HOUSTON AMERICAN ENERGY CORP
Form 10QSB
August 12, 2004

UNITED STATES
SECURITIES AND EXCHANGE COMMISSION
Washington, DC 20549

FORM 10-QSB

(Mark One)

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

For the quarterly period ended June 30, 2004

OR

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

For the transition period from ___________ to ______________.

Commission File Number 0-33027.

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

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

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

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

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

Indicate by check mark whether the registrant (1) has filed all reports required to be filed by section 13 or 15(d) of the Securities Exchange Act of 1934 during the preceding 12 months (or for such shorter period that the registrant was required to file such reports), and (2) has been subject to such filing requirements for the past 90 days. Yes [X] No [ ]

As of August 10, 2004, we had 19,663,089 shares of $.0001 par value Common Stock outstanding.

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

HOUSTON AMERICAN ENERGY CORP.

FORM 10-QSB

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PART I - FINANCIAL INFORMATION

ITEM 1. Financial Statements

HOUSTON AMERICAN ENERGY CORP.
BALANCE SHEET
June 30, 2004
(Unaudited)

ASSETS

CURRENT ASSETS:	
Cash and cash equivalents	$ 258,011
Accounts receivable	133,046
Prepaid expenses	190,274
Total current assets	581,331
PROPERTY, PLANT AND EQUIPMENT:	
Oil and gas properties - full cost method	
Costs subject to amortization	1,967,800
Costs not being amortized	265,933
Furniture and equipment	10,878
Total property, plant and equipment	2,244,611
Accumulated depreciation and depletion	(858,088)

Total property, plant and equipment, net	1,386,523
OTHER ASSETS	3,166
Total Assets	$ 1,971,020

LIABILITIES AND STOCKHOLDERS' EQUITY

CURRENT LIABILITIES:	
Accounts payable and accrued liabilities	$ 98,552
Total current liabilities	98,552
LONG-TERM LIABILITIES:	
Notes payable to principal shareholder	1,000,000
Reserve for plugging costs	17,121
Total long-term liabilities	1,017,121
STOCKHOLDERS' EQUITY:	
Common stock, $.001 par value; 100,000,000 shares Authorized; 19,663,089 shares outstanding	19,663
Additional paid-in capital	2,541,082
Accumulated deficit	(1,705,398)
Total stockholders' equity	855,347
Total liabilities and stockholders' equity	$ 1,971,020

The accompanying notes are an integral part of these financial statements

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HOUSTON AMERICAN ENERGY CORP.
STATEMENT OF OPERATIONS
(Unaudited)

	Six Months Ended June 30,		Three Months Ended June 30,	
	2004	2003	2004	2003
Revenue:				
Oil and gas	$ 303,548	$ 104,396	$ 166,561	$ 60,321
Interest	4,302	-	1,537	-

Total revenue	307,850	104,396	168,098	60,321
Expenses of operations:				
Lease operating expense	119,497	65,472	51,676	49,826
Joint venture expenses	6,048	31,581	6,048	11,423
General and administrative Expense:				
Accounting and legal	56,178	38,140	35,860	9,404
Rent	19,761	19,544	9,389	9,908
Shareholder relations	21,980	11,636	19,537	6,318
Travel and meals	9,570	2,188	6,840	144
Registration fees	3,238	362	825	-
Telephone and fax	2,494	3,728	1,245	1,890
Dues and subscription	5,702	2,125	1,684	486
Miscellaneous	8,357	5,445	6,144	3,724
Depreciation and depletion	57,493	17,818	34,687	11,010
Interest expense	31,600	70,531	13,600	37,197
Total expenses	341,918	268,570	187,535	141,330
Net loss	$ 34,068	$ 164,174	$ 19,437	$ 81,009
Basic and diluted loss per share	$ 0.00	$ 0.01	$ 0.00	$ 0.01
Basic and diluted weighted average shares	19,536,060	14,233,942	19,565,279	14,616,133

