

Edgar Filing: HOUSTON AMERICAN ENERGY CORP - Form 10QSB

HOUSTON AMERICAN ENERGY CORP  
Form 10QSB  
May 15, 2006

UNITED STATES  
SECURITIES AND EXCHANGE COMMISSION  
Washington, DC 20549

FORM 10-QSB

(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, 2006

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 (IRS Employer  
incorporation or organization) 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  No

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 8, 2006, we had 27,628,922 shares of \$.0001 par value Common  
Stock outstanding.

Transitional Small Business Disclosure Format (check one) Yes  No

HOUSTON AMERICAN ENERGY CORP.  
-----

Edgar Filing: HOUSTON AMERICAN ENERGY CORP - Form 10QSB

FORM 10-QSB

INDEX

Page No.

PART I.	FINANCIAL INFORMATION	
Item 1.	Financial Statements (Unaudited)	
	Balance Sheet as of March 31, 2006 . . . . .	3
	Statements of Operations for the three months ended March 31, 2006 and March 31, 2005. . . . .	4
	Statements of Cash Flows for the three months ended March 31, 2006 and March 31, 2005. . . . .	5
	Notes to Financial Statements. . . . .	6
Item 2.	Management's Discussion and Analysis of Financial Condition and Results of Operations. . . . .	8
Item 3.	Controls and Procedures. . . . .	13
PART II	OTHER INFORMATION	
Item 6.	Exhibits. . . . .	14

PART I - FINANCIAL INFORMATION

ITEM 1. Financial Statements

HOUSTON AMERICAN ENERGY CORP.  
BALANCE SHEET  
March 31, 2006  
(Unaudited)

ASSETS

-----

CURRENT ASSETS:

Cash	\$ 1,262,811
Accounts receivable	265,439
	-----
Total current assets	1,528,250
	-----

PROPERTY, PLANT AND EQUIPMENT

Oil and gas properties - full cost method	
Costs subject to amortization	4,236,446
Costs not being amortized	822,708
Furniture and equipment	10,878
	-----
Total property, plant and equipment	5,070,032
Accumulated depreciation and depletion	(1,462,030)

Edgar Filing: HOUSTON AMERICAN ENERGY CORP - Form 10QSB

Total property, plant and equipment, net	3,608,002
OTHER ASSETS	107,465
Total Assets	\$ 5,243,717
LIABILITIES AND SHAREHOLDERS' EQUITY	
-----	
CURRENT LIABILITIES:	
Accounts payable and accrued liabilities	\$ 716,934
Derivative liability	2,916,252
Notes payable to principal shareholder	900,000
Total current liabilities	4,533,186
LONG-TERM DEBT:	
Subordinated convertible notes - net of discount	51,057
Reserve for plugging costs	41,249
Total long-term liabilities	92,306
SHAREHOLDERS' EQUITY:	
Common stock, \$0.001 par value; 100,000,000 shares authorized; 19,970,589 shares outstanding	19,971
Additional paid-in capital	2,851,920
Treasury stock, at cost; 100,000 shares	(85,834)
Accumulated deficit	(2,167,832)
Total shareholders' equity	618,225
Total liabilities and shareholders' equity	\$ 5,243,717

The accompanying notes are an integral part of these financial statements

3

HOUSTON AMERICAN ENERGY CORP.  
STATEMENT OF OPERATIONS  
(Unaudited)

	For the Three Months Ended March 31,	
	2005	2006
	-----	-----
Revenue		
Oil and gas	\$ 445,510	\$ 666,172
Interest	2,204	16,219
Total revenue	447,714	682,391

Edgar Filing: HOUSTON AMERICAN ENERGY CORP - Form 10QSB

Expenses of operations		
Lease operating expense and severance taxes	170,773	194,651
Joint venture expenses	13,823	49,478
General and administrative expense	168,096	211,579
Depreciation and depletion	62,627	89,479
Total operating expenses	415,319	545,187
Income from operations	32,395	137,204
Other expenses		
Interest expense - derivative	-	16,890
Net change in fair value of derivative liabilities	-	103,077
Foreign taxes	11,326	62,153
Interest expense	-	42,500
Interest expense on shareholder debt	18,000	16,200
Financing fees	-	6,386
Total other expenses	29,326	247,206
Net income (loss)	\$ 3,069	\$ (110,002)
Basic and diluted income (loss) per share	\$ 0.00	\$ (0.01)
Basic and diluted weighted average shares	19,968,089	19,970,589

