

HOUSTON AMERICAN ENERGY CORP  
Form 10-Q  
May 10, 2011

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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, 2011

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 to submit and post such files). Yes  No

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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 10, 2011, we had 31,120,230 shares of \$0.001 par value Common Stock outstanding.

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HOUSTON AMERICAN ENERGY CORP.

FORM 10-Q

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## PART I - FINANCIAL INFORMATION

## ITEM 1 Financial Statements

## HOUSTON AMERICAN ENERGY CORP.

## CONSOLIDATED BALANCE SHEETS

(Unaudited)

|   | March 31,<br>2011 | December 31,<br>2010 |
|---|-------------------|----------------------|
| <b>ASSETS</b>                                       |                   |                      |
| <b>CURRENT ASSETS</b>                               |                   |                      |
| Cash  | \$ 22,583,193     | \$ 26,656,450        |
| Restricted cash – letter of credit                  | 3,056,250         | 3,056,250            |
| Accounts receivable – oil and gas sales             | 42,843            | 1,226,341            |
| Accounts receivable – other                         | 3,951,370         | 3,951,370            |
| Escrow receivable – current                         | 3,924,562         | 4,440,953            |
| Prepaid expenses and other current assets           | 140,528           | 8,872                |
| Total current assets                                | 33,698,746        | 39,340,236           |
| <b>PROPERTY, PLANT AND EQUIPMENT</b>                |                   |                      |
| Oil and gas properties – full cost method           |                   |                      |
| Costs subject to amortization                       | 2,101,369         | 1,831,738            |
| Costs not being amortized                           | 11,272,960        | 10,258,980           |
| Office equipment                                    | 90,004            | 90,004               |
| Total property, plant and equipment                 | 13,464,333        | 12,180,722           |
| Accumulated depreciation, depletion, and impairment | (1,517,298 )      | (1,489,301 )         |
| Total property, plant and equipment, net            | 11,947,035        | 10,691,421           |
| <b>OTHER ASSETS</b>                                 |                   |                      |
| Deferred tax asset                                  | 1,997,079         | 1,997,079            |
| Escrow receivable                                   | 3,434,167         | 3,434,167            |
| Other assets  | 3,167             | 13,525               |
| Total assets  | \$ 51,080,194     | \$ 55,476,428        |
| <b>LIABILITIES AND SHAREHOLDERS' EQUITY</b>         |                   |                      |
| <b>CURRENT LIABILITIES</b>                          |                   |                      |
| Accounts payable                                    | \$ 211,111        | \$ 122,536           |
| Accrued expenses                                    | 17,882            | 11,963               |
| Income taxes payable                                | 1,100,533         | 4,950,531            |
| Total current liabilities                           | 1,329,526         | 5,085,030            |
| <b>LONG-TERM LIABILITIES</b>                        |                   |                      |
| Deferred rent obligation                            | 9,741             | 11,320               |
| Reserve for plugging and abandonment costs          | 15,714            | 15,441               |
| Total long-term liabilities                         | 25,455            | 26,761               |
| Commitments and Contingencies                       | —                 | —                    |

## SHAREHOLDERS' EQUITY

|   |               |               |
|---|---------------|---------------|
| Common stock, \$0.001 par value; 100,000,000<br>shares authorized; 31,120,230 and 31,080,772<br>shares issued and outstanding, respectively | 31,120        | 31,081        |
| Additional paid-in capital  | 39,014,887    | 38,422,435    |
| Retained earnings   | 10,679,206    | 11,911,121    |
| Total shareholders' equity  | 49,725,213    | 50,364,637    |
| Total liabilities and shareholders' equity  | \$ 51,080,194 | \$ 55,476,428 |