The accompanying notes are an integral part of these financial statements

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

	For the Six Months Ended June 30,	
	2004	2003
CASH FLOWS FROM OPERATING ACTIVITIES		
Loss from operations	$ (34,068)	$ (164,175)
Adjustments to reconcile net loss to net cash from operations		
Depreciation and depletion	55,993	17,818
Non-cash expenses	18,666	4,541
Changes in operating assets and liabilities:		
(Increase) in accounts receivable	(67,043)	(45,990)
(Increase) decrease in prepaid expense	(98,502)	4,263
(Increase) decrease in other assets	36,863	1,578
Increase in accounts payable and accrued expenses	33,265	206,038

Net cash provided (used) by operations	(54,826)	24,073
CASH FLOWS FROM INVESTING ACTIVITIES		
Acquisition of properties and assets	(441,778)	(572,820)
Net cash used by investing activities	(441,778)	(572,820)
CASH FLOWS FROM FINANCING ACTIVITIES		
Sale of common stock	91,193	392,233
Loans from shareholders	-	194,200
Net cash provided by financing activities	91,193	586,433
Increase (decrease) in cash and equivalents	(405,411)	37,686
Cash, beginning of period	663,422	941
Cash, end of period	$ 258,011	$ 38,627
SUPPLEMENTAL CASH FLOW INFORMATION:		
Interest paid	$ 36,000	$ -
SUPPLEMENTAL NON-CASH INVESTING AND FINANCING ACTIVITIES:		
Stock issued for financial public relations	103,000	-
Stock issued for oil and gas activity	47,500	7,611

The accompanying notes are an integral part of these financial statements

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HOUSTON AMERICAN ENERGY CORP.
Notes to Financial Statements
June 30, 2004
(Unaudited)

NOTE 1. - BASIS OF PRESENTATION

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

These financial statements should be read in conjunction with the financial statements and footnotes, which are included as part of the Company's Form 10-KSB for the year ended December 31, 2003.

NOTE 2. - CHANGES IN PRESENTATION

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

NOTE 3. - COMMON STOCK

During the six months ended June 30, 2004, the Company (1) issued 227,983 shares of its common stock for cash consideration of $91,193, (2) in conjunction with an agreement with an individual to assist the Company in locating viable oil and gas prospects, issued 50,000 shares of its common stock, valued at $47,500, and granted an interest equal to 10% of the Company's interest in any prospects generated by the individual's contacts, and (3) issued 100,000 shares of its common stock, valued at $103,000, for financial public relations services over a six month period.

NOTE 4. - CONTINGENCY

During the six months ended June 30, 2004, the Company was named as defendant in a suit filed in the United States Bankruptcy Court for the Southern District of Texas. The plaintiff alleges that expenses relating to the formation and operation of the Company were paid by Moose Oil and Gas or Moose Operating Company, that interests in certain oil and gas properties were transferred to the Company from Moose Oil and Gas or Moose Operating Company and that the alleged payments and transfers constituted fraudulent transfers and voidable preferences. The plaintiff seeks to recover all properties alleged to have been wrongfully transferred as well as costs of suit and other relief. The Company believes that the action is without merit and intends to vigorously contest the same.

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ITEM 2. MANAGEMENT'S DISCUSSION AND ANALYSIS

FORWARD-LOOKING INFORMATION

This Form 10-QSB quarterly report of Houston American Energy Corp. (the "Company") for the six months ended June 30, 2004, contains certain forward-looking statements within the meaning of Section 27A of the Securities Act of 1933, as amended, and Section 21E of the Securities Exchange Act of 1934, as amended, which are intended to be covered by the safe harbors created thereby. To the extent that there are statements that are not recitations of historical fact, such statements constitute forward-looking statements that, by definition, involve risks and uncertainties. In any forward-looking statement, where the Company expresses an expectation or belief as to future results or events, such expectation or belief is expressed in good faith and believed to have a reasonable basis, but there can be no assurance that the statement of expectation or belief will be achieved or accomplished.