The accompanying notes are an integral part of these financial statements

4

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

	For the Three Months Ended Ma	
	2005	200
CASH FLOWS FROM OPERATING ACTIVITIES		
Income (loss) from operations	\$ 3,069	\$ (
Adjustments to reconcile net loss to net cash from operations		
Depreciation and depletion	62,627	
Derivative activity	-	
Changes in operating assets and liabilities:		
(Increase) decrease in accounts receivable	(94,433)	
(Increase) decrease in prepaid expense	65,546	
Decrease in other assets	-	

## Edgar Filing: HOUSTON AMERICAN ENERGY CORP - Form 10QSB

Increase in accounts payable and accrued expenses	36,129	
Net cash provided by operations	72,938	
CASH FLOWS FROM INVESTING ACTIVITIES		
Acquisition of oil and gas properties	(511,621)	(1,)
Net cash used by investing activities	(511,621)	(1,)
CASH FLOWS FROM FINANCING ACTIVITIES		
	-	
(Decrease) in cash and equivalents	(438,683)	(
Cash, beginning of period	721,613	1,
Cash, end of period	\$ 282,930	\$ 1,
SUPPLEMENT CASH FLOW INFORMATION:		
Interest paid	\$ 18,000	\$

The accompanying notes are an integral part of these financial statements

5

HOUSTON AMERICAN ENERGY CORP.  
Notes to Financial Statements  
March 31, 2006  
(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, 2005.

### NOTE 2. - CHANGES IN PRESENTATION

Certain financial presentations for the periods presented for 2005 have been reclassified to conform to the 2006 presentation.

## Edgar Filing: HOUSTON AMERICAN ENERGY CORP - Form 10QSB

### NOTE 3. - SUBORDINATED CONVERTIBLE NOTES AND WARRANTS - DERIVATIVE LIABILITIES

In conjunction with the issuance in May 2005 of Convertible Notes, the conversion feature, the conversion price, reset provision and the Company's optional early redemption right in the Convertible Notes have been bundled together as a single compound embedded derivative liability and, using a layered discounted probability-weighted cash flow approach, was initially fair valued at \$2,368,485 at May 4, 2005. The fair value model comprises multiple probability-weighted scenarios under various assumptions reflecting the economics of the Convertible Notes, such as the risk-free interest rate, expected Company stock price and volatility, likelihood of conversion and or redemption, and likelihood default status and timely registration. At inception, the fair value of this single compound embedded derivative was bifurcated from the host debt contract and recorded as a derivative liability which resulted in a reduction of the initial notional carrying amount of the Convertible Notes (as unamortized discount which will be amortized over a five-year period under the effective interest method). At inception the excess of the unamortized discount over the notional amount of the Convertible Note in the amount of \$285,547 was charged to expense in the Company's statement of operations.

At March 31, 2006, the Convertible Notes comprised the following:

Notional balance of Convertible Notes at March 31, 2006	\$ 2,125,000
Adjustment - Discount for single compound derivative liability	(2,073,943)
	-----
Convertible Notes balance at March 31, 2006, as adjusted	\$ 51,057
	=====

For the period from December 31, 2005 through March 31, 2006, the amortization of unamortized discount on the Convertible Notes was \$16,890, which has been classified as interest expense in the accompanying statement of operation.

6

The Derivative Liability reflected on the balance sheet at March 31, 2006 consists of the Derivative Liability-Compound Embedded Derivatives within the Convertible Notes plus the Derivative Liability-Compound Embedded Derivatives within the Warrants issued in conjunction with the Convertible Notes.

