HOUSTON AMERICAN ENERGY CORP
Form 424B3
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PROSPECTUS

HOUSTON AMERICAN ENERGY CORP.

8,264,583 Shares of Common Stock

This prospectus covers resales of shares of our common stock by certain selling securityholders named herein. This prospectus also covers resales by selling securityholders of shares of our common stock underlying warrants issued to placement agents in connection with the placement of common stock and convertible notes.

The selling securityholders may sell all or a portion of their securities through public or private transactions at prevailing market prices or at privately negotiated prices. We will not receive any part of the proceeds from the sale of these shares by the selling securityholders.

Our common stock is traded on the OTC Electronic Bulletin Board under the symbol "HUSA.OB". The last reported sale price of our common stock on the OTC Electronic Bulletin Board on June 1, 2006 was $4.15 per share.

INVESTING IN OUR COMMON STOCK INVOLVES A HIGH DEGREE OF RISK. SEE "RISK FACTORS" BEGINNING ON PAGE 4 OF THIS PROSPECTUS.

THESE SECURITIES HAVE NOT BEEN APPROVED OR DISAPPROVED BY THE SECURITIES AND EXCHANGE COMMISSION NOR HAS THE COMMISSION PASSED UPON THE ACCURACY OR ADEQUACY OF THIS PROSPECTUS. ANY REPRESENTATION TO THE CONTRARY IS A CRIMINAL OFFENSE.

PROSPECTUS DATED June 16, 2006

We will pay all expenses of this offering except for commissions, fees and discounts of any underwriters, brokers, dealers or agents retained by the selling securityholders. Estimated expenses payable in connection with this offering are approximately $25,000. The aggregate proceeds to the selling securityholders will be the purchase price of common stock sold less the aggregate agents' commissions and underwriters' discounts, if any. We have agreed to indemnify the selling securityholders and certain other persons against certain liabilities, including liabilities under the Securities Act.

NO DEALER, SALESPERSON OR OTHER INDIVIDUAL HAS BEEN AUTHORIZED TO GIVE ANY INFORMATION OR TO MAKE ANY REPRESENTATION NOT CONTAINED IN THIS PROSPECTUS IN CONNECTION WITH THE OFFERING COVERED BY THIS PROSPECTUS. IF GIVEN OR MADE, SUCH INFORMATION OR REPRESENTATIONS MUST NOT BE RELIED UPON AS HAVING BEEN AUTHORIZED BY US. THIS PROSPECTUS DOES NOT CONSTITUTE AN OFFER TO SELL OR A SOLICITATION OF AN OFFER TO BUY, THE COMMON STOCK IN ANY JURISDICTION WHERE, OR TO ANY PERSON TO WHOM, IT IS UNLAWFUL TO MAKE SUCH OFFER OR SOLICITATION. NEITHER THE DELIVERY OF THIS PROSPECTUS NOR ANY SALE HEREUNDER SHALL, UNDER ANY CIRCUMSTANCES, CREATE ANY IMPLICATION THAT THERE HAS NOT BEEN ANY CHANGE IN THE FACTS SET FORTH IN THIS PROSPECTUS OR IN OUR AFFAIRS SINCE THE DATE HEREOF.

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ABOUT THIS PROSPECTUS

You should only rely on the information contained in this prospectus. We have not authorized anyone to provide you with information different from that contained in this prospectus. The Selling Shareholders are offering to sell, and seeking offers to buy, shares of common stock only in jurisdictions where offers and sales are permitted. The information contained in the prospectus is accurate only as of the date of this prospectus, regardless of the time of delivery of this prospectus or of any sale of common stock.

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PROSPECTUS SUMMARY

You should read the following summary together with the more detailed information regarding our company and the common stock being sold in this offering appearing elsewhere in this prospectus and in our Financial Statements and related notes and other documents incorporated herein by reference.

OUR COMPANY

Houston American Energy Corp. is an oil and gas exploration and production company. In addition to seeking out oil and gas prospects using advanced seismic techniques, we utilize the contacts of John F. Terwilliger, our sole executive officer, to identify potential acquisition targets in the Onshore Texas Gulf Coast Region of the State of Texas, where Mr. Terwilliger has been involved in oil and gas exploration and production activities since 1983. Further, we have through an interest in a limited liability company, interests in multiple concessions in the South American country of Colombia. As a result, we expect to be active in Colombia for the foreseeable future. Moreover, as well as our own drilling activities and acquisition strategy, we may also encourage others in the oil and gas industry to enter into partnerships or joint ventures with us for the purpose of acquiring properties and conducting drilling and exploration activities.

Our principal executive offices are located at 801 Travis Street, Suite 2020, Houston, Texas 77007 and our telephone number is (713) 222-6966.

THE OFFERING

Securities offered:	
Common stock	8,264,583 shares(1)
Common stock outstanding before this offering	27,820,172 shares(2)
Common stock outstanding after this offering	28,235,172 shares(3)
Use of proceeds	We will not receive any proceeds from the sale of common stock by the selling shareholders
OTCBB symbol	HUSA
Risk Factors	Purchase of the common stock offered hereby involves certain risk, including risks associated with need for additional capital, operating losses, uncertain value or decline in value of reserves, dependence upon management and third parties, and operating risks in the oil and gas industry, among others. See "Risk Factors."

(1) Consists of (a) 7,849,583 shares presently outstanding, including 2,125,000 shares issued upon conversion of 8% Subordinated Convertible Notes and 191,250 shares issued upon conversion of $1.00 placement agent warrants, and (b) 415,000 shares issuable upon exercise of $3.00 placement agent warrants to purchase 415,000 shares of common stock.
(2) Shares outstanding as of June 1, 2006.
(3) Assumes exercise of 415,000 warrants.

RISK FACTORS

Investing in our securities involves risks. Before making an investment decision, you should carefully consider the following risk factors, as well as other information we include in this prospectus. Additional risks and uncertainties not presently known to us or that we deem currently immaterial may also impair our business operations. The risks and uncertainties described below are not the only ones facing us. Additional risks and uncertainties that we are unaware of, or that we currently deem immaterial, also may become important factors that affect us. If any of the following risks occur, our business, financial condition or results of operations could be materially and adversely affected.

RISKS RELATED TO THE OIL AND NATURAL GAS INDUSTRY AND OUR BUSINESS

A SUBSTANTIAL OR EXTENDED DECLINE IN OIL AND NATURAL GAS PRICES MAY ADVERSELY AFFECT OUR BUSINESS, FINANCIAL CONDITION OR RESULTS OF OPERATIONS AND OUR ABILITY TO MEET OUR CAPITAL EXPENDITURE OBLIGATIONS AND FINANCIAL COMMITMENTS.

The price we receive for our oil and natural gas production heavily influences our revenue, profitability, access to capital and future rate of growth. Oil and natural gas are commodities and, therefore, their prices are subject to wide fluctuations in response to relatively minor changes in supply and demand. Historically, the markets for oil and natural gas have been volatile. These markets will likely continue to be volatile in the future. The prices we receive for our production, and the levels of our production, depend on numerous factors beyond our control. These factors include, but are not limited to, the following:

- changes in global supply and demand for oil and natural gas;
- the actions of the Organization of Petroleum Exporting Countries, or OPEC;
- the price and quantity of imports of foreign oil and natural gas;
- political conditions, including embargoes, in or affecting other oil-producing activity;
- the level of global oil and natural gas exploration and production activity;
- the level of global oil and natural gas inventories;
- weather conditions;
- technological advances affecting energy consumption; and
- the price and availability of alternative fuels.

Lower oil and natural gas prices may not only decrease our revenues on a per unit basis but also may reduce the amount of oil and natural gas that we can produce economically. Lower prices will also negatively impact the value of our proved reserves. A substantial or extended decline in oil or natural gas prices may materially and adversely affect our future business, financial condition, results of operations, liquidity or ability to finance planned capital expenditures.

A SUBSTANTIAL PERCENTAGE OF OUR PROPERTIES ARE UNDEVELOPED; THEREFORE THE RISK ASSOCIATED WITH OUR SUCCESS IS GREATER THAN WOULD BE THE CASE IF THE MAJORITY OF OUR PROPERTIES WERE CATEGORIZED AS PROVED DEVELOPED PRODUCING.

