
| Oil and gas                                 | \$4,241,395                             | \$445,142      |
| Total Revenue                               | 4,241,395                               | 445,142        |
| Expenses of operations                      |                                         |                |
| Lease operating expense and severance taxes | 1,679,206                               | 910,488        |
| Joint venture expenses                      | 39,021                                  | 40,723         |
| General and administrative expense          | 717,917                                 | 720,867        |
| Depreciation and depletion                  | 826,248                                 | 254,415        |
| Total operating expenses                    | 3,262,392                               | 1,926,493      |
| Income (loss) from operations               | 979,003                                 | (1,481,351 )   |
| Other income                                |                                         |                |
| Interest income                             | 20,802                                  | 17,848         |
| Total other income                          | 20,802                                  | 17,848         |
| Income (loss) before taxes                  | 999,805                                 | (1,463,503 )   |
| Income tax expense                          | 191,089                                 | 14,817         |
| Net income (loss)                           | \$808,716                               | \$(1,478,320 ) |
| Basic income (loss) per share               | \$0.03                                  | \$(0.05 )      |
| Diluted income (loss) per share             | \$0.03                                  | \$(0.05 )      |
| Basic weighted average shares               | 31,037,494                              | 28,000,772     |
| Diluted weighted average shares             | 31,431,710                              | 28,000,772     |

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  
(Unaudited)

For the Three Months  
Ended March 31,  
2010                      2009

**CASH FLOWS FROM OPERATING ACTIVITIES**

|                                                                        |            |               |
|------------------------------------------------------------------------|------------|---------------|
| Net income (loss)                                                      | \$808,716  | \$(1,478,320) |
| Adjustments to reconcile net income (loss) to net cash from operations |            |               |
| Depreciation and depletion                                             | 826,248    | 254,415       |
| Stock based compensation                                               | 253,065    | 247,760       |
| Accretion expense – asset retirement obligation                        | 5,391      | 3,261         |
| Amortization of deferred rent                                          | (987 )     | (395 )        |
| Changes in operating assets and liabilities:                           |            |               |
| Decrease in accounts receivable                                        | 191,150    | 308,346       |
| Increase in prepaid expense                                            | (106,311 ) | (100,606 )    |
| Decrease in accounts payable and accrued expenses                      | (154,628 ) | (776,342 )    |
| Net cash provided by (used in) operating activities                    | 1,822,644  | (1,541,881)   |

**CASH FLOWS FROM INVESTING ACTIVITIES**

|                                                       |              |             |
|-------------------------------------------------------|--------------|-------------|
| Payments for issuance of notes receivable             | —            | (115,724 )  |
| Acquisition of furniture and equipment                | (71,878 )    | —           |
| Acquisition and development of oil and gas properties | (4,034,524 ) | (1,237,259) |
| Proceeds from escrow receivable                       | 43,512       | —           |
| Net cash used in investing activities                 | (4,062,890 ) | (1,352,983) |

**CASH FLOWS FROM FINANCING ACTIVITIES**

|                                                     |              |             |
|-----------------------------------------------------|--------------|-------------|
| Dividends paid                                      | (155,415 )   | (560,015 )  |
| Exercise of warrants                                | 570,000      | —           |
| Net cash provided by (used in) financing activities | 414,585      | (560,015 )  |
| Decrease in cash and equivalents                    | (1,825,661 ) | (3,454,879) |
| Cash, beginning of period                           | 14,010,637   | 9,910,694   |
| Cash, end of period                                 | \$12,184,976 | \$6,455,815 |

**SUPPLEMENT CASH FLOW INFORMATION**

|                      |           |          |
|----------------------|-----------|----------|
| Interest paid        | \$—       | \$—      |
| Colombian taxes paid | \$177,392 | \$25,008 |

**NON-CASH INVESTING AND FINANCING ACTIVITIES**

|                                       |          |     |
|---------------------------------------|----------|-----|
| Change in asset retirement obligation | \$24,446 | \$— |
|---------------------------------------|----------|-----|

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 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 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 Company’s audited financial statements and footnotes, which are included as part of the Company’s Form 10-K for the year ended December 31, 2009.

Consolidation

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

General Principles and Use of Estimates

The 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, 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.

Reclassification

Certain financial presentations for the prior periods presented have been reclassified to conform to the current presentation.