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<br>March 31, |              |
|---|--|--------------|
|   | 2011                                       | 2010         |
| <b>REVENUE</b>                              |  |              |
| Oil and gas                                 | \$ 124,303                                 | \$ 4,241,395 |
| Total revenue                               | 124,303                                    | 4,241,395    |
| <b>EXPENSES OF OPERATIONS</b>               |  |              |
| Lease operating expense and severance taxes | 127,902                                    | 1,679,206    |
| Joint venture expenses                      | 2,759                                      | 39,021       |
| General and administrative expense          | 1,175,095                                  | 717,917      |
| Depreciation and depletion                  | 27,997                                     | 826,248      |
| Total operating expenses                    | 1,333,753                                  | 3,262,392    |
| Income (loss) from operations               | (1,209,450)                                | 979,003      |
| <b>OTHER INCOME (EXPENSE)</b>               |  |              |
| Interest income                             | 23,080                                     | 20,802       |
| Other expense                               | (42,751)                                   | —            |
| Total other income (expense)                | (19,671)                                   | 20,802       |
| Income (loss) before taxes                  | (1,229,121)                                | 999,805      |
| Income tax expense                          | 2,794                                      | 191,089      |
| Net income (loss)                           | \$ (1,231,915)                             | \$ 808,716   |
| Basic income (loss) per share               | \$ (0.04)                                  | \$ 0.03      |
| Diluted income (loss) per share             | \$ (0.04)                                  | \$ 0.03      |
| Basic weighted average shares               | 31,094,792                                 | 31,037,494   |
| Diluted weighted average shares             | 31,094,792                                 | 31,431,710   |

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<br>Ended<br>March 31, |               |
|--|--|---------------|
|  | 2011                                       | 2010          |
| <b>CASH FLOWS FROM OPERATING ACTIVITIES</b>                            |  |               |
| Net income (loss)  | \$ (1,231,915)                             | \$ 808,716    |
| Adjustments to reconcile net income (loss) to net cash from operations |  |               |
| Depreciation and depletion   | 27,997                                     | 826,248       |
| Stock based compensation   | 592,491                                    | 253,065       |
| Accretion expense – asset retirement obligation                        | 273  | 5,391         |
| Amortization of deferred rent  | (1,579)                                    | (987)         |
| Changes in operating assets and liabilities:                           |  |               |
| Decrease in accounts receivable  | 1,183,498                                  | 191,150       |
| Increase in prepaid expense  | (121,298)                                  | (106,311)     |
| Decrease in accounts payable and accrued expenses                      | (3,755,504)                                | (154,628)     |
| Net cash provided by (used in) operating activities                    | (3,306,037)                                | 1,822,644     |
| <b>CASH FLOWS FROM INVESTING ACTIVITIES</b>                            |  |               |
| Acquisition of furniture and equipment                                 | —  | (71,878)      |
| Acquisition and development of oil and gas properties                  | (1,283,611)                                | (4,034,524)   |
| Proceeds from escrow receivable  | 516,391                                    | 43,512        |
| Net cash used in investing activities                                  | (767,220)                                  | (4,062,890)   |
| <b>CASH FLOWS FROM FINANCING ACTIVITIES</b>                            |  |               |
| Dividends paid   | —  | (155,415)     |
| Exercise of warrants   | —  | 570,000       |
| Net cash provided by financing activities                              | —  | 414,585       |
| Decrease in cash and equivalents                                       | (4,073,257)                                | (1,825,661)   |
| Cash, beginning of period  | 26,656,450                                 | 14,010,637    |
| Cash, end of period  | \$ 22,583,193                              | \$ 12,184,976 |
| <b>SUPPLEMENT CASH FLOW INFORMATION</b>                                |  |               |
| Interest paid  | \$ —                                       | \$ —          |
| Taxes paid   | \$ 3,853,509                               | \$ 177,392    |
| <b>NON-CASH INVESTING AND FINANCING ACTIVITIES</b>                     |  |               |
| 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 consolidated financial statements of Houston American Energy Corp., a Delaware corporation (the “Company”), have been prepared in accordance with accounting principles generally accepted in the United States of America for interim financial information and with the instructions to Form 10-Q. They do not include all of the information and footnotes required by accounting principles generally accepted in the United States of America for a complete financial presentation. In the opinion of management, all adjustments, consisting only of normal recurring adjustments, considered necessary for a fair presentation, have been included in the accompanying unaudited consolidated financial statements. Operating results for the periods presented are not necessarily indicative of the results that may be expected for the full year.