Because a substantial percentage of our properties are unproven (approximately 99% by acreage), or proved undeveloped, we may require significant additional capital to prove and develop such properties before they may become productive. Further, because of the inherent uncertainties associated with drilling for oil and gas, some of these properties may never be developed to the extent that they result in positive cash flow. Even if we are successful in our development efforts, it could take several years for a significant portion of our undeveloped properties to be converted to positive cash flow.

While our current business plan is to fund the development costs with funds from our April 2006 private placement of common stock and cash flow from our other producing properties, if such funds and cash flow are not sufficient we may be forced to seek alternative sources for cash, through the issuance of additional equity or debt securities, increased borrowings or other means.

DRILLING FOR AND PRODUCING OIL AND NATURAL GAS ARE HIGH RISK ACTIVITIES WITH MANY UNCERTAINTIES THAT COULD ADVERSELY AFFECT OUR BUSINESS, FINANCIAL CONDITION OR RESULTS OF OPERATIONS.

Our future success will depend on the success of our exploitation, exploration, development and production activities. Our oil and natural gas exploration and production activities are subject to numerous risks beyond our control, including the risk that drilling will not result in commercially viable oil or natural gas production. Our decisions to purchase, explore, develop or otherwise exploit prospects or properties will depend in part on the evaluation of data obtained through geophysical and geological analyses, production data and engineering studies, the results of which are often inconclusive or subject to varying interpretations. Please read "-Reserve estimates depend on many assumptions that may turn out to be inaccurate" (below) for a discussion of the uncertainty involved in these processes. Our cost of drilling, completing and operating wells is often uncertain before drilling commences. Overruns in budgeted expenditures are common risks that can make a particular project uneconomical. Further, many factors may curtail, delay or cancel drilling, including the following:

- delays imposed by or resulting from compliance with regulatory requirements;
- pressure or irregularities in geological formations;
- shortages of or delays in obtaining equipment and qualified personnel;
- equipment failures or accidents;
- adverse weather conditions;
- reductions in oil and natural gas prices;
- title problems; and
- limitations in the market for oil and natural gas.

IF OIL AND NATURAL GAS PRICES DECREASE, WE MAY BE REQUIRED TO TAKE WRITE-DOWNS OF THE CARRYING VALUES OF OUR OIL AND NATURAL GAS PROPERTIES, POTENTIALLY NEGATIVELY IMPACTING THE TRADING VALUE OF OUR SECURITIES.

Accounting rules require that we review periodically the carrying value of our oil and natural gas properties for possible impairment. Based on specific market factors and circumstances at the time of prospective impairment reviews, and the continuing evaluation of development plans, production data, economics and other factors, we may be required to write down the carrying value of our oil and natural gas properties. A write-down could constitute a non-cash charge to earnings. It is likely the cumulative effect of a write-down could also negatively impact the trading price of our securities.

RESERVE ESTIMATES DEPEND ON MANY ASSUMPTIONS THAT MAY TURN OUT TO BE INACCURATE. ANY MATERIAL INACCURACIES IN THESE RESERVE ESTIMATES OR UNDERLYING ASSUMPTIONS WILL MATERIALLY AFFECT THE QUANTITIES AND PRESENT VALUE OF OUR RESERVES.

The process of estimating oil and natural gas reserves is complex. It requires interpretations of available technical data and many assumptions, including assumptions relating to economic factors. Any significant inaccuracies in these interpretations or assumptions could materially affect the estimated quantities and present value of reserves shown in this report.

In order to prepare our estimates, we must project production rates and timing of development expenditures. We must also analyze available geological, geophysical, production and engineering data. The extent, quality and reliability of this data can vary. The process also requires economic assumptions about matters such as oil and natural gas prices, drilling and operating expenses, capital expenditures, taxes and availability of funds. Therefore, estimates of oil and natural gas reserves are inherently imprecise.

Actual future production, oil and natural gas prices, revenues, taxes, development expenditures, operating expenses and quantities of recoverable oil and natural gas reserves most likely will vary from our estimates. Any significant variance could materially affect the estimated quantities and present value of our reserves. In addition, we may adjust estimates of proved reserves to reflect production history, results of exploration and development, prevailing oil and natural gas prices and other factors, many of which are beyond our control.

You should not assume that the present value of future net revenues from our proved reserves, as reported from time to time, is the current market value of our estimated oil and natural gas reserves. In accordance with SEC requirements, we generally base the estimated discounted future net cash flows from our proved reserves on prices and costs on the date of the estimate. Actual future prices and costs may differ materially from those used in the present value estimate. If future values decline or costs increase it could negatively impact our ability to finance operations, and individual properties could cease being commercially viable, affecting our decision to continue operations on producing properties or to attempt to develop properties. All of these factors would have a negative impact on earnings and net income, and most likely the trading price of our securities.

WE ARE DEPENDENT UPON THIRD PARTY OPERATORS OF OUR OIL AND GAS PROPERTIES.

Under the terms of the Operating Agreements related to our oil and gas properties, third parties act as the operator of our oil and gas wells and control the drilling activities to be conducted on our properties. Therefore, we have limited control over certain decisions related to activities on our properties, which could affect our results of operations. Decisions over which we have limited control include:

- the timing and amount of capital expenditures;
- the timing of initiating the drilling and recompleting of wells;
- the extent of operating costs; and
- the level of ongoing production.

PROSPECTS THAT WE DECIDE TO DRILL MAY NOT YIELD OIL OR NATURAL GAS IN COMMERCIALLY VIABLE QUANTITIES.

Our prospects are properties on which we have identified what we believe, based on available seismic and geological information, to be indications of oil or natural gas. Our prospects are in various stages of evaluation, ranging from a prospect that is ready to drill to a prospect that will require substantial additional seismic data processing and interpretation. There is no way to predict in advance of drilling and testing whether any particular prospect will yield oil or natural gas in sufficient quantities to recover drilling or completion costs or to be economically viable. This risk may be enhanced in our situation, due to the fact that a significant percentage (99%) of our reserves are currently unproved reserves. The use of seismic data and other technologies and the study of producing fields in the same area will not enable us to know conclusively prior to drilling whether oil or natural gas will be present or, if present, whether oil or natural gas will be present in commercial quantities. We cannot assure you that the analogies we draw from available data from other wells, more fully explored prospects or producing fields will be applicable to our drilling prospects.

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WE MAY INCUR SUBSTANTIAL LOSSES AND BE SUBJECT TO SUBSTANTIAL LIABILITY CLAIMS AS A RESULT OF OUR OIL AND NATURAL GAS OPERATIONS.

We are not insured against all risks. Losses and liabilities arising from uninsured and underinsured events could materially and adversely affect our business, financial condition or results of operations. Our oil and natural gas exploration and production activities are subject to all of the operating risks associated with drilling for and producing oil and natural gas, including the possibility of:

- environmental hazards, such as uncontrollable flows of oil, natural gas, brine, well fluids, toxic gas or other pollution into the environment, including groundwater and shoreline contamination;

- abnormally pressured formations;
- mechanical difficulties, such as stuck oil field drilling and service tools and casing collapse;
- fires and explosions;
- personal injuries and death; and
- natural disasters.

Any of these risks could adversely affect our ability to conduct operations or result in substantial losses to our company. We may elect not to obtain insurance if we believe that the cost of available insurance is excessive relative to the risks presented. In addition, pollution and environmental risks generally are not fully insurable. If a significant accident or other event occurs and is not fully covered by insurance, then it could adversely affect us.

WE ARE SUBJECT TO COMPLEX LAWS THAT CAN AFFECT THE COST, MANNER OR FEASIBILITY OF DOING BUSINESS.

Exploration, development, production and sale of oil and natural gas are subject to extensive federal, state, local and international regulation. We may be required to make large expenditures to comply with governmental regulations. Matters subject to regulation include:

- discharge permits for drilling operations;
- drilling bonds;
- reports concerning operations;
- the spacing of wells;
- unitization and pooling of properties; and
- taxation.

Under these laws, we could be liable for personal injuries, property damage and other damages. Failure to comply with these laws also may result in the suspension or termination of our operations and subject us to administrative, civil and criminal penalties. Moreover, these laws could change in ways that substantially increase our costs. Any such liabilities, penalties, suspensions, terminations or regulatory changes could materially adversely affect our financial condition and results of operations.