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 approximately \$11,833,000 in excess of the FDIC’s current insured limit of \$250,000 as of March 31, 2010. The Company has not experienced any losses on its deposits of cash and cash equivalents.

Earnings per Share

Basic earnings per share is computed by dividing net income (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. Dilutive options had the effect of increasing diluted weighted average shares outstanding by 394,216 common shares for the three months ending March 31, 2010.

For the three months ended March 31, 2009, options and warrants to purchase 532,333 shares of common stock were excluded from the diluted EPS calculation because their effect would have been anti-dilutive.

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## NOTE 2 – RECENT ACCOUNTING PRONOUNCEMENTS

In January 2010, the FASB issued revised authoritative guidance that requires more robust disclosures about the different classes of assets and liabilities measured at fair value, the valuation techniques and inputs used, the activity in Level 3 fair value measurements, and the transfers between Levels 1, 2 and 3. This guidance is effective for interim and annual reporting periods beginning after December 15, 2009 (which is January 1, 2010 for the Company) except for the disclosures about purchases, sales, issuances, and settlements in the roll forward activity in Level 3 fair value measurements. Those disclosures are effective for fiscal years beginning after December 15, 2010, and for interim periods within those fiscal years (which is January 1, 2011 for the Company). Early application is encouraged. The revised guidance was adopted as of January 1, 2010. The adoption of this guidance did not have a material impact on the Company's consolidated financial position, results of operations and cash flows.

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

## NOTE 3 – OIL AND GAS ACQUISITIONS

## Macaya TEA

During the quarter ended March 31, 2010, the Company elected to participate for its percentage interest (12.5%) in the Macaya Technical Evaluation Agreement (the "TEA").

The TEA was entered into in February 2010 by and between the Colombian National Hydrocarbons Agency and Hupecol Operating Co. LLC, and encompasses a 195,171 acre region located to the southeast of the Serrania block, which is located in the municipalities of Uribe and La Macarena in the Department of Meta in the Republic of Colombia.

As a result of the election to participate, the Company agreed to pay its proportionate share, or 12.5%, of the acquisition costs and costs for the minimum work program contained in the TEA.

## NOTE 4 – STOCK-BASED COMPENSATION EXPENSE AND WARRANTS

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 three months ended March 31, 2010 is presented below:

|                                | Options   | Weighted-Average<br>Exercise Price | Aggregate<br>Intrinsic<br>Value |
|--------------------------------|-----------|------------------------------------|---------------------------------|
| Outstanding at January 1, 2010 | 1,538,998 | \$ 5.81                            | \$-                             |
| Granted                        | -         | -                                  | -                               |
| Exercised                      | -         | -                                  | -                               |

|                               |           |         |              |
|-------------------------------|-----------|---------|--------------|
| Forfeited                     | -         | -       | -            |
| Outstanding at March 31, 2010 | 1,538,998 | \$ 5.81 | \$18,990,953 |
| Exercisable at March 31, 2010 | 568,998   | \$ 4.51 | \$7,751,453  |

No options were granted or exercised during the three month periods ended March 31, 2010. As of March 31, 2010, total unrecognized stock-based compensation expense related to non-vested stock options was \$3,593,704. The unrecognized expense is expected to be recognized over a weighted average period of 3.86 years and the weighted average remaining contractual term of the outstanding options and exercisable options at March 31, 2010 is 7.8 years and 7.0 years, respectively.

Shares available for issuance under the Plans as of March 31, 2010 totaled 1,161,002.

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## Warrant Activity

No warrants were issued during the three months ended March 31, 2010. The remaining 190,000 placement agent warrants that were outstanding at December 31, 2009 were exercised during the three months ended March 31, 2010. The Company received \$570,000, or \$3.00 per warrant, as a result of exercise of the warrants.

## Share-Based Compensation Expense

The following table reflects share-based compensation recorded by the Company for the three months ended March 31, 2010 and 2009:

|                                                                  | Three Months Ended<br>March 31, |            |
|------------------------------------------------------------------|---------------------------------|------------|
|                                                                  | 2010                            | 2009       |
| Share-based compensation expense included in reported net income | \$ 253,066                      | \$ 247,760 |
| Earnings per share effect of share-based compensation expense    | \$ (0.01)                       | \$ (0.01)  |

## NOTE 5 – DIVIDEND

During the quarter ended March 31, 2010, we declared and paid cash dividends to our shareholders of \$0.005 per share, or an aggregate of \$155,415.