These unaudited consolidated financial statements should be read in conjunction with the Company’s audited consolidated financial statements and footnotes, which are included as part of the Company’s Form 10-K for the year ended December 31, 2010.

Consolidation

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

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 \$25,188,635 in excess of the FDIC’s current insured limit on interest bearing accounts of \$250,000 as of March 31, 2011. 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, 2011, vested options to purchase 872,332 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

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

NOTE 3 – ACCOUNTS RECEIVABLE – OTHER

In connection with the Company's acquisition in July 2010, of an additional 12.5% interest in the approximately 345,452 acre CPO 4 Block in the Llanos Basin of Columbia and which is operated by SK Energy Co. LTD ("SK Energy"), the Company entered into a separate agreement with Gulf United Energy, Inc. ("Gulf United") whereby the Company waived its right of first refusal under the CPO 4 Block Joint Operating Agreement for the specific purpose of permitting Gulf United to acquire from SK Energy a 12.5% interest in the CPO 4 Block. Under the agreement with Gulf United, as a condition of the Company's agreement to waive its preferential rights, Gulf United agreed to pay to the Company, not later than 30 days following ANH approval, which is expected to occur in the second half of 2011, (i) the Company's 12.5% share of Past Costs (as defined in the Farmout Agreement with SK Energy) incurred through July 31, 2010, and (ii) the Company's 25% share of Seismic Acquisition Costs incurred through July 31, 2010, or a total of \$3,939,003. The amount due from Gulf United is classified as Accounts Receivable – Other in the accompanying balance sheet.

NOTE 4 – OIL AND GAS PROPERTIES

During the three months ended March 31, 2011, the Company capitalized \$269,631 to oil and gas properties subject to amortization, primarily attributable to developmental activity related to the Company's proved Colombian oil and gas interests, and \$1,013,980 to oil and gas properties not subject to amortization, primarily attributable to seismic and leasehold acquisition costs associated with the Company's interests in the CPO-4 and other unevaluated concessions in Colombia.

Sale of Oil and Gas Properties

In December 2010, Hupecol Dorotea & Cabiona Holdings, LLC ("Hupecol D&C Holdings") and Hupecol Llanos Holdings, LLC ("Hupecol Llanos Holdings") sold all of their interests in Hupecol Dorotea and Cabiona, LLC ("HDC, LLC") and Hupecol Llanos, LLC ("HL, LLC"). The Company owns 12.5% interests in each of Hupecol D&C Holdings and Hupecol Llanos Holdings and, in turn, held equivalent indirect interests in each of HDC, LLC and HL, LLC, which companies hold interests in the Dorotea, Cabiona, Leona and Las Garzas blocks and related assets in Colombia.

HDC, LLC sold for \$200 million and HL, LLC sold for \$81 million, each subject to certain closing adjustments based on operations between the June 1, 2010 effective date and the closing date. Fifteen percent of the sales price of each of HDC, LLC and HL, LLC will be held in escrow to fund potential claims arising from the sale, with escrowed amounts to be released over a three year period based on amounts remaining in escrow after any claims. In addition to the fifteen percent escrowed, Hupecol withheld 5% of the proceeds in escrow for any contingencies that may arise from the transactions. During the 1st quarter ended March 31, 2011, Houston American Energy received a partial payment of \$516,391 from Hupecol for the 5% contingency withheld related to HL, LLC. It is expected that the Company will receive the 5% contingency withheld by Hupecol related to HDC, LLC in 2011. Pursuant to its 12.5% ownership interest in each of Hupecol D&C Holdings and Hupecol Llanos Holdings, the Company received 12.5% in the net sale proceeds after deduction of commissions and transaction expenses from each sale and subject to the escrow hold back. Following completion of the sale of HDC, LLC and HL, LLC, the Company had no continuing interest in the Dorotea, Cabiona, Leona and Las Garzas blocks.