The Derivative Liability-Compound Embedded Derivatives within Convertible Notes reflect the following activity for the period from December 31, 2005 through March 31, 2006:

Balance at December 31, 2005	\$2,384,046
Mark-to-market adjustment for the period from December 31, 2005 to March 31, 2006	119,435
	-----
Balance at March 31, 2006	\$2,503,481
	=====

The Derivative Liability-Compound Embedded Derivatives within Warrants reflect the following activity for the period from December 31, 2005 to March 31, 2006.

## Edgar Filing: HOUSTON AMERICAN ENERGY CORP - Form 10QSB

Balance at December 31, 2005	\$ 429,129
Mark-to-market adjustment for the period from December 31, 2005 to March 31, 2006	(16,358)
	-----
Balance at March 31, 2006	\$412,771
	=====

### NOTE 4. - SUBSEQUENT EVENTS

#### Issuance of Common Stock and Warrants

On April 28, 2006, the Company entered into Subscription Agreements (the "Purchase Agreements") with multiple investors pursuant to which the Company sold 5,533,333 shares of common stock (the "Shares") for \$16,599,999.

The Shares were offered and sold in a private placement transaction pursuant to the exemption from registration provided by Section 4(2) of the Securities Act of 1933 and Rule 506 promulgated thereunder. Each of the investors is an "accredited investor", as defined in Rule 501 promulgated under the Securities Act.

Pursuant to the terms of the Subscription Agreements, the Company and the investors entered into Registration Rights Agreements under which the Company agreed to file with the Securities and Exchange Commission, within 60 days, a registration statement covering the Shares. In conjunction with the placement of the Shares, John Terwilliger, O. Lee Tawes III and Edwin Broun III each entered into lock-up agreements pursuant to which each agreed not to offer or sell any shares of the Company's common stock until the earlier of the effective date of the registration statement relating to the Shares or one year from the sale of the Shares.

Sanders Morris Harris Inc. acted as placement agent in connection with the offer and sale of the Shares. For its services as placement agent, Sanders Morris Harris Inc. received commissions totaling \$1,162,000 and a warrant (the "Placement Agent Warrant") to purchase 415,000 shares of common stock at \$3.00 per share. The Registration Rights Agreements provide that the shares of common stock underlying the Placement Agent Warrant are to be included in the registration statement to be filed.

#### Repayment of Shareholder Loan

Shareholder loans, in the principal amount of \$900,000, were repaid in full from the proceeds of the April 2006 private placement.

7

#### Conversion of 8% Subordinated Convertible Notes

On May 2, 2006, the Company notified the holders of its 8% Subordinated Convertible Notes (the "Notes") of its election to convert the Notes into shares of the Company's common stock. As a result of such election, the full principal amount of the Notes of \$2,125,000 has been satisfied by conversion of the same into 2,125,000 shares of common stock.

The shares of common stock issued on conversion of the Notes were offered and issued pursuant to the exemption from registration provided by Section 4(2) of the Securities Act of 1933. Each of the investors is an "accredited investor",

## Edgar Filing: HOUSTON AMERICAN ENERGY CORP - Form 10QSB

as defined in Rule 501 promulgated under the Securities Act.

### ITEM 2. MANAGEMENT'S DISCUSSION AND ANALYSIS OR PLAN OF OPERATIONS

#### FORWARD-LOOKING INFORMATION

This Form 10-QSB quarterly report of Houston American Energy Corp. (the "Company") for the three months ended March 31, 2006, 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 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 1 of the Company's Form 10-KSB for the year ended December 31, 2005.

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.

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 Risk Factors in Item 1 and the financial statements in Item 7 of Part II of the Company's Form 10-KSB for the fiscal year ended December 31, 2005.

#### 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, 2005. As of, and for the quarter ended, March 31, 2006, 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:

8

-- UNEVALUATED OIL AND GAS PROPERTIES. Unevaluated oil and gas properties not subject to amortization include the following at March 31, 2006:

March 31, 2006



## Edgar Filing: HOUSTON AMERICAN ENERGY CORP - Form 10QSB

Acquistion costs	\$	98,807
Evaluation costs		723,900
Total	\$	822,707

The carrying value of unevaluated oil and gas prospects include \$706,353 expended for properties in the South American country of Colombia at March 31, 2006. We are maintaining our interest in these properties and development has or is anticipated to commence within the next twelve months.