## NOTE 6 - COMMITMENTS AND CONTINGENCIES

## Lease Commitment

The Company leases office facilities under an operating lease agreement that expires May 31, 2012. As of March 31, 2010, the lease agreement requires future payments as follows:

| Year  | Amount     |
|-------|------------|
| 2010  | 63,715     |
| 2011  | 86,684     |
| 2012  | 36,530     |
| Total | \$ 186,929 |

For the three months ended March 31, the total base rental expense was \$20,600 in 2010 and \$20,140 in 2009. The Company does not have any capital leases or other operating lease commitments.

## Standby Letter of Credit – CPO 4 Block

At March 31, 2010, the Company has an outstanding letter of credit in the amount of \$2,037,500 that was issued to the Agency De National Hydrocarbons in Colombia to guaranty the Company's compliance and proper execution of the work obligations relating of the phase one work program related to the Company's 25% interest in the CPO-4 Block. Per the Standby Letter of Credit issued between JP Morgan Chase and Banco de Bogota, Houston American Energy is required to keep on deposit with JP Morgan Chase \$2,037,500. The Standby Letter of credit expires on December 24, 2010.

## Possible Hupecol Transaction

In September 2009, management of the Company was advised that Hupecol LLC (“Hupecol”) had retained Scotia Waterous for purposes of evaluating a possible transaction (a “Transaction”) involving the monetization of five exploration and production contracts covering approximately 413,000 acres comprising the Leona Block, La Cuerva Block, Dorotea Block, Las Garzas Block and Cabiona Block in Colombia. The Transaction may involve the sale of some or all of the assets and operations of the subject properties, an exchange or trade of assets, or other similar transaction and may be effected in a single transaction or a series of transactions.

Scotia Waterous established a process whereby interested parties could evaluate a potential Transaction with the objective of completing one or more Transactions. A due date for proposals of April 6, 2010 was established. As of the date hereof, no Transaction had been announced, agreed to or completed and the Company is unable to predict whether or not a Transaction will in fact occur or the nature or timing of any such Transaction or, should a Transaction occur, the actual value that the Company might derive from any such Transaction and whether any such Transaction will ultimately be beneficial to the Company and its shareholders.

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The Company is an investor in Hupecol and the Company's interest in the assets and operations of Hupecol that would be included in any Transaction represent a substantial portion of the Company's assets and operations in Colombia and are currently the principal revenue producing assets and operations of the Company. The Company's management intends to closely monitor the nature and progress of the Transaction in order to protect the interests of the Company and its shareholders. However, the Company has no effective ability to alter or prevent a Transaction.

**NOTE 7 – INCOME TAXES**

Deferred income taxes are provided on a liability method whereby deferred tax assets and liabilities are established for the difference between the financial reporting and income tax basis of assets and liabilities as well as operating loss and tax credit carry forwards. Deferred tax assets are reduced by a valuation allowance when, in the opinion of management, it is more likely than not that some portion or all of the deferred tax assets will not be realized.

The Company has computed the tax provision for the three months ended March 31, 2010 in accordance with the provisions of ASC 740 – Income Taxes and ASC 270 – Interim Reporting.

The Company has estimated that its effective tax rate for US purposes will be zero for 2010, and consequently, recorded no U.S. income tax liability for the quarter ended March 31, 2010. Income tax expense for the 2010 and 2009 periods was entirely attributable to the Company's Colombian operations and represents the actual taxes paid or incurred in that jurisdiction.

**NOTE 8 - GEOGRAPHICAL INFORMATION**

The Company currently has operations in two geographical areas, the United States and Colombia. Revenues for the three months ended March 31, 2010 and Long Lived Assets as of March 31, 2010 attributable to each geographical area are presented below:

|               | Three Months Ended<br>March 31, 2010 |                           |
|---------------|--------------------------------------|---------------------------|
|               | Revenues                             | Long Lived<br>Assets, Net |
| United States | \$ 61,797                            | \$ 2,893,928              |
| Colombia      | 4,179,598                            | 11,766,926                |
| Total         | \$ 4,241,395                         | \$ 14,660,854             |

**NOTE 9 - SUBSEQUENT EVENTS**

On May 5, 2010, the Company's board of directors declared a dividend of \$0.005 per common share with a record date of May 26, 2010 and a payment date of June 16, 2010.