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The following table presents pro forma data that reflects revenue, income from continuing operations, net income and income per share for the three ended March 31, 2010 as if the HDC, LLC and HL, LLC sale had occurred at the beginning of that period.

Pro-Forma Information:

|                        |    |           |
|------------------------|----|-----------|
| Oil and gas revenue    | \$ | 63,830    |
| Loss from operations   | \$ | (752,356) |
| Net loss               | \$ | (731,625) |
| Basic loss per share   | \$ | (0.02)    |
| Diluted loss per share | \$ | (0.02)    |

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Pursuant to the terms of the sales of HDC, LLC and HL, LLC, on the closing date of the sale, a portion of the purchase price was deposited in escrow to settle post-closing adjustments under the purchase and sale agreement. The Company's proportionate interest in the escrow deposit totaled \$7,069,810, and was recorded as Escrow receivable. As of March 31, 2011, the Company is not aware of any claims by the purchaser that would reduce the escrow receivable.

During the first quarter of 2011, we invested \$1,283,611 for the acquisition and development of oil and gas properties, consisting of (1) drilling costs on 8 wells in Colombia of \$268,057, (2) seismic cost in Colombia of \$175,870, (3) leasehold costs on U.S. properties of \$29,864, and (4) acquisition and evaluation costs in Colombia of \$810,000.

## NOTE 5 – 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, 2011 is presented below:

|                                | Options   | Weighted-Average Exercise Price | Aggregate Intrinsic Value |
|--------------------------------|-----------|---------------------------------|---------------------------|
| Outstanding at January 1, 2011 | 1,813,998 | \$ 6.57                         | \$                        |
| Granted                        | 25,000    | 14.06                           |                           |
| Exercised                      | (39,458)  | 4.60                            |                           |
| Forfeited                      | (47,208)  | 10.97                           |                           |
| Outstanding at March 31, 2011  | 1,752,332 | \$ 6.60                         | \$ 15,431,741             |
| Exercisable at March 31, 2011  | 872,332   | \$ 6.19                         | \$ 8,045,441              |

During the three months ended March 31, 2011, 25,000 options were granted to a newly appointed director, and 86,666 options were exercised on a cashless basis by former directors, resulting in the issuance of 39,458 shares of common stock.

The 25,000 options granted to the director vested immediately, had a ten year life and were valued on the date of the grant using the Black-Scholes option-pricing model with the following parameters: (1) risk-free interest rate 2.095%, (2) expected life in years 5.685, (3) expected stock volatility 87.549%, and (4) expected dividend yield of 0.142%. The Company determined the options qualify as 'plain vanilla' under the provisions of SAB 107 and the simplified method was used to estimate the expected option life. The options estimated grant date fair value of \$250,916 was charged to expense during the three months ended March 31, 2011.

During the three months ended March 31, 2011, the Company recognized \$592,491 of stock compensation expense attributable to the amortization of unrecognized stock-based compensation and the grant of options to a director as discussed above. As of March 31, 2011, total unrecognized stock-based compensation expense related to non-vested stock options was \$3,284,221. The unrecognized expense is expected to be recognized over a weighted average period of 2.62 years and the weighted average remaining contractual term of the outstanding options and exercisable options

at March 31, 2011 is 7.26 years and 6.81 years, respectively.

Shares available for issuance under the Plans as of March 31, 2011 totaled 861,002.

#### Warrant Activity

No warrants were issued or outstanding during the three months ended March 31, 2011. 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.