The following are factors that could cause actual results or events to differ materially from those anticipated, and include, but are not limited to: general economic, financial and business conditions; the Company's ability to minimize expenses and exposures related to its oil and gas properties in which other companies have control over the operations conducted on such properties; results of drilling activities; changes in and compliance with governmental laws and regulations, including various state and federal environmental regulations; the Company's current dependency on John F. Terwilliger, its sole director and executive officer, to continue funding the Company's operations and, to the extent he should ever become unwilling to do so, the Company's ability to obtain additional necessary financing from outside investors and/or bank and mezzanine lenders; and the ability of the Company to generate sufficient revenues to cover operating losses and position it to achieve positive cash flow.

Readers are cautioned not to place undue reliance on the forward-looking statements contained herein, which speak only as of the date hereof. The Company believes the information contained in this Form 10-QSB to be accurate as of the date hereof. Changes may occur after that date, and the Company will not update that information except as required by law in the normal course of its public disclosure practices. The oil and gas industry is subject to volatile price movements based on various factors including supply and demand and other factors beyond the control of the Company. While the industry has generally benefited from higher prices during the past two years, sudden and/or sustained decreases in energy prices can occur, which could limit our ability to fund planned levels of capital expenditures.

Additionally, the following discussion regarding the Company's financial condition and results of operations should be read in conjunction with the financial statements and related notes contained in Item 1 of Part 1 of this Form 10-QSB, as well as the financial statements in Item 7 of Part II of the Company's Form 10-KSB for the fiscal year ended December 31, 2003.

CRITICAL ACCOUNTING POLICIES

The Company's discussion and analysis of its financial condition and results of operations are based upon the Company's financial statements, which have been prepared in accordance with accounting principles generally accepted in the United States of America. The Company believes certain critical accounting policies affect its more significant judgments and estimates used in the preparation of its financial statements. A description of the Company's critical accounting policies is set forth in the Company's Form 10-KSB for the year ended December 31, 2003. As of, and for the six months ended, June 30, 2004, there have been no material changes or updates to the Company's critical accounting policies other than the following updated information relating to Unevaluated Oil and Gas Properties:

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UNEVALUATED OIL AND GAS PROPERTIES. Unevaluated oil and gas properties not subject to amortization include the following at June 30, 2004:

ACQUISTION COSTS	$ 230,696
EVALUTION COSTS	35,237
TOTAL	$ 265,933

CURRENT YEAR DEVELOPMENTS

Through August 9, 2004, the Company has drilled three on-shore domestic wells as follows:

- A test well in San Patricio County, Texas, the Saint Paul Prospect Garza #1, was drilled in January 2004 and completed as a natural gas well. Natural gas sales from the well began March 1, 2004. The Company holds a 5% working interest in the well.

- A test well in Vermillion Parish, Louisiana, the LaFurs #F-16, was drilled in May 2004 and completed as a natural gas well. Natural gas sales from the well are expected to begin in August 2004. The Company holds a 3% working interest in the well.

- Drilling of a test well, the Baronet #1, on the 620-acre Crowley Prospect in Acadia Parish, Louisiana, commenced in June 2004 to test a series of sands that have produced downdip and nearby. The well is expected to reach its target depth by September 2004. The Company holds a 3% working interest in the well.

Through August 9, 2004, the Company has drilled five international wells in Columbia as follows:

- Drilling of four offset wells on the Cara Cara concession in Colombia was completed with production commencing on the Jaguar #2 in March 2004, the Bengala #2 in April 2004 and the Jaguar #6 is expected to begin production in August 2004. The fourth well, the Cara Cara #1 is shut in pending evaluation. The Company holds a 1.59% working interest in each of the wells.

- An oil well, the Tambaqui #2, was drilled and successfully completed under the Company's Tambaqui Association Contract in Columbia and began production in June 2004. The Company holds a 12.6% working interest and an 11.59% net revenue interest in the well.