OUR OPERATIONS MAY INCUR SUBSTANTIAL LIABILITIES TO COMPLY WITH THE ENVIRONMENTAL LAWS AND REGULATIONS.

Our 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 us to make significant expenditures to maintain compliance, and may otherwise have a material adverse effect on our results of operations, competitive position or financial condition as well as the industry in general.

Under these environmental laws and regulations, we could be held strictly liable for the removal or remediation of previously released materials or property contamination regardless of whether we were responsible for the release or if our operations were standard in the industry at the time they were performed.

OUR OPERATIONS IN COLOMBIA ARE SUBJECT TO RISKS RELATING TO POLITICAL AND ECONOMIC INSTABILITY.

We currently have interests in multiple oil and gas concessions in Colombia and anticipate that operations in Colombia will constitute a substantial element of our strategy going forward. The political climate in Colombia is unstable and could be subject to radical change over a very short period of time. In the event of a significant negative change in the political or economic climate in Colombia, we may be forced to abandon or suspend our operations in Colombia.

UNLESS WE REPLACE OUR OIL AND NATURAL GAS RESERVES, OUR RESERVES AND PRODUCTION WILL DECLINE, WHICH WOULD ADVERSELY AFFECT OUR CASH FLOWS AND INCOME.

Unless we conduct successful development, exploitation and exploration activities or acquire properties containing proved reserves, our proved reserves will decline as those reserves are produced. Producing oil and natural gas reservoirs generally are characterized by declining production rates that vary depending upon reservoir characteristics and other factors. Our future oil and natural gas reserves and production, and, therefore our cash flow and income, are highly dependent on our success in efficiently developing and exploiting our current reserves and economically finding or acquiring additional recoverable reserves. If we are unable to develop, exploit, find or acquire additional reserves to replace our current and future production, our cash flow and income will decline as production declines, until our existing properties would be incapable of sustaining commercial production.

OUR SUCCESS DEPENDS ON OUR MANAGEMENT TEAM AND OTHER KEY PERSONNEL, THE LOSS OF ANY OF WHOM COULD DISRUPT OUR BUSINESS OPERATIONS.

Our success will depend on our ability to retain John F. Terwilliger, our sole executive officer, and to attract other experienced management and non-management employees, including engineers, geoscientists and other technical and professional staff. We will depend, to a large extent, on the efforts, technical expertise and continued employment of such personnel and members of our management team. If members of our management team should resign or we are unable to attract the necessary personnel, our business operations could be adversely affected.

THE UNAVAILABILITY OR HIGH COST OF DRILLING RIGS, EQUIPMENT, SUPPLIES, PERSONNEL AND OIL FIELD SERVICES COULD ADVERSELY AFFECT OUR ABILITY TO EXECUTE ON A TIMELY BASIS OUR EXPLORATION AND DEVELOPMENT PLANS WITHIN OUR BUDGET.

Shortages or the high cost of drilling rigs, equipment, supplies or personnel could delay or adversely affect our development and exploration operations. As the price of oil and natural gas increases, the demand for production equipment and personnel will likely also increase, potentially resulting, at least in the near-term, in shortages of equipment and personnel. In addition, larger producers may be more likely to secure access to such equipment by virtue of offering drilling companies more lucrative terms. If we are unable to acquire access to such resources, or can obtain access only at higher prices, not only would this potentially delay our ability to convert our reserves into cash flow, but could also significantly increase the cost of producing those reserves, thereby negatively impacting anticipated net income.

IF OUR ACCESS TO MARKETS IS RESTRICTED, IT COULD NEGATIVELY IMPACT OUR PRODUCTION, OUR INCOME AND ULTIMATELY OUR ABILITY TO RETAIN OUR LEASES.

Market conditions or the unavailability of satisfactory oil and natural gas transportation arrangements may hinder our access to oil and natural gas markets or delay our production. The availability of a ready market for our oil and natural gas production depends on a number of factors, including the demand for and supply of oil and natural gas and the proximity of reserves to pipelines and terminal facilities. Our ability to market our production depends in substantial part on the availability and capacity of gathering systems, pipelines and processing facilities owned and operated by third parties. Our failure to obtain such services on acceptable terms could materially harm our business.

We may operate in areas with limited or no access to pipelines, thereby necessitating delivery by other means, such as trucking, or requiring compression facilities. Such restrictions on our ability to sell our oil or natural gas have several adverse affects, including higher transportation costs, fewer potential purchasers (thereby potentially resulting in a lower selling price) or, in the event we were unable to market and sustain production from a particular lease for an extended time, possibly causing us to lose a lease due to lack of production.

WE MAY NEED ADDITIONAL FINANCING TO SUPPORT OPERATIONS AND FUTURE CAPITAL COMMITMENTS.

While we presently believe that our operating cash flows and funds on hand will support our ongoing operations and anticipated future capital requirements, a number of factors could result in our needing additional financing, including reductions in oil and natural gas prices, declines in production, unexpected developments in operations that could decrease our revenues, increase our costs or require additional capital contributions and commitments to new acquisition or drilling programs. We have no commitments to provide any additional financing, if needed, and may be limited in our ability to obtain the capital necessary to support operations, complete development, exploitation and exploration programs or carry out new acquisition or drilling programs. We have not thoroughly investigated whether this capital would be available, who would provide it, and on what terms. If we are unable, on acceptable terms, to raise the required capital, our business may be seriously harmed or even terminated.

COMPETITION IN THE OIL AND NATURAL GAS INDUSTRY IS INTENSE, WHICH MAY ADVERSELY AFFECT OUR ABILITY TO COMPETE.

We operate in a highly competitive environment for acquiring properties, marketing oil and natural gas and securing trained personnel. Many of our competitors possess and employ financial, technical and personnel resources substantially greater than ours, which can be particularly important in the areas in which we operate. Those companies may be able to pay more for productive oil and natural gas properties and exploratory prospects and to evaluate, bid for and purchase a greater number of properties and prospects than our financial or personnel resources permit. Our ability to acquire additional prospects and to find and develop reserves in the future will depend on our ability to evaluate and select suitable properties and to consummate transactions in a highly competitive environment. Also, there is substantial competition for capital available for investment in the oil and natural gas industry. We may not be able to compete successfully in the future in acquiring prospective reserves, developing reserves, marketing hydrocarbons, attracting and retaining quality personnel and raising additional capital.

RISKS RELATED TO OUR COMMON STOCK

THE PRICE OF OUR COMMON STOCK MAY FLUCTUATE SIGNIFICANTLY, AND THIS MAY MAKE IT DIFFICULT FOR YOU TO RESELL COMMON STOCK WHEN YOU WANT OR AT PRICES YOU FIND ATTRACTIVE.

The price of our common stock quoted on the OTCBB constantly changes. We expect that the market price of our common stock will continue to fluctuate.

Our stock price may fluctuate as a result of a variety of factors, many of which are beyond our control. These factors include:

- quarterly variations in our operating results;
- operating results that vary from the expectations of management, securities analysts and investors;
- changes in expectations as to our future financial performance;
- announcements by us, our partners or our competitors of leasing and drilling activities;
- the operating and securities price performance of other companies that investors believe are comparable to us;
- future sales of our equity or equity-related securities;
- changes in general conditions in our industry and in the economy, the financial markets and the domestic or international political situation;
- fluctuations in oil and gas prices;
- departures of key personnel; and
- regulatory considerations.

In addition, in recent years, the stock market in general has experienced extreme price and volume fluctuations. This volatility has had a significant effect on the market price of securities issued by many companies for reasons often unrelated to their operating performance. These broad market fluctuations may adversely affect our stock price, regardless of our operating results.

SHARES OF OUR COMMON STOCK MAY BE "PENNY STOCKS".

If the market price per share of our common stock is less than $5.00, the shares of our common stock will be "penny stocks" as defined in the Exchange Act. As a result, an investor may find it more difficult to dispose of or obtain accurate quotations as to the price of the shares of our common stock. In addition, the "penny stock" rules adopted by the SEC under the Exchange Act subject the sale of shares of our common stock to regulations which impose sales practice requirements on broker-dealers. For example, broker-dealers selling penny stocks must, prior to effecting the transaction, provide their customers with a document that discloses the risks of investing in penny stocks.