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## Share-Based Compensation Expense

The following table reflects share-based compensation recorded by the Company for the three months ended March 31, 2011 and 2010:

|   | Three Months Ended<br>March 31, |            |
|---|---------------------------------|------------|
|   | 2011                            | 2010       |
| Share-based compensation expense included in reported net income                  | \$ 592,491                      | \$ 253,066 |
| Earnings per share effect of share-based compensation expense – basic and diluted | \$ (0.02)                       | \$ (0.01)  |

## 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, 2011, the lease agreement requires future payments as follows:

| Year  | Amount    |
|-------|-----------|
| 2011  | 62,700    |
| 2012  | 36,530    |
| Total | \$ 99,230 |

For the three months ended March 31, the total base rental expense was \$21,615 in 2011 and \$20,600 in 2010. The Company does not have any capital leases or other operating lease commitments.

## Standby Letter of Credit – CPO 4 Block

On November 5, 2009 JP Morgan Chase issued a Letter of Credit to Banco de Bogota S.A. for \$2,037,500. Banco de Bogota then in turn issued a Stand by Letter of Credit to the Agency De National Hydrocarbons to guaranty the Company's compliance and proper execution of the work obligations relating to the phase one (1) work program of the CPO-4 block for the Company's 25% interest in the Block. Per the Standby Letter of Credit issued between JP Morgan Chase and Banco de Bogota, the Company was required to keep on deposit with JP Morgan Chase \$2,037,500. In addition, the Company was required by JP Morgan Chase to pay fees associated with the Standby Letter of Credit equal to 1.0% per year of the amount, or \$20,375.

On December 2, 2010 JP Morgan Chase amended the Letter of Credit to Banco de Bogota S.A. to increase the total amount of the Letter of Credit to \$3,056,250. Banco de Bogota then in turn issued an amended Stand by Letter of Credit to the Agency de National Hydrocarbons to guaranty the Company's compliance and proper execution of the work obligations relating to the phase one (1) work program for the CPO-4 block for the Company's 37.5% interest in the Block. Per the amended Standby Letter of Credit issued between JP Morgan Chase and Banco de Bogota, the date of expiration was extended until January 18, 2013 and the Company is required to keep on deposit with JP Morgan Chase \$3,056,250. This increase in deposits was related to the Company increasing its interest in the CPO 4 block from 25.0% to 37.5%. All other terms and conditions of the Letter of Credit remained unchanged. The Company paid JP Morgan fees associated with the Standby Letter of Credit equal to approximately 1.0% per year of the amount, or \$32,070, which was recorded as other expense. The deposit with JP Morgan Chase is classified as Restricted cash – letter of credit in the accompanying balance sheet. In addition, the Company paid Banco de Bogota \$10,681 in fees in the first quarter related to the Letter of Credit.

### Legal Contingencies

The Company is subject to legal proceedings, claims and liabilities that arise in the ordinary course of its business. The Company accrues for losses associated with legal claims when such losses are probable and can be reasonably estimated. These accruals are adjusted as further information develops or circumstances change. The Company is currently not a party to any litigation.

### Environmental Contingencies

The Company's oil and natural gas operations are subject to stringent federal, state and local laws and regulations relating to the release or disposal of materials into the environment or otherwise relating to environmental protection. These laws and regulations may require the acquisition of a permit before drilling commences, restrict the types, quantities and concentration of substances that can be released into the environment in connection with drilling and production activities, limit or prohibit drilling activities on certain lands lying within wilderness, wetlands and other protected areas, and impose substantial liabilities for pollution resulting from our operations. Failure to comply with these laws and regulations may result in the assessment of administrative, civil and criminal penalties, incurrence of investigatory or remedial obligations or the imposition of injunctive relief. Changes in environmental laws and regulations occur frequently, and any changes that result in more stringent or costly waste handling, storage, transport, disposal or cleanup requirements could require the Company to make significant expenditures to maintain compliance, and may otherwise have a material adverse effect on its results of operations, competitive position or financial condition as well as the industry in general. Under these environmental laws and regulations, the Company could be held strictly liable for the removal or remediation of previously released materials or property contamination regardless of whether the Company was responsible for the release or if its operations were standard in the industry at the time they were performed. The Company maintains insurance coverage, which it believes is customary in the industry, although the Company is not fully insured against all environmental risks.