### CURRENT YEAR DEVELOPMENTS

#### Drilling Activity

During the quarter ended March 31, 2006, the Company drilled 2 on-shore domestic wells as follows:

- The Obenhaus #1, a 7,100 -foot well on the Obenhaus Prospect in Wilbarger County, Texas was drilled and was a dry hole.
- The Riggins #1, a 6,400-foot test well on the West Fargo Prospect in Wilbarger County, Texas was drilled and was deemed non-commercial.

At March 31, 2006, the Company had one domestic well being drilled, the DDD-Evans #1, a 8,500-foot test well on the West Turkey Prospect in Hardeman County, Texas that was completed in April 2006. The well went on production on May 2, 2006 and as of May 9th was producing 95 BOPD.

At March 31, 2006, the Company had plans to drill 5 wells during the balance of 2006.

During the quarter ended March 31, 2006, the Company drilled 2 international wells in Colombia, both of which were dry holes.

At March 31, 2006, the Company had 1 well being drilled in Colombia with plans to drill 19 wells during the balance of 2006.

#### Leasehold Activity

During the quarter ended March 31, 2006, the Company acquired interests in one additional domestic prospect, a 10% working interest with a 7.5% net revenue interest in the 91.375 acre West Turkey Prospect in Hardeman County, Texas.

#### Seismic Activity

During the quarter ended March 31, 2006, the Company continued its ongoing investment in acquiring and developing seismic data with respect to its Colombian properties with shooting being completed on approximately 133 square miles of prospect acreage during the quarter.

#### Capital Raising Activity

In April 2006, the Company sold, in a private placement, 5,533,333 shares of common stock for gross proceeds of \$16,599,999. In connection with the private placement of shares, the Company paid to the placement agent commissions of

## Edgar Filing: HOUSTON AMERICAN ENERGY CORP - Form 10QSB

\$1,162,000 and issued to the placement agent five year warrants to purchase 415,000 shares of common stock at \$3.00 per share.

In May 2006, the Company repaid loans from its principal shareholder, in the principal amount of \$900,000, from the proceeds of the April 2006 private placement.

In May 2006, the Company exercised its right to cause its outstanding 8% Subordinated Convertible Notes, in the aggregate principal amount of \$2,125,000, to be converted into 2,125,000 shares of common stock.

### RESULTS OF OPERATIONS

Oil and Gas Revenues. Total oil and gas revenues increased 49.5% to \$666,172 in the three months ended March 31, 2006 when compared to the three months ended March 31, 2005. 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 2005, and (2) increases in oil and gas prices. The Company had interests in 17 producing wells in Colombia and 14 producing wells in the U.S. during the 2006 quarter as compared to 11 producing wells in Colombia and 7 producing wells in the U.S. during the 2005 quarter. Average prices from sales were \$50.85 per barrel of oil and \$8.38 per mcf of gas during the 2006 quarter as compared to \$42.12 per barrel of oil and \$5.33 per mcf of gas during the 2005 quarter.

	Columbia -----	U.S. -----	Total -----
2006 Quarter			
Oil sales	\$ 446,476	\$ 18,038	\$464,514
Gas sales	-	201,658	201,658
2005 Quarter			
Oil sales	323,892	21,855	345,747
Gas sales	-	99,763	99,763

Lease Operating Expenses. Lease operating expenses, excluding joint venture expenses relating to our Columbian operations discussed below, increased 14.0% to \$194,651 in the 2006 quarter from \$170,773 in the 2005 quarter. The increase in lease operating expenses was attributable to the increase in the number of wells operated during the 2006 period (31 wells as compared to 18 wells). Following is a summary comparison of lease operating expenses for the periods.

	Columbia -----	U.S. -----	Total -----
2006 Quarter	\$ 146,904	\$47,747	\$194,651
2005 Quarter	163,604	7,169	170,773

Joint Venture Expenses. The Company's allocable share of joint venture expenses attributable to the Colombian Joint Venture totaled \$49,478 during the 2006 quarter and \$13,823 for the first quarter of 2005. The increase in joint venture expenses was attributable to an increase in operational activities of the joint venture in acquiring new concessions.