Furthermore, if the person purchasing the securities is someone other than an accredited investor or an established customer of the broker-dealer, the broker-dealer must also approve the potential customer's account by obtaining information concerning the customer's financial situation, investment experience and investment objectives. The broker-dealer must also make a determination whether the transaction is suitable for the customer and whether the customer has sufficient knowledge and experience in financial matters to be reasonably expected to be capable of evaluating the risk of transactions in penny stocks. Accordingly, the SEC's rules may limit the number of potential purchasers of shares of our common stock. Moreover, various state securities laws impose restrictions on transferring "penny stocks," and, as a result, investors in our common stock may have their ability to sell their shares impaired.

THE SALE OF A SUBSTANTIAL NUMBER OF SHARES OF OUR COMMON STOCK MAY AFFECT OUR

STOCK PRICE.

Future sales of substantial amounts of our common stock or equity-related securities in the public market or privately, or the perception that such sales could occur, could adversely affect prevailing trading prices of our common stock and could impair our ability to raise capital through future offerings of equity or equity-related securities. No prediction can be made as to the effect, if any, that future sales of shares of common stock or the availability of shares of common stock for future sale, will have on the trading price of our common stock.

OUR CHARTER AND BYLAWS, AS WELL AS PROVISIONS OF DELAWARE LAW, COULD MAKE IT DIFFICULT FOR A THIRD PARTY TO ACQUIRE OUR COMPANY AND ALSO COULD LIMIT THE PRICE THAT INVESTORS ARE WILLING TO PAY IN THE FUTURE FOR SHARES OF OUR COMMON STOCK.

Delaware corporate law and our charter and bylaws contain provisions that could delay, deter or prevent a change in control of our company or our management. These provisions could also discourage proxy contests and make it more difficult for our stockholders to elect directors and take other corporate actions without the concurrence of our management or board of directors. These provisions:

- authorize our board of directors to issue "blank check" preferred stock, which is preferred stock that can be created and issued by our board of directors, without stockholder approval, with rights senior to those of our common stock;
- provide for a staggered board of directors and three-year terms for directors, so that no more than one-third of our directors could be replaced at any annual meeting;
- provide that directors may be removed only for cause; and
- establish advance notice requirements for submitting nominations for election to the board of directors and for proposing matters that can be acted upon by stockholders at a meeting.

We are also subject to anti-takeover provisions under Delaware law, which could also delay or prevent a change of control. Taken together, these provisions of our charter, bylaws and Delaware law may discourage transactions that otherwise could provide for the payment of a premium over prevailing market prices of our common stock and also could limit the price that investors are willing to pay in the future for shares of our common stock.

OUR MANAGEMENT OWNS A SIGNIFICANT AMOUNT OF OUR COMMON STOCK, GIVING THEM INFLUENCE OR CONTROL IN CORPORATE TRANSACTIONS AND OTHER MATTERS, AND THEIR INTERESTS COULD DIFFER FROM THOSE OF OTHER SHAREHOLDERS.

At June 1, 2006, our directors and executive officer, owned approximately 46 percent of our outstanding common stock. As a result, our current directors and executive officer are in a position to significantly influence or control the outcome of matters requiring a shareholder vote, including the election of directors, the adoption of any amendment to our certificate of incorporation or bylaws, and the approval of mergers and other significant corporate transactions. Such level of control of the company may delay or prevent a change of control on terms favorable to the other shareholders and may adversely affect the voting and other rights of other shareholders.

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CAUTION ABOUT FORWARD-LOOKING STATEMENTS

Some of the statements under the captions "Prospectus Summary," "Risk Factors," "Use of Proceeds," "Business" and elsewhere in this prospectus are "forward-looking statements." These forward-looking statements include, but are not limited to, statements about our plans, objectives, expectations and intentions and other statements contained in this prospectus that are not historical facts. When used in this prospectus, the words "anticipates," "believes," "continue," "could," "estimates," "expects," "intends," "may," "plans," "seeks," "should" or "will" or the negative of these terms or similar expressions are generally intended to identify forward-looking statements. Because these forward-looking statements involve risks and uncertainties, there are important factors that could cause actual results to differ materially from those expressed or implied by these forward-looking statements, including our plans, objectives, expectations and intentions and other factors discussed under "Risk Factors."

USE OF PROCEEDS

The selling securityholders will receive all of the proceeds from the sale of the common shares sold under this prospectus. We will not receive any proceeds from the sale of these securities.

MARKET FOR REGISTRANT'S COMMON EQUITY AND RELATED STOCKHOLDER MATTERS

Since January 18, 2002, our Common Stock has been listed on the over-the-counter electronic bulletin board ("OTCBB") under the symbol "HUSA". The following table sets forth the range of high and low bid prices for each quarter during the past two fiscal years.

	High	Low
Calendar Year 2006		
First Quarter	3.85	2.90
Calendar Year 2005		
Fourth Quarter.	3.50	2.65
Third Quarter	2.75	1.00
Second Quarter.	1.25	0.76
First Quarter	1.00	0.78
Calendar Year 2004		
Fourth Quarter.	1.05	0.83
Third Quarter	1.10	0.83
Second Quarter.	1.35	0.60
First Quarter	1.00	0.65

The quotations reflect inter-dealer prices without retail mark-up, mark-down or commission and may not represent actual transactions.

At June 1, 2006, the closing bid price of the Common Stock was $4.10.

As of June 1, 2006, there were approximately 972 record holders of our Common Stock.

DIVIDEND POLICY

We have not paid dividends in the past and we intend to retain earnings, if any, and will not pay cash dividends in the foreseeable future. Any future determination to pay cash dividends will be at the discretion of the board of directors and will be dependent upon our financial condition, results of operations, capital requirements, general business conditions and such other factors as the board of directors may deem relevant.

MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS

GENERAL

Houston American Energy was incorporated in April 2001, for the purposes of seeking oil and gas exploration and development prospects. Since inception, we have sought out prospects utilizing the expertise and business contacts of John F. Terwilliger, our sole executive officer. Through the third quarter of 2002, the acquisition targets were in the Gulf Coast region of Texas and Louisiana, where Mr. Terwilliger has been involved in oil and gas exploration for many years. In the fourth quarter 2002, we initiated international efforts through a Colombian joint venture more fully described below. Domestically and internationally, the strategy is to be a non-operating partner with exploration and production companies that have much larger resources and operations.

OVERVIEW OF OPERATIONS

Our operations are exclusively devoted to natural gas and oil exploration and production.

Our focus, to date and for the foreseeable future, is the identification of oil and gas drilling prospects and participation in the drilling and production of prospects. We typically identify prospects and assemble various drilling partners to participate in, and fund, drilling activities. We may retain an interest in a prospect for our services in identifying and assembling prospects without any contribution on our part to drilling and completion costs or we may contribute to drilling and completion costs based on our proportionate interest in a prospect.

We derive our revenues from our interests in oil and gas production sold from prospects in which we own an interest, whether through royalty interests, working interest or other arrangements. Our revenues vary directly based on a combination of production volumes from wells in which we own an interest, market prices of oil and natural gas sold and our percentage interest in each prospect.

Our well operating expenses vary depending upon the nature of our interest in each prospect. We may bear no interest or a proportionate interest in the costs of drilling, completing and operating prospects on which we own an interest. Other than well drilling, completion and operating expenses, our principal operating expenses relate to our efforts to identify and secure prospects, comply with our various reporting obligations as a publicly held company and general overhead expenses.

Business Developments During 2005

Drilling Activities

During 2005, we drilled 4 successful on-shore domestic wells as follows:

- In May 2005, a well was drilled on the South Sibley Prospect in Webster Parish, Louisiana with multiple pay sands apparently identified. Sales from the well commenced June 28, 2005. We have a 7.5% working interest at an 8.3% net revenue interest carried to point of sales for the well.

- In April 2005, the Baronet #2 well was drilled on the Crowley Prospect in Acadia Parish, Louisiana. The well tested the Hayes Sand and flanks a natural gas well that produced 1.6 BCF of natural gas from the Hayes Sand. After logging 21-feet of apparent net pay, hole conditions deteriorated before logging could be completed. The well was completed and production began in June 2005. We have a 3% working interest and 2.25% net revenue interest until payout for the well.