The Company and its partners plan to drill up to five additional wells on the Cara Cara concession through the end of 2004.

RESULTS OF OPERATIONS

Oil and Gas Revenues. Total oil and gas revenues increased $199,152 to $303,548 in the six months ended June 30, 2004 when compared to the six months ended June 30, 2003. The increase in revenue is due to (1) increased production resulting from the development of the Columbian fields and the new domestic wells that have come on line during 2003 and the first six months of 2004 and (2) increases in oil prices. The Company had interests in four producing wells in Columbia and five producing wells in the U.S. during the 2004 period as compared to two producing wells in Columbia and three producing wells in the U.S. during the 2003 period. Average prices from sales were $28.43 per barrel of oil and $5.10 per mcf of gas during the six months ended June 30, 2004 as compared to $21.11 per barrel of oil and $5.24 per mcf of gas during the same period in 2003. Following is a summary comparison, by region, of oil and gas sales for the periods.

	Columbia	U.S.	Total
2004 Period			
Oil sales	$ 149,358	$ 8,067	$157,425
Gas sales	-	146,123	146,123
2003 Period			
Oil sales	79,592	-	79,592
Gas sales	-	24,803	24,803

Lease Operating Expenses. Lease operating expenses, excluding joint venture expenses relating to our Columbian operations discussed below, increased 83% to $119,497 in the 2004 six month period from $65,472 in the 2003 period. The increase in lease operating expenses was attributable to the increase in the number of wells operated during the 2004 period. Following is a summary comparison of lease operating expenses for the periods.

	Columbia	U.S.	Total
2004 Period	$ 98,084	$21,413	$119,497
2003 Period	57,198	8,274	65,472

Joint Venture Expenses. Joint venture expenses, representing our allocable share of administrative expenses from our Colombian joint venture, totaled $6,048 for the six months ended June 30, 2004. During the same period in 2003 joint venture expense was $31,581.

Depreciation and Depletion Expense. Depreciation and depletion expense was $57,493 and $17,818 for the six months ended June 30, 2004 and 2003 respectively. The increase is due to the increase in domestic and Columbian production and increased investment in oil and gas properties.

Interest Expense. Interest expense totaled $31,600 for the six months ended June 30, 2004 as compared to $70,531 for the 2003 period. The reduction in interest expense was attributable to reduced debt relating to the conversion of certain debt to equity in 2003 and a reduction in the interest rate.

General and Administrative Expenses. General and administrative expense increased by 53% to $127,280 during the first six months of 2004 from $83,168 in the 2003 period. The increase in general and administrative expense was primarily attributable to (1) increased professional fees ($18,038) arising principally from litigation commenced during the 2004 period and (2) increased shareholder relations costs ($10,344) relating to a six month financial public relations contract entered into during the period and running through the fourth quarter of 2004.

FINANCIAL CONDITION

Liquidity and Capital Resources. At June 30, 2004, we had a cash balance of $258,011 and working capital of $482,779 compared to a cash balance of $663,422 and working capital of $654,451 at December 31, 2003. Part of that working capital for June 30, 2004 consisted of prepaid drilling cost, prepaid legal fees and prepaid financial public relations fees. Prepaid drilling cost, totaling $81,577 at June 30, 2004, consisted of $53,457 relating to the Baronet #1 well and $28,120 relating to the LaFur #16 well, both of which were completed subsequent to June 30, 2004. Prepaid legal expenses, totaling $20,000 at June 30, 2004, relate to litigation against the Company under the Moose Oil Company bankruptcy. The Company believes there is no merit to the claims made against the Company. Prepaid financial public relations expense, totaling $85,835 at June 30, 2004, relates to the issuance of 100,000 shares of common stock, valued at $103,000, for public relations services over a six month period beginning in the second quarter and ending in the fourth quarter of 2004.