Depreciation and Depletion Expense. Depreciation and depletion expense was \$89,479 and \$62,627 for the quarter ended March 31, 2006 and 2005, respectively.

## Edgar Filing: HOUSTON AMERICAN ENERGY CORP - Form 10QSB

The increase is due to increases in domestic and Colombian production.

10

General and Administrative Expenses. General and administrative expense increased by 25.9% to \$211,579 during the first quarter 2006 from \$168,096 in the first quarter 2005. The increase in general and administrative expense was primarily attributable to professional fees to the auditors and fees incurred in calculating the effects of FASB 133.

Other Expense. Other expense consists of financing costs in the nature of interest and deemed interest associated with outstanding shareholder loans and convertible notes and warrants issued in May 2005 and foreign income taxes. Certain features of the convertible notes and warrants resulted in the recording of a deemed derivative liability on the balance sheet and periodic interest associated with the deemed derivative liabilities and changes in the fair market value of those deemed liabilities.

Other expenses, in total, increased from \$29,326 in the first quarter of 2005 to \$247,206 in the first quarter of 2006. The increase in other expenses was attributable to interest incurred on the convertible notes issued in May 2005 and deemed interest and related charges associated with the derivative liability as well as an increase in foreign income taxes. During the 2005 period, other expense was entirely attributable to interest accruing on a shareholder loan (\$18,000) and income taxes attributable to operations in Colombia (\$11,326). During the 2006 period, other expense related primarily to deemed interest on the derivative liability (\$16,890), the net change in fair value of the derivative liability (\$103,077), interest accrued on the convertible notes (\$42,500), interest accrued on the shareholder loan (\$16,200) and Colombian income taxes (\$62,153). The decrease in interest on the shareholder loan was attributable to a partial prepayment of the shareholder loan during 2005.

Subsequent to March 31, 2006, the shareholder loan, in the principal amount of \$900,000, was repaid in full from the proceeds of the Company's April 2006 private placement and, in May 2006, the subordinated convertible notes were converted into common stock. Accordingly, interest expense is expected to decrease substantially in, and following, the quarter ended June 30, 2006.

### FINANCIAL CONDITION

Liquidity and Capital Resources. At March 31, 2006 the Company had a cash balance of \$1,262,811 and working capital deficit of \$88,684 compared to a cash balance of \$1,724,100 and working capital of \$1,771,722 at December 31, 2005. The decrease in cash and working capital during the period was primarily attributable to acquisitions of and investments in oil and gas properties and the classification of \$900,000 of shareholder loans as current liabilities at March 31, 2006.

Derivative liabilities of \$2,916,252 are recorded as current liabilities at March 31, 2006 as compared to \$2,813,175 at December 31, 2005 but are not considered in computing working capital. The derivative liabilities represent the deemed fair value of the embedded derivatives included in the subordinated convertible notes and accompanying warrants that were issued during 2005 as measured at March 31, 2006 and December 31, 2005. Included within the derivative liabilities at March 31, 2006 was \$2,073,943 attributable to the derivative features in the subordinated convertible notes which amount is reflected as a discount in the amount of the subordinated convertible note on the balance sheet as compared to \$2,090,833 at December 31, 2005.

Following the Company's April 2006 private placement, the Company repaid the shareholder loan in full.

## Edgar Filing: HOUSTON AMERICAN ENERGY CORP - Form 10QSB

Operating cash flows for the 2006 quarter totaled \$604,946 as compared to cash provided by operations during the 2005 quarter of \$72,938. The increase in operating cash flow was primarily attributable to increased operating income (\$104,809) and depreciation and depletion (\$89,479), decreases in accounts receivable, prepaid and other assets (\$324,624) and increases in accounts payable and accrued expenses (\$181,269).

11

Investing activities used \$1,066,235 during the 2006 quarter as compared to \$511,621 used during the 2005 quarter. The increase in funds used in investing activities during the current quarter was primarily attributable to seismic costs incurred in South America and drilling activity.

The Company had no financing activities during either the 2006 quarter or the 2005 quarter.