- In December 2005, the Broussard #1 well was drilled on the Sugarland Prospect in Vermillion Parish, Louisiana with multiple pay sands apparently indicated. The well was completed in January 2006 and production sales are expected to begin in March 2006. We have an 8.25% working interest with a 6.1875% net revenue interest, subject to a 25% working interest back-in at payout.

- In November 2005, the Weil #1 well was drilled on the Hog Heaven Prospect in Jim Hogg County, Texas with multiple pay sands indicated. The well was completed in January 2006 and production sales are expected to begin in March 2006. We have a 4.375% working interest, subject to payment of 5.8334% of costs to the casing point in the first well.

We had no dry holes drilled during 2005.

During 2005, we drilled 10 international wells in South America as follows:

- Drilling of 9 offset wells on the Cara Cara concession in Colombia was completed with production commencing on the Bengala #4, #5, #6, #7ST and #8 and the Jaguar #5, #T5, #T6 and #T7. We hold a 1.59% working interest in each of the wells subject to a 30% reversionary interest to Ecopetrol at payout.

- An oil well, the Tambaqui #5, was drilled and successfully completed under the Tambaqui Association Contract in Columbia and began production in May 2005. We hold a 12.6% working interest and an 11.59% net revenue interest in the well.

Leasehold Activities

During 2005, we invested approximately $506,837 for the acquisition of oil and gas properties, consisting of (1) acquisition, by Hupecol, of the Surimena concession covering approximately 108 square miles, (2) acquisition of a 8.25% interest in the Sugarland Prospect, (3) acquisition of a 4.375% interest in the Hog Heaven Prospect, (4) acquisition of a 15% interest in the West Fargo Prospect, and (5) acquisition of a 15% interest in the Obenhaus Prospect.

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Other Developments

Seismic surveying began on our Cara Cara concession in Colombia as part of our planned delineation of additional drilling prospects on the concession. Seismic surveying was completed on our Dorotea and Cabiona concessions to establish drilling prospect locations.

In May 2005, we sold $2,125,000 of 8% Subordinated Convertible Notes Due 2010 to multiple investors to provide funding to support our lease acquisition and drilling activities in the U.S. and Colombia. In connection with the placement of the convertible notes, we issued to the placement agent in the transaction a three year warrant to purchase 191,250 shares of our common stock at $1.00 per share and paid commissions totaling $127,500. Pursuant to the terms of the placement of the convertible notes, we entered into a Registration Rights Agreement with the purchasers of the notes and, pursuant to the Registration Rights Agreement, filed a registration statement with the Securities and Exchange Commission covering the resale of the shares of common stock underlying the convertible notes as well as the shares issuable upon exercise of the placement agent warrant.

In August 2005, we appointed three additional directors, adopted a stock option plan and fixed the compensation of our non-employee directors.

BUSINESS DEVELOPMENTS DURING 2006

Drilling Activity

During the quarter ended March 31, 2006, we 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, we 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, we had plans to drill 5 wells during the balance of 2006.

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

At March 31, 2006, we 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, we 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.

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Seismic Activity

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

Capital Raising Activity

In April 2006, we 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, we paid to the placement agent commissions of $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, we repaid loans from our principal shareholder, in the principal amount of $900,000, from the proceeds of the April 2006 private placement.

In May 2006, we exercised our right to cause our 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.

CRITICAL ACCOUNTING POLICIES

The following describes the critical accounting policies used in reporting our financial condition and results of operations. In some cases, accounting standards allow more than one alternative accounting method for reporting, such is the case with accounting for oil and gas activities described below. In those cases, our reported results of operations would be different should we employ an alternative accounting method.

Full Cost Method of Accounting for Oil and Gas Activities. The Securities and Exchange Commission ("SEC") prescribes in Regulation S-X the financial accounting and reporting standards for companies engaged in oil and gas producing activities. Two methods are prescribed: the successful efforts method and the full cost method. We follow the full cost method of accounting for oil and gas property acquisition, exploration and development activities. Under this method, all productive and nonproductive costs incurred in connection with the exploration for and development of oil and gas reserves are capitalized. Capitalized costs include lease acquisition, geological and geophysical work, delay rentals, costs of drilling, completing and equipping successful and unsuccessful oil and gas wells and related internal costs that can be directly identified with acquisition, exploration and development activities, but does not include any cost related to production, general corporate overhead or similar activities. Gain or loss on the sale or other disposition of oil and gas properties is not recognized unless significant amounts of oil and gas reserves are involved. No corporate overhead has been capitalized as of December 31, 2005. The capitalized costs of oil and gas properties, plus estimated future development costs relating to proved reserves are amortized on a units-of-production method over the estimated productive life of the reserves. Unevaluated oil and gas properties are excluded from this calculation. The capitalized oil and gas property costs, less accumulated amortization, are limited to an amount (the ceiling limitation) equal to the sum of: (a) the present value of estimated future net revenues from the projected production of proved oil and gas reserves, calculated at prices in effect as of the balance sheet date (with consideration of price changes only to the extent provided by contractual arrangements) and a discount factor of 10%; (b) the cost of unproved and unevaluated properties excluded from the costs being amortized; (c) the lower of cost or estimated fair value of unproved properties included in the costs being amortized; and (d) related income tax effects. Excess costs are charged to proved properties impairment expense.

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Unevaluated Oil and Gas Properties. Unevaluated oil and gas properties consist principally of our cost of acquiring and evaluating undeveloped leases, net of an allowance for impairment and transfers to depletable oil and gas properties. When leases are developed, expire or are abandoned, the related costs are transferred from unevaluated oil and gas properties to depletable oil and gas properties. Additionally, we review the carrying costs of unevaluated oil and gas properties for the purpose of determining probable future lease expirations and abandonments, and prospective discounted future economic benefit attributable to the leases. We record an allowance for impairment based on a review of present value of future cash flows. Any resulting charge is made to operations and reflected as a reduction of the carrying value of the recorded asset. Unevaluated oil and gas properties not subject to amortization include the following at December 31, 2005 and March 31, 2006:

	At December 31, 2005	At March 31, 2006
Acquisition costs	$ 44,548	$ 98,807
Evaluation costs	151,346	723,900
Total	$ 195,894	$ 822,707

The carrying value of unevaluated oil and gas prospects include $151,039 and $706,353 expended for properties in South America at December 31, 2005 and March 31, 2006, respectively. We are maintaining our interest in these properties and development has or is anticipated to commence within the next twelve months.

Subordinated Convertible Notes and Warrants - Derivative Financial Instruments. The Subordinated Convertible Notes and Warrants issued during 2005 have been accounted for in accordance with SFAS 133 and EITF No. 00-19, "Accounting for Derivative Financial Instruments Indexed to, and Potentially Settled in, a Company's Own Stock.

We have identified the following instruments and derivatives requiring evaluation and accounting under the relevant guidance applicable to financial derivatives:

- Subordinated Convertible Notes
- Conversion feature
- Conversion price reset feature
- Company's optional redemption right
- Warrants
- Warrants exercise price reset feature

We have identified the conversion feature; the conversion price reset feature and our optional early redemption right within the Convertible Notes to represent embedded derivatives. These embedded derivatives have been bifurcated from their respective host debt contracts and accounted for as derivative liabilities in accordance with EITF 00-19. The conversion feature, the conversion price reset feature and our optional early redemption right within the Convertible Notes have been bundled together as a single hybrid compound instrument in accordance with SFAS No. 133 Derivatives Implementation Group Implementation Issue No. B-15, "Embedded Derivatives: Separate Accounting for Multiple Derivative Features Embedded in a Single Hybrid Instrument."

We have identified the common stock warrant to be a detachable derivative. The warrant exercise price reset provision is an embedded derivative within the common stock warrant. The common stock warrant and the embedded warrant exercise price reset provision have been accounted for as a separate single hybrid compound instrument.

The single compound embedded derivatives within Subordinated Convertible Notes and the derivative liability for Warrants have been recorded at fair value at the date of issuance (May 4, 2005); and are marked-to-market each quarter with changes in fair value recorded to our income statement as "Net change in fair value of derivative liabilities." We have utilized a third party valuation firm to fair value the single compound embedded derivatives under the following methods: a layered discounted probability-weighted cash flow approach for the single compound embedded derivatives within Subordinated Convertible Notes; and the Black-Scholes model for the derivative liability for Warrants based on a probability weighted exercise price".