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## Development Commitments

During the ordinary course of oil and gas prospect development, the Company commits to a proportionate share for the cost of acquiring mineral interests, drilling exploratory or development wells and acquiring seismic and geological information.

## Employment Arrangements

The Company has one employment agreement with its Senior Vice President of Exploration, Ken Jeffers. Under the agreement, Mr. Jeffers receives a base salary of \$240,000 annually and is entitled to discretionary bonuses and other benefits consistent with those available to members of senior management. The Company has no other employment agreements.

## 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, 2011 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 2011, and consequently, recorded no U.S. income tax liability or tax expense for the quarter ended March 31, 2011. Income tax expense for 2010 was entirely attributable to the Company's Colombian operations and represents the actual taxes paid or accrued in both Colombia and the United States.

Due to uncertainty regarding ultimate realization, the Company has established a valuation allowance of approximately \$431,000 to fully reserve the net operating loss carryforward generated during the three months ended March 31, 2011. During the three months ended March 31, 2011, significant temporary differences between financial statement income and estimated taxable income related primarily to stock compensation expense recognized for book purposes during the period.

## 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, 2011 and Long Lived Assets as of March 31, 2011 attributable to each geographical area are presented below:

|               | Three Months Ended<br>March 31, 2011 |                           |
|---------------|--------------------------------------|---------------------------|
|               | Revenues                             | Long Lived<br>Assets, Net |
| United States | \$ 44,484                            | \$ 758,699                |
| Colombia      | 79,819                               | 11,188,336                |
| Total         | \$ 124,303                           | \$ 11,947,035             |



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NOTE 9 - SUBSEQUENT EVENTS

The Company evaluated subsequent events through the date the financial statements were issued, and there were no significant events to report.

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, 2011, contains certain forward-looking statements within the meaning of Section 27A of the Securities Act of 1933, as amended, and Section 21E of the Securities Exchange Act of 1934, as amended, which are intended to be covered by the safe harbors created thereby. To the extent that there are statements that are not recitations of historical fact, such statements constitute forward-looking statements that, by definition, involve risks and uncertainties. In any forward-looking statement, where we express an expectation or belief as to future results or events, such expectation or belief is expressed in good faith and believed to have a reasonable basis, but there can be no assurance that the statement of expectation or belief will be achieved or accomplished.

The actual results or events may differ materially from those anticipated and as reflected in forward-looking statements included herein. Factors that may cause actual results or events to differ from those anticipated in the forward-looking statements included herein include the Risk Factors described in Item 1A of our Form 10-K for the year ended December 31, 2010.

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

Additionally, the following discussion regarding our financial condition and results of operations should be read in conjunction with the financial statements and related notes contained in Item 1 of Part 1 of this Form 10-Q, as well as the Risk Factors in Item 1A and the financial statements in Item 7 of Part II of our Form 10-K for the fiscal year ended December 31, 2010.

Critical Accounting Policies

The discussion and analysis of our financial condition and results of operations is based upon our consolidated financial statements, which have been prepared in accordance with accounting principles generally accepted in the United States of America. We believe certain critical accounting policies affect the more significant judgments and estimates used in the preparation of our financial statements. A description of our critical accounting policies is set forth in our Form 10-K for the year ended December 31, 2010. As of, and for the quarter ended, March 31, 2011, 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, 2011:

March 31, 2011

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|                   |    |            |
|-------------------|----|------------|
| Acquisition costs | \$ | 2,082,707  |
| Evaluation costs  |    | 9,190,253  |
| Retention costs   |    | -          |
| Total             | \$ | 11,272,960 |

Included in the carrying value of unevaluated oil and gas prospects above was \$10,631,927 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.

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## Current Year Developments

## Production Levels, Revenues and Operating Profit – Sale of HDC, LLC and HL, LLC

Our production levels, revenues and operating profit during the quarter ended March 31, 2011, as compared to the same period in 2010, were affected by the sale of our interest in certain prospects and producing properties located in Colombia in late 2010.