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As discussed in our prior financial statements, our revenue was insufficient to cover our costs and expenses. In addition to the income received from our wells, certain significant shareholders, including John F. Terwilliger, our sole director and executive officer, have previously provided us the funds needed to continue our development and operations. At current production levels and prices, our operations are self-supporting from a cash flow standpoint. Management anticipates raising any necessary funds for major capital expenditures from outside investors or commercial bank or mezzanine lenders.

During the six months ended June 30, 2004, the Company (1) issued 227,983 shares of its common stock for cash consideration of $91,193, (2) in conjunction with an agreement with an individual to assist the Company in locating viable oil and gas prospects, issued 50,000 shares of its common stock, valued at $47,500, and granted an interest equal to 10% of the Company's interest in any prospects generated by the individual's contacts, and (3) issued 100,000 shares of its common stock, valued at $103,000, for financial public relations services over a six month period.

Loans from shareholders totaled $1,000,000 at June 30, 2004.

Capital and Exploration Expenditures and Commitments. Our principal capital and exploration expenditures relate to our ongoing efforts to acquire, drill and complete prospects. Historically, we have funded our capital and exploration expenditures from funds borrowed from John F. Terwilliger, our principal shareholder and officer, and from sales of common stock. We expect that future capital and exploration expenditures will be funded principally through additional stock offerings, mezzanine loans, funds on hand and funds generated from operations.

During the first half of 2004, we invested approximately $489,278 for the acquisition and development of oil and gas properties, consisting of (1) acquisition of a 3% interest in the North Freshwater Bayou Field in Louisiana, (2) acquisition of a 100% interest in the South Sibley Prospect, (3) acquisition of a 50% interest in the Southern Star Wharton Prospect, (4) consulting fee in forming the joint venture with a private company and (5) drilling and/or completing expenses for the Jaguar #2, Bengala #1, Cara Cara #1, Tambaqui #2 and Jaguar #6 wells in Colombia and the Garza #1, LaFurs #F-16 and Baronet #1 in the U.S.

Our only material contractual obligations requiring determinable future payments on our part are a note payable to our principal shareholder and our lease relating to our executive offices which were unchanged when compared to the 2003 Form 10-K.

In addition to the contractual obligations requiring that we make fixed payments, in conjunction with our efforts to secure oil and gas prospects, financing and services, we have, from time to time, granted overriding royalty interests (ORRI) in various properties, and may grant ORRIs in the future, pursuant to which we will be obligated to pay a portion of our interest in revenues from various prospects to third parties. As of June 30, 2004, we had granted ORRIs to affiliates, including our President, ranging from 1.0% to 4.02166% of our interest in selected properties.

At June 30, 2004, we had four revenue producing wells in Columbia, three revenue producing wells in south Texas, one revenue producing well in south Louisiana and one producing well in Oklahoma.

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

OFF-BALANCE SHEET ARRANGEMENTS

We had no off-balance sheet arrangements or guarantees of third party obligations at June 30, 2004.

INFLATION

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

ITEM 3. CONTROLS AND PROCEDURES

As of the end of the period covered by this report, we have evaluated the effectiveness of the design and operation of our disclosure controls and procedures under the supervision and with the participation of our chief executive officer ("CEO") who also serves as chief financial officer. Based on this evaluation, our management, including the CEO, concluded that our disclosure controls and procedures were effective. There have been no significant changes in our internal controls or in other factors that could significantly affect internal control subsequent to the evaluation.

PART II

ITEM 2. CHANGES IN SECURITIES

During the quarter ended June 30, 2004, the Company issued 100,000 shares of its common stock, valued at $103,000, to a company as payment for services under a six-month financial public relations contract.

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

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

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

ITEM 6. EXHIBITS AND REPORTS ON FORM 8-K

(a) Exhibits

Exhibit Number	Description
31.1	Certification of CEO and CFO pursuant to Section 302 of the Sarbanes-Oxley Act of 2002

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

(b) Reports on Form 8-K

None

SIGNATURES

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

HOUSTON AMERICAN ENERGY CORP.

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

Date: August 11, 2004