Subsequent to March 31, 2006, the Company completed a sale of 5,533,333 shares of common stock for gross offering proceeds of \$16,599,000. The Company paid commissions totaling \$1,162,000 in connection with the sale of common stock.

Long-Term Debt. At March 31, 2006, the Company had long-term debt of \$92,306 as compared to \$975,416 at December 31, 2005. Long-term debt at March 31, 2006 consisted of a reserve for plugging costs of \$41,249 and 8% subordinated convertible notes in the principal amount of \$2,125,000, recorded net of discounts in the amount of \$2,073,943 relating to the fair value of the embedded derivatives included in the subordinated convertible notes. The change in long-term debt was attributable to amortization of the discount on the convertible notes and the reclassification of shareholder loans of \$900,000 as current liabilities.

In May 2006, the Company exercised its right to cause the 8% subordinated convertible notes to be converted into common stock resulting in satisfaction in the full of the notes, in the principal amount of \$2,125,000, and the issuance of 2,125,000 shares of common stock.

Capital and Exploration Expenditures and Commitments. The Company's principal capital and exploration expenditures relate to our ongoing efforts to acquire, drill and complete prospects. With the receipt of additional equity financing in 2003, 2004 and 2006 and the May 2005 sale of convertible notes, and the increase in our revenues, profitability and operating cash flows, the Company expects that future capital and exploration expenditures will be funded principally through funds on hand and funds generated from operations.

During the first quarter of 2006, the Company invested approximately \$1,066,000 for the acquisition and development of oil and gas properties, consisting of (1) drilling of 3 domestic wells (\$254,122), (2) drilling 2 wells in Colombia (\$304,947), (3) acquisition of leases domestically (\$99,923) and (4) seismic activity in Colombia (\$365,242).

At March 31, 2006, the Company's only material contractual obligations requiring determinable future payments were a note payable to the Company's principal shareholder, the 8% subordinated convertible notes and a lease relating to the Company's executive offices which were unchanged when compared to the 2005 Form 10-KSB. As noted above, the shareholder loan was repaid in full and the convertible notes were converted into common stock subsequent to March 31, 2006.

At March 31, 2006, the Company's acquisition and drilling budget for the balance of 2006 totaled approximately \$3,093,000, consisting of (1) \$1,638,000 for drilling of 20 wells in South America on the Cara Cara, Cabiona and Simon

## Edgar Filing: HOUSTON AMERICAN ENERGY CORP - Form 10QSB

concessions, (2) \$1,015,000 to drill 5 domestic wells, and (3) \$440,000 for seismic in Colombia. The Company's 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.

12

Management anticipates that the Company's current financial resources, including funding received from the April 2006 common stock offering, combined with our increases in revenues over the past year will meet our anticipated objectives and business operations, including our 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 the Company may require and seek additional financing if additional drilling prospects are pursued beyond those presently under consideration.

### OFF-BALANCE SHEET ARRANGEMENTS

The Company had no off-balance sheet arrangements or guarantees of third party obligations at March 31, 2006.

### INFLATION

The Company believes that inflation has not had a significant impact on 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.

During the quarter ended March 31, 2006, there were no significant changes in our internal controls over financial reporting that materially affected, or are reasonably likely to materially affect, internal controls over financial reporting.

In connection with the audit of our financial statements for the fiscal year ended December 31, 2005, our independent registered public accounting firm informed us that we have significant deficiencies constituting material weaknesses as defined by the standards of the Public Company Accounting Oversight Board. The material weaknesses were in our internal controls over accounting for non-routine transactions as well as is in overall financial reporting functions. The accounting firm noted that adequate segregation of duties do not exist in our financial reporting process, as our President and CEO also functions as our CFO. The President is performing these duties with assistance from a part time consultant. Accordingly, the preparation of financial statements and the related monitoring controls surrounding this process have not been segregated.

The nature and size of our business have prevented us from being able to employ sufficient resources to enable us to have an adequate segregation of duties within our internal control system. We will continue to monitor and assess the costs and benefits of additional staffing in the accounting and financial reporting area.

PART II

ITEM 6. 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

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: May 12, 2006