**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 three months ended March 31, 2010, 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.

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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 of our Form 10-K for the year ended December 31, 2009.

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 I 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 fiscal year ended December 31, 2009.

### Critical Accounting Policies

The discussion and analysis of our financial condition and results of operations is based upon our 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, 2009. As of, and for the quarter ended, March 31, 2010, there have been no material changes or updates to our 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, 2010:

|                   | March 31,<br>2010 |
|-------------------|-------------------|
| Acquisition costs | \$ 237,966        |
| Evaluation costs  | 8,398,387         |
| Retention costs   | 20,762            |
| Total             | \$ 8,657,115      |

Included in the carrying value of unevaluated oil and gas prospects above was \$5,984,632 for properties in the South American country of Colombia. We are maintaining our interest in these properties and development has or is anticipated to commence within the next twelve months.

### Current Year Developments

### Production Levels, Commodity Prices and Revenues

Our production levels and revenues during the quarter ended March 31, 2010, as compared to the same period in 2009, were affected by improved market conditions during the current period as compared to the 2009 period when sharply lower prices prevailed following the global economic crisis that began during the second half of 2008. As a result of depressed commodity prices during the 2009 period, our operator in Colombia temporarily shut-in production from a majority of our Colombian properties and we had no sales in Colombia from February 13, 2009 through the

end of the 2009 first quarter.

#### Drilling Activity

During the quarter ended March 31, 2010, we drilled 6 international wells in Colombia, as follows:

3 wells were drilled on concessions in which we hold a 12.5% working interest, of which 3 were completed and in production at March 31, 2010.

1 well was drilled on a concession in which we hold a 6.25% working interest, and it was a dry hole at March 31, 2010.

2 wells were drilled on concessions in which we hold a 1.6% working interest, of which 2 were completed and in production at March 31, 2010.

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During the quarter ended March 31, 2010, no domestic wells were drilled.

At March 31, 2010, drilling operations were ongoing in Colombia on one well.

### Leasehold Activity

During the quarter ended March 31, 2010, we elected to participate for our percentage interest (12.5%) in the Macaya Technical Evaluation Agreement (the "TEA"). The TEA was entered into in February 2010 by and between the Colombian National Hydrocarbons Agency and Hupecol Operating Co. LLC, and encompasses a 195,171 acre region located to the southeast of the Serrania block, which is located in the municipalities of Uribe and La Macarena in the Department of Meta in the Republic of Colombia. As a result of the election to participate, the Company agreed to pay its proportionate share, or 12.5%, of the acquisition costs and costs for the minimum work program contained in the TEA.

### Seismic Activity

During the quarter ended March 31, 2010, we paid seismic costs related to work performed in the fourth quarter of 2009. The costs paid during the quarter primarily relate to additional data acquired on prospects in which we hold a 12.5% working interest, and to a lesser extent on prospects in which we hold a 1.6% working interest. Our share of the costs of such data acquisition was \$878,151 and \$16,900 respectively.

### Possible Hupecol Transaction

In September 2009, management of the Company was advised that Hupecol LLC ("Hupecol") had retained Scotia Waterous for purposes of evaluating a possible transaction (a "Transaction") involving the monetization of five exploration and production contracts covering approximately 413,000 acres comprising the Leona Block, La Cuerva Block, Dorotea Block, Las Garzas Block and Cabiona Block in Colombia. The Transaction may involve the sale of some or all of the assets and operations of the subject properties, an exchange or trade of assets, or other similar transaction and may be effected in a single transaction or a series of transactions.

Scotia Waterous established a process whereby interested parties could evaluate a potential Transaction with the objective of completing one or more Transactions. A due date for proposals of April 6, 2010 was established. As of the date hereof, no Transaction had been announced, agreed to or completed and the Company is unable to predict whether or not a Transaction will in fact occur or the nature or timing of any such Transaction or, should a Transaction occur, the actual value that the Company might derive from any such Transaction and whether any such Transaction will ultimately be beneficial to the Company and its shareholders.

### Results of Operations

**Oil and Gas Revenues.** Total oil and gas revenues increased 853% to \$4,241,395 in the three months ended March 31, 2010 compared to \$445,142 in the three months ended March 31, 2009. The increase in revenue is principally due to (1) higher average sales prices for oil and gas during the 2010 quarter and (2) increased oil production due to new wells brought onto production and production from our Colombian properties for the full period in 2010 as compared to the 2009 period when production was temporarily shut-in for 46 days due to market conditions.