The fair value of the derivative liabilities are subject to the changes in the trading value of our common stock. As a result, our financial statements may fluctuate from quarter-to-quarter based on factors, such as the price of our stock at the balance sheet date, the amount of shares converted by note holders and/or exercised by warrant holders. Consequently, our financial position and results of operations may vary from quarter-to-quarter based on conditions other than our operating revenues and expenses.

RESULTS OF OPERATIONS

THREE MONTHS ENDED MARCH 31, 2006 COMPARED TO THREE MONTHS ENDED MARCH 31, 2005

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

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.

YEAR ENDED DECEMBER 31, 2005 COMPARED TO YEAR ENDED DECEMBER 31, 2004

Oil and Gas Revenues. Total oil and gas revenues increased $1,598,394, or 135.2%, to $2,780,457 in fiscal 2005 compared to $1,182,063 in fiscal 2004. The increase in revenue is due to (1) increased production resulting from the development of the Colombian fields and the new domestic wells that have come on line during 2004 and 2005 and (2) increases in oil prices. We had interests in 17 producing wells in Colombia and 14 producing wells in North America during 2005 as compared to 8 producing wells in Colombia and 8 producing wells in North America during 2004. Average prices from sales were $47.89 per barrel of oil and $7.83 per mcf of gas during 2005 as compared to $33.31 per barrel of oil and $5.43 per mcf of gas during 2004. Following is a summary comparison, by region, of oil and gas sales for the periods.

	Colombia	North America	Total
Year ended 2005			
Oil sales	$2,041,072	$ 75,115	$2,116,187
Gas sales	0	664,270	664,270
Year ended 2004			
Oil sales	$ 808,472	$ 39,376	$ 847,848
Gas sales	0	334,215	334,215

Other Revenues. Other revenues, consisting of commission income and interest income, increased by $88,133 to $94,191 in fiscal 2005 as compared to $6,058 in fiscal 2004. The increase in other revenues was attributable to an increase in interest income earned as a result of higher balances held following the 2005 placement of Subordinated Convertible Notes and the receipt during 2005 of a one-time commission of $60,000.

Lease Operating Expenses. Lease operating expenses, excluding joint venture expenses relating to our Colombia operations discussed below, increased 130.5% to $953,624 in 2005 from $413,723 in 2004. The increase in lease operating expenses was attributable to the increase in the number of wells operated during 2005. Following is a summary comparison of lease operating expenses for the years ended December 31, 2005 and 2004.

	Colombia	North America	Total
Year ended 2005	$ 874,082	$ 79,542	$953,624
Year ended 2004	354,448	59,275	413,723

Joint Venture Expenses. Joint venture expenses totaled $61,500 in 2005 compared to $41,944 in 2004. The joint venture expenses represent our allocable share of the indirect field operating and region administrative expenses billed by the operator of the Colombian concessions. The increase in joint venture expenses was attributable to increased activities associated with acquiring new concessions in Colombia.

Depreciation and Depletion Expense. Depreciation and depletion expense increased by 71.5% to $363,196 in fiscal 2005 when compared to $211,759 in 2004. The increase in depreciation and depletion expense was primarily attributable to the increased production from new wells coming on line during 2004 and 2005.

General and Administrative Expenses. General and administrative expense increased by 150.7% to $835,829 in 2005 from the $333,412 in 2004. The increase in general and administrative expense was primarily attributable to an increase in payroll expense (up $143,298 from $48,742) as a result of the our payment of a salary to our principal officer beginning in the fourth quarter of 2004 and increases in professional fees (up $354,139, or 235.1%) relating primarily to legal fees associated with the Moose Oil litigation commenced during 2004 and settled in 2005.

Interest Expense. Interest expense increased 155.4% to $183,920 in 2005 compared to $72,000 in 2004. Included in interest expense was $72,000 of interest paid to our principal shareholder in both 2004 and 2005. The increase in interest expense was attributable to the issuance, in May 2005, of $2,125,000 of subordinated convertible notes.

Derivative Related Expenses. In connection with the issuance during 2005 of the subordinated convertible notes and related warrants, we, during 2005, reported derivative related expenses arising in connection with derivative features included in the subordinated convertible notes and the warrants, consisting of derivative interest expense of $319,714 and a charge in the amount of the net change in fair value of derivative liabilities of $402,628. We incurred no similar expenses during fiscal 2004.

Derivative interest expense consisted of (1) the excess of the value of the derivatives embedded in the subordinated convertible notes at closing over the face amount of the notes ($243,485), plus (2) the value of the derivatives embedded in the warrants ($42,063), plus (3) amortization of the recorded discount on the convertible notes ($34,167) over a five year period under the effective interest method.

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The expense attributable to the net change in fair value of derivative liabilities consisted of the increase in the recorded derivative liability attributable to derivatives embedded in the subordinated convertible notes from the date of issuance to December 31, 2005 ($15,561) using mark-to-market accounting and the increase in the recorded derivative liability attributable to derivatives embedded in the warrants from the date of issuance to December 31, 2005 ($387,067). We will evaluate the fair value of the derivative liabilities on a quarter-to-quarter basis until the subordinated convertible notes and warrants are no longer outstanding and changes in the fair value of the derivative liability will result in charges or accretions to earnings based on various factors affecting fair value including the price of the Company's stock and the amounts of notes converted and warrants exercised.

Income Tax Expense. Income tax expense increased to $239,201 in fiscal 2005 from $0 in fiscal 2004. The increase in income tax expense during 2005 is attributable to the estimated allocable share of Colombian income tax relating to our interest in our Colombian venture. We recorded no U.S. income tax liability in 2005 or 2004 and at December 31, 2005 had net operating losses of approximately $1,173,000 and foreign tax credits of approximately $239,000.

Operating and Net Income (Loss). Operating income for fiscal 2005 totaled $660,499 as compared to $187,283 in fiscal 2004. Net loss totaled $501,780 in fiscal 2005 as compared to net income of $115,283 in fiscal 2004. The adverse change in net income (loss) in 2005 was attributable, primarily, to the non-cash non-operating charges arising from accounting for derivative features included in the subordinated convertible note financing undertaken in 2005, and, to a lesser extent, to increased fees and interest expense associated with the financing and the incurrence of income tax expense from operations in Colombia.

FINANCIAL CONDITION

Liquidity and Capital Resources. At March 31, 2006 we had a cash balance of $1,262,811 and a 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 our April 2006 private placement, we repaid the shareholder loan in full.

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).

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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.

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

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

Long-Term Debt. At March 31, 2006, we 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, we exercised our 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. Our 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, we expect that future capital and exploration expenditures will be funded principally through funds on hand and funds generated from operations.

During the first quarter of 2006, we 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, our only material contractual obligations requiring determinable future payments were a note payable to our principal shareholder, the 8% subordinated convertible notes and a lease relating to our 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, our 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 concessions, (2) $1,015,000 to drill 5 domestic wells, and (3) $440,000 for seismic in Colombia. Our acquisition and drilling budget has historically been subject to substantial fluctuation over the course of a year based upon successes and failures in drilling and completion of prospects and the identification of additional prospects during the course of a year.

Management anticipates that our current financial resources, 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 we may require and seek additional financing if additional drilling prospects are pursued beyond those presently under consideration.

OFF-BALANCE SHEET ARRANGEMENTS

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

INFLATION

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

BUSINESS

GENERAL

Houston American Energy Corp. is an oil and gas exploration and production company. Our oil and gas exploration and production activities are focused on properties in the U.S. onshore Gulf Coast Region, principally Texas and Louisiana, and development of concessions in the South American country of Colombia. We seek to utilize the contacts and experience of our sole executive officer, John F. Terwilliger, to identify favorable drilling opportunities, to use advanced seismic techniques to define prospects and to form partnerships and joint ventures to spread the cost and risks to us of drilling.

EXPLORATION PROJECTS

Our exploration projects are focused on existing property interests, and future acquisition of additional property interests, in the onshore Texas Gulf Coast region, Colombia and Louisiana.