In December 2010, Hupecol Dorotea & Cabiona Holdings, LLC (“Hupecol D&C Holdings”) and Hupecol Llanos Holdings, LLC (“Hupecol Llanos Holdings”) sold all of their interests in Hupecol Dorotea and Cabiona, LLC (“HDC, LLC”) and Hupecol Llanos, LLC (“HL, LLC”). We own 12.5% interests in each of Hupecol D&C Holdings and Hupecol Llanos Holdings and, in turn, held indirect equivalent interests in each of HDC, LLC and HL, LLC, which companies hold interests in the Dorotea, Cabiona, Leona and Las Garzas blocks and related assets in Colombia.

HDC, LLC sold for \$200 million and HL, LLC sold for \$81 million, each subject to certain closing adjustments based on operations between the June 1, 2010 effective date and the closing date. Fifteen percent of the sales price of each of HDC, LLC and HL, LLC will be held in escrow to fund potential claims arising from the sale, with escrowed amounts to be released over a three year period based on amounts remaining in escrow after any claims. In addition to the fifteen percent escrowed, Hupecol withheld 5% of the proceeds in escrow for any contingencies that may arise from the transactions. During the 1st quarter ended March 31, 2011, Houston American Energy received a partial payment of \$516,392 from Hupecol for the 5% contingency withheld related to HL, LLC. It is expected that the Company will received the 5% contingency withheld by Hupecol related to HDC, LLC in 2011. Pursuant to our 12.5% ownership interest in each of Hupecol D&C Holdings and Hupecol Llanos Holdings, we received 12.5% in the net sale proceeds after deduction of commissions and transaction expenses from each sale and subject to the escrow hold back. Following completion of the sale of HDC, LLC and HL, LLC, we had no continuing interest in the Dorotea, Cabiona, Leona and Las Garzas blocks.

During the three months ended March 31, 2010, the Dorotea, Cabiona, Leona and Las Garzas blocks accounted for approximately 55,775 barrels of oil (net to our interest) produced, or 99.19% of our oil production, and \$4,177,565 of revenues.

The following table presents pro forma data that reflects revenue and income from continuing operations for the three months ended March 31, 2010 as if the HDC, LLC and HL, LLC sale had occurred at the beginning of that period.

## Pro-Forma Information:

|                               |           |
|-------------------------------|-----------|
| Oil and gas revenue           | \$ 63,830 |
| Income (loss) from operations | (752,356) |

## Drilling Activity

During the quarter ended March 31, 2011, we drilled 8 international wells in Colombia, as follows:

8 wells were drilled on concessions in which we hold a 1.6% working interest, of which 5 were completed and in production at March 31, 2011 and 3 were dry holes.

During the quarter ended March 31, 2011, no domestic wells were drilled.

At March 31, 2011, no drilling operations were ongoing in Colombia.

#### CPO 4 and Serrania Development

During the three months ended March 31, 2011, our capital investment expenditures relating to development of our CPO 4 and Serrania prospects totaled \$984,296 and related principally to drilling preparation and seismic processing. We continue on pace to drill 3 test wells on CPO 4 and 2 test wells on Serrania during 2011.

#### Results of Operations

Oil and Gas Revenues. Total oil and gas revenues decreased 97% to \$124,303 in the three months ended March 31, 2011 compared to \$4,241,395 in the three months ended March 31, 2010. The decrease in revenue was due to the 2010 sale of our indirect interests in the Dorotea, Cabiona, Leona and Las Garzas blocks, partially offset by (1) higher average sales prices for oil and gas during the 2011 quarter and (2) oil production from five new wells brought onto production during the three months ended March 31, 2011.

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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, 2011 and 2010:

|                       | 2011 | 2010 |
|-----------------------|------|------|
| Gross producing wells | 20   | 30   |
| Net producing wells   | 0.41 | 2.64 |