The following table sets forth the gross and net producing wells, net oil and gas production volumes and average hydrocarbon sales prices for the quarters ended March 31, 2010 and 2009:

|      |      |
|------|------|
| 2010 | 2009 |
|------|------|

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|                                             |          |          |
|---------------------------------------------|----------|----------|
| Gross producing wells                       | 30.00    | 17.00    |
| Net producing wells                         | 2.64     | 1.50     |
| Net oil and gas production (BOE)            | 57,060   | 13,401   |
| Average sales price – oil (per barrel)      | \$ 74.89 | \$ 33.32 |
| Average sales price – natural gas (per Mcf) | \$ 6.07  | \$ 4.70  |

The change in gross and net producing wells reflects the drilling and completion of 13 gross (1.14 net) wells. The change in net oil and gas production reflects the same factors plus the effects of the temporary cessation of production of a majority of our Colombian properties during the 2009 period.

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Oil and gas sales revenues by region were as follows:

|                    | Colombia     | U.S.      | Total        |
|--------------------|--------------|-----------|--------------|
| 2010 First Quarter |              |           |              |
| Oil sales          | \$ 4,179,598 | \$ 31,603 | \$ 4,211,201 |
| Gas sales          | —            | 30,194    | 30,194       |
| 2009 First Quarter |              |           |              |
| Oil sales          | \$ 423,446   | \$ 14,350 | \$ 437,796   |
| Gas sales          | —            | 7,346     | 7,346        |

**Lease Operating Expenses.** Lease operating expenses, excluding joint venture expenses relating to our Colombian operations discussed below, increased 84% to \$1,679,206 in the 2010 quarter from \$910,488 in the 2009 quarter. The increase in total lease operating expenses was attributable to an increase in the number of wells producing. The decrease in lease operating expenses as a percentage of revenues, from 205% of revenues for 2009 to 40% of revenues for 2010, was attributable to the temporary cessation of production from the majority of our Colombian properties during the 2009 quarter. Following is a summary comparison of lease operating expenses for the periods.

|                    | Colombia     | U.S.      | Total        |
|--------------------|--------------|-----------|--------------|
| 2010 First Quarter | \$ 1,655,788 | \$ 23,418 | \$ 1,679,206 |
| 2009 First Quarter | 898,234      | 12,254    | 910,488      |

Hupecol, our operator in Colombia, is continuing to implement cost cutting measures in order to improve field economics from our Colombian operations. We have also seen continuing declines in drilling and operating costs in the Llanos Basin which, together, are expected to result in improved margins during the balance of 2010.

**Joint Venture Expenses.** Our allocable share of joint venture expenses attributable to the Colombian Joint Venture totaled \$39,021 during the 2010 quarter and \$40,723 during the 2009 quarter. The change in joint venture expenses was attributable to reduced allocated administrative cost.

**Depreciation and Depletion Expense.** Depreciation and depletion expense was \$826,248 and \$254,415 for the quarter ended March 31, 2010 and 2009, respectively. The 225% increase is due to the increase in 2010 production volumes due to the factors discussed above.

**General and Administrative Expenses.** General and administrative expense decreased by 0.4% to \$717,917 during the 2010 quarter from \$720,867 during the 2009 quarter. The decrease in general and administrative expense was primarily attributable to a reduction of professional fees.

**Other Income.** Other income consists of interest earned on cash balances. Other income totaled \$20,802 during the 2010 quarter as compared to \$17,848 during the 2009 quarter. The increase in other income resulted from interest earned on larger average cash balances, partially offset by a reduction in interest rates on short-term cash investments.

**Income Tax Expense.** Income tax expense increased 1,190 % to \$191,089 during the 2010 first quarter from \$14,817 during the 2009 first quarter. Income tax expense during the 2010 quarter and the 2009 quarter was entirely attributable to operations in Colombia. The increase in income tax expense during the 2010 quarter was attributable to the increased sales and profitability of our Colombian operations during the 2010 period. The Company recorded no U.S. income tax liability in the 2010 or 2009 quarters.