Each of our exploration projects differs in scope and character and consists of one or more types of assets, such as 3-D seismic data, leasehold positions, lease options, working interests in leases, partnership or limited liability company interests or other mineral rights. Our percentage interest in each exploration project ("Project Interest") represents the portion of the interest in the exploration project we share with other project partners. Because each exploration project consists of a bundle of assets that may or may not include a working interest in the project, our Project Interest simply represents our proportional ownership in the bundle of assets that constitute the exploration project. Therefore, our Project Interest in an exploration project should not be confused with the working interest that we will own when a given well is drilled. Each exploration project represents a negotiated transaction between the project partners. Our working interest may be higher or lower than our Project Interest.

Our principal exploration projects as of December 31, 2005 consisted on the following:

WEBSTER PARISH, LOUISIANA. In Webster Parish, Louisiana, we hold a 7.5% working interest at an 8.3% net revenue interest carried to point of sales for the first well in over 4,000 acres known as the South Sibley Prospect. Drilling of a 10,600-foot well, the first well, on the South Sibley Prospect, was completed in May 2005 with multiple pay sands apparently identified. Sales from the well commenced June 28, 2005.

We also hold a 7.5% working interest at a 6.055% net revenue interest in the Holley #1 well and associated 640-acre unit, acquired in December 2005, in Webster Parish, Louisiana.

We intend to evaluate additional drilling sites and the drilling of additional wells on our Webster Parish prospects in 2006.

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IBERVILLE PARISH, LOUISIANA. In Iberville Parish, Louisiana, we have agreed, subject to final review and approval of supporting documentation, to acquire a 6% working interest and a 4.2% net revenue interest subject to a 20% back in at payout in a 300-acre leasehold known as the Green Jacket Prospect. Subject to completion of the acquisition of the Green Jacket Prospect, drilling of a 13,200-foot test well is expected to begin in the second half of 2006 to test multiple sands at a location based on 3D seismic and being adjacent to a well that produced significant oil from two of the four objective sands.

ACADIA PARISH, LOUISIANA. In Acadia Parish, Louisiana, we hold a 3% working interest and a 2.25% net revenue interest until payout in a 620-acre leasehold known as the Crowley Prospect. The Hoffpauer #1 (formerly the Baronet #1) was drilled in the third quarter of 2004. Commercial production of the well commenced in December 2004. Drilling of a 12,100-foot well, the Baronet #2 well, on the Crowley Prospect in Acadia Parish, Louisiana was completed in April 2005. The well tested the Hayes Sand and flanks a natural gas well that produced 1.6 BCF of natural gas from the Hayes Sand. After logging 21-feet of apparent net pay, hole conditions deteriorated before logging could be completed. The well was completed and production began in June 2005. Assuming the Baronet #2 performs consistently, we may drill a developmental well on the Crowley Prospect during 2006.

VERMILLION PARISH, LOUISIANA. In Vermillion Parish, Louisiana, we hold an 8.25% working interest with a 6.1875% net revenue interest, subject to a 25% working interest back in at payout, in the 425 acre Sugarland Prospect. The Broussard #1 well, a 12,900-foot test well, was drilled on the Sugarland Prospect in December 2005, with indications of multiple pay sands, and was completed in January 2006. Sales from the Broussard #1 are expected to begin in March 2006.

We presently have no plans with respect to drilling additional wells on the Sugarland Prospect.

JIM HOGG COUNTY, TEXAS. In Jim Hogg County, Texas, we hold a 4.375% working interest, subject to payment of 5.8334% of costs to the casing point in the first well, in the 500 acre Hog Heaven Prospect. The Weil #1 well, a 6,200-foot test well, was drilled on the Hog Heaven Prospect in November 2005. Electric log and sidewall core analysis indicate multiple pay sands in the Weil #1 well with the well expected to be completed as a natural gas well, with some possible oil production. The well was completed in January 2006 and production and sales are expected to commence in March 2006. Based on the initial indications of multiple pay sands, we intend to evaluate the possible drilling of multiple offset wells beginning in 2006.

VICTORIA COUNTY, TEXAS. In Victoria County, Texas, we hold a 50% working interest at a 40% net revenue interest in the Allar #2 well. The well, acquired in December 2005, was re-completed in January 2006 as a producing gas well. We presently have no plans to drill additional wells in Victoria County.

WILBARGER COUNTY, TEXAS. In Wilbarger County, Texas, we hold a 15% working interest with an 11.25% net revenue interest in the 900-acre West Fargo Prospect. The Riggins #1 well, a 6,400-foot test well, was drilled on the Wells Fargo Prospect in April 2006 and was non-commercial.

We also hold a 15% working interest with an 11.25% net revenue interest in the 1340 acre Obenhaus Prospect in Wilbarger County, Texas. The Obenhaus #1 well, a 7,200-foot test well, was drilled on the Obenhaus Prospect in March 2006 and was a dry hole.

LLANOS BASIN, COLOMBIA. In the Llanos Basin, Colombia, we hold interests in (1) a 232,050 acre tract known as the Cara Cara concession, (2) the Tambaqui Association Contract covering 4,400 acres in the State of Casanare, Colombia, (3) two concessions, the Dorotea Contract and the Cabiona Contract, totaling over 136,000 acres, (4) the Surimena concession covering approximately 69,000 acres, (5) the Las Garzas concession covering approximately 103,000 acres, (6) the Jagueyes Technical Evaluation Agreement ("TEA") covering approximately 324,000 acres, and (7) the Simon TEA covering approximately 166,000 acres.

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Our interest in the Cara Cara, Dorotea, Cabiona, Surimena and Las Garzas concessions and the Jagueyes TEA and Simon TEA are held through an interest in Hupecol, LLC. We hold a 12.5% working interest in each of the prospects of Hupecol. In conjunction with our interest in Hupecol, we also acquired, and hold, a 12.6% working interest, with an 11.31% net revenue interest, in the Tambaqui Association Contract.

The first well drilled in the Cara Cara concession, the Jaguar #1 well, was completed in April 2003 with initial production of 892 barrels of oil per day. In conjunction with the efforts to develop the Cara Cara concession, Hupecol acquired 50 square miles of 3D seismic grid surrounding the Jaguar #1 well and other prospect areas. That data is being utilized to identify additional drill site opportunities to develop a field around the Jaguar #1 well and in other prospect areas within the grid.

Our working interest in the Cara Cara concession and the Tambaqui Association Contract are subject to an escalating royalty of 8% on the first 5,000 barrels of oil per day, increasing to 20% at 125,000 barrels of oil per day. Our interest in the Tambaqui Association Contract is subject to reversionary interests of Ecopetrol, the state owned Colombian oil company, that could cause 50% of the working interest to revert to Ecopetrol after we have recouped four times our initial investment. Our working interest in the additional concessions is subject to an escalating royalty ranging from 8% to 20% depending upon production volumes and pricing and an additional 6% to 10% per concession when 5,000,000 barrels of oil have been produced on that concession.

In December 2003, we exercised our right to participate in the acquisition, through Hupecol, of over 3,000 kilometers of seismic data in Colombia covering in excess of 20 million acres. The seismic data is being utilized to map prospects in key areas with a view to delineating multiple drilling opportunities. We will hold a 12.5% interest in all prospects developed by Hupecol arising from the acquired seismic data, including the Cabiona and Dorotea concessions acquired in the fourth quarter of 2004, the Surimena concession acquired in the second quarter of 2005, the Las Garzas concession acquired in November 2005, the Jagueyes TEA acquired in May 2005 and the Simon TEA acquired in June 2005. We plan to acquire, during 2006, 3D seismic data on the Las Garzas contract, the Jagueyes TEA and the Simon TEA in order to further delineate drilling opportunities on those prospects.

During 2005, Hupecol drilled 9 wells on the Cara Cara concession in Colombia to offset, and delineate, the Jaguar #1 well, with production commencing on the Bengala #4, #5, #6, #7ST and #8 and the Jaguar #5, #T5, #T6 and #7. We hold a 1.59% working interest in each of the wells subject to a 30% reversionary interest to Ecopetrol at payout. During 2005, seismic surveying was undertaken on the Cara Cara concession to delineate additional drilling prospects on the concession. Through Hupecol, we presently plan to drill an additional 10 wells on the Cara Cara concession during 2006.

During 2005, the Tambaqui #5 was drilled and began production under the Tambaqui Association Contract. We hold a 12.6% working interest in the well. In December 2005, we relinquished all acreage under the Tambaqui Association Contract with the exception of 4,403 acres around the producing wells. We presently have no plans to drill additional wells under the Tambaqui Association Contract during 2006.