## Financial Condition

Liquidity and Capital Resources. At March 31, 2010, we had a cash balance of \$12,184,976 and working capital of \$14,566,107, compared to a cash balance of \$14,010,637 and working capital of \$16,365,490 at December 31, 2009. The change in working capital during the period was primarily attributable to the acquisition of oil and gas properties, payment of dividends and the payment of our proportionate share of seismic and other costs relating to the planned drilling on the CPO 4 and Serrania prospects.

Operating activities provided \$1,822,644 of cash during the 2010 quarter as compared to \$1,541,881 used during the 2009 quarter. The change in operating cash flow was primarily attributable to a \$2,287,036 improvement in profitability during the 2010 quarter.

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Investing activities used \$4,062,890 during the 2010 quarter compared to \$1,352,983 used during the 2009 quarter. The funds used in investing activities principally reflect investments in oil and gas properties and assets of \$4,106,402 during the 2010 quarter and \$1,237,259 during the 2009 quarter, partially offset by proceeds from escrow receivable of \$43,512 during the 2010 quarter and \$0 during the 2009 quarter. The 2009 quarter also reflects advances of funds to a third party under a short-term financing arrangement totaling \$115,724.

Financing activities provided \$414,585 during the 2010 quarter and used \$560,015 during the 2009 quarter. Cash provided by financing activities during the 2010 quarter consisted of \$570,000 of proceeds from the exercise of warrants, partially offset by dividends paid of \$155,415. Cash used in financing activities during the 2009 quarter consisted of dividends paid of \$560,015.

Long-Term Liabilities. At March 31, 2010, we had long-term liabilities of \$361,762 as compared to \$332,912 at December 31, 2009. Long-term liabilities at March 31, 2010 and December 31, 2009 consisted of a reserve for plugging costs and a deferred rent obligation.

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.

During the first quarter of 2010, we invested approximately \$4,034,524 for the acquisition and development of oil and gas properties, consisting of (1) drilling of 6 wells in Colombia of \$918,486, (2) seismic cost in Colombia of \$895,356, (3) delay rentals on U.S. properties of \$7,231, (4) leasehold costs on U.S. properties of \$100,700, and (5) acquisition and evaluation costs in Colombia of \$2,112,750.

At March 31, 2010, our only material contractual obligation requiring determinable future payments was a lease relating to the Company's executive offices, the terms of which were unchanged when compared to the 2009 Form 10-K.

At March 31, 2010, our acquisition and drilling budget for the balance of 2010 totaled approximately \$10,540,000, which consisted of the drilling of 7 wells in Colombia, preparation for drilling 2 wells on CPO-4, 1 well in the United States, and seismic and infrastructure cost. Our acquisition and drilling budget has historically been subject to substantial fluctuation over the course of a year based upon successes and failures in drilling and completion of prospects and the identification of additional prospects during the course of a year.

Management anticipates that our current financial resources, combined with expected operating cash flows, will meet our anticipated objectives and business operations, including planned property acquisitions and drilling activities, for at least the next 12 months without the need for additional capital. Management continues to evaluate producing property acquisitions as well as a number of drilling prospects. It is possible, although not anticipated, that we may require and seek additional financing if additional drilling prospects are pursued beyond those presently under consideration.

## Off-Balance Sheet Arrangements

We had no off-balance sheet arrangements or guarantees of third party obligations at March 31, 2010.

## 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.

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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 March 31, 2010 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 effective as of March 31, 2010.

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 March 31, 2010 that has materially affected, or is reasonably likely to materially affect, our internal control over financial reporting.

PART II

ITEM 6

EXHIBITS

Exhibit

Number

Description

31.1 Certification of CEO pursuant to Section 302 of the Sarbanes-Oxley Act of 2002

31.2 Certification of CFO pursuant to Section 302 of the Sarbanes-Oxley Act of 2002

32.1 Certification of CEO Pursuant to 18 U.S.C. Section 1350, as Adopted Pursuant to Section 906 of the Sarbanes-Oxley Act of 2002

32.2 Certification of CFO Pursuant to 18 U.S.C. Section 1350, as Adopted Pursuant to Section 906 of the Sarbanes-Oxley Act of 2002

SIGNATURES

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

HOUSTON AMERICAN ENERGY CORP.

Date: May 7, 2010

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

By: /s/ James J. Jacobs  
James J. Jacobs  
Chief Financial Officer