During 2005, seismic surveying was undertaken on the Dorotea and Cabiona concessions to establish drilling prospect locations. We are permitting 30 drilling locations on the Dorotea and Cabiona concessions and, subject to securing an additional drilling rig, plan to drill 1 well on the Cabiona concession and 1 well on the Dorotea concession during 2006.

Based on 2D seismic interpretation, and rig availability, we plan to begin drilling the Surimena concession during the first half of 2006.

In addition to our principal exploration projects, we hold various interests in producing wells in Vermillion Parish, Louisiana, Plaquemines Parish, Louisiana, Lavaca County, Texas, Matagorda County, Texas, San Patricio County, Texas and Ellis County, Oklahoma. We have no present plans to conduct additional drilling activities on those prospects.

The following table sets forth certain information about each of our exploration projects:

	Acres Leased or Under Option at December 31, 2005(1)			
Project Area	Project Gross	Project Net	Company Net	Pro Int

TEXAS:			
Jim Hogg County	500.00	500.0	21.88
Wilbarger County			
West Fargo Prospect	900.00	900.00	135.00
Obenhaus Prospect	1,340.00	1,340.00	201.00
Lavaca County			
Mavis Wharton	300.00	150.00	7.50
West Hardys Creek	65.65	65.65	24.95
San Patricio County	380.00	380.00	19.00
Matagorda County			
S.W. Pheasant Prospect. . . .	779.00	779.00	27.27
Turtle Creek Prospect	672.00	672.00	23.52
Nacogdoches County	80.94	80.94	80.94
Victoria County	58.37	58.37	29.18
Texas Sub-Total	5,075.96	4,925.96	570.24
LOUISIANA:			
Webster Parish	6,244.00	4,457.00	334.28
Iberville Parish	300.65	300.65	18.04
Vermillion Parish			
Sugarland Prospect.	425.00	425.00	35.06
LaFurs F-16 Well.	830.00	830.00	18.68
Acadia Parish	620.00	620.00	18.60
Plaquemines Parish.	300.00	300.00	5.40
Louisiana Sub-Total	8,719.65	6,932.65	430.06
OKLAHOMA			
Jenny #1-14	160.00	160.00	3.78
Oklahoma Sub-Total.	160.00	160.00	3.78
COLOMBIA			
Cara Cara Concession.	232,050.00	232,500.00	3,689.00
Tambaqui Assoc. Contract (2).	4,403.00	4,403.00	555.00
Dorotea Concession.	51,321.00	51,321.00	6,415.00
Cabiona Concession.	86,066.00	86,066.00	10,758.00
Surimena Concession	69,189.00	69,189.00	8,649.00
Las Garzas Concession	103,784.00	103,784.00	12,973.00
Jagueyes TEA.	324,695.00	324,695.00	40,587.00
Simon TEA	166,301.00	166,301.00	20,788.00
Colombia Sub-Total.	1,037,809.00	1,037,809.00	104,414.00
Total	1,051,764.61	1,049,827.61	105,418.08

(1) Project Gross Acres refers to the number of acres within a project. Project Net Acres refers to leaseable acreage by tract. Company Net Acres are either leased or under option in which we own an undivided interest. Company Net Acres were determined by multiplying the Project Net Acres leased or under option times our working interest therein.

(2) The project interest is the working interest in the concession and not necessarily the working interest in the well.

DRILLING ACTIVITIES

In 2005, we drilled 4 exploratory and 10 developmental wells of which all 14 were completed and none were dry holes. In 2004, 9 exploratory and 7 developmental wells were drilled of which 11 were completed and 5 were dry holes.

The following table sets forth certain information regarding the actual drilling results for each of the years 2004 and 2005 as to wells drilled in each such individual year:

	Exploratory Wells (1)		Developmental Wells (1)	
	Gross	Net	Gross	Net
2004				
Productive	4	0.128	7	0.220
Dry	5	0.238	0	0
2005				
Productive	4	0.231	10	0.226
Dry	0	0	0	0

(1) Gross wells represent the total number of wells in which we owned an interest; net wells represent the total of our net working interests owned in the wells.

One well was in progress at December 31, 2005 on the Cara Cara prospect.

PRODUCTIVE WELL SUMMARY

The following table sets forth certain information regarding our ownership as of December 31, 2005 of productive gas and oil wells in the areas indicated:

	Gas		Oil	
	Gross	Net	Gross	Net
Texas	6	0.934	0	0
Louisiana	7	0.333	0	0
Oklahoma	1	0.024	0	0
Colombia	0	0	17	0.419
Total	14	1.291	17	0.419

VOLUME, PRICES AND PRODUCTION COSTS

The following table sets forth certain information regarding the production volumes, average prices received (net of transportation costs) and average production costs associated with our sales of gas and oil for the periods indicated:

	Year Ended December 31, 2004	Year Ended December 31, 2005
Net Production:		
Gas (Mcf):		
North America	61,519	106,449
South America	0	0
Oil (Bbls):		
North America	886	1,396
South America	24,040	42,789
Average sales price:		
Gas ($per Mcf)	5.43	7.83
Oil (Bbls)	33.31	47.89
Average production expense and Taxes ($per Bbls):		
North America	5.08	4.16
South America	16.15	20.43

NATURAL GAS AND OIL RESERVES

The following table summarizes the estimates of our historical net proved reserves as of December 31, 2004 and 2005, and the present value attributable to these reserves at these dates. The reserve data and present values were prepared by Pressler Petroleum Consultants, Inc., independent petroleum engineering consultants:

	At December 31, 2004	At December 31, 2005
Net proved reserves (1):		
Natural gas (Mcf)	202,420	850,650
Oil (Bbls).	307,290	273,421
Standardized measure of discounted future net cash flows (2).	$4,005,624	$6,375,600

(1) At December 31, 2005, net proved reserves, by region, consisted of 270,621 barrels of oil in South America and 2,800 barrels of oil in North America; all natural gas reserves were in North America.

(2) The standardized measure of discounted future net cash flows represents the present value of future net revenues after income tax discounted at 10% per annum and has been calculated in accordance with SFAS No. 69, "Disclosures About Oil and Gas Producing Activities" (see Note 7 - Supplemental Information on Oil and Gas Exploration, Development and Production Activities (Unaudited)) and, in accordance with current SEC guidelines, and does not include estimated future cash inflows from hedging. The standardized measure of discounted future net cash flows

attributable to our reserves was prepared using prices in effect at the end of the respective periods presented, discounted at 10% per annum on a pre-tax basis.

In accordance with applicable requirements of the Securities and Exchange Commission, we estimate our proved reserves and future net cash flows using sales prices and costs estimated to be in effect as of the date we make the reserve estimates. We hold the estimates constant throughout the life of the properties, except to the extent a contract specifically provides for escalation. Gas prices, which have fluctuated widely in recent years, affect estimated quantities of proved reserves and future net cash flows. Any estimates of natural gas and oil reserves and their values are inherently uncertain, including many factors beyond our control. The reserve data contained in this report represent only estimates. Reservoir engineering is a subjective process of estimating underground accumulations of natural gas and oil that cannot be measured in an exact manner. The accuracy of reserve estimates is a function of the quality of available data and of engineering and geological interpretation and judgment. As a result, estimates of different engineers, including those we use, may vary. In addition, estimates of reserves may be revised based upon actual production, results of future development and exploration activities, prevailing natural gas and oil prices, operating costs and other factors, which revision may be material. Accordingly, reserve estimates may be different from the quantities of natural gas and oil that we are ultimately able to recover and are highly dependent upon the accuracy of the underlying assumptions. Our estimated proved reserves have not been filed with or included in reports to any federal agency.

LEASEHOLD ACREAGE

The following table sets forth as of December 31, 2005, the gross and net acres of proved developed and proved undeveloped and unproven gas and oil leases which we hold or have the right to acquire:

	Proved Developed		Proved Undeveloped		Unproven	
	Gross	Net	Gross	Net	Gross	Net
Texas	1,593.02	114.90	340.00	14.88	2,992.94	440.46
Louisiana . . .	3,145.00	164.44	310.00	9.30	3,477.65	256.32
Oklahoma. . . .	160.00	3.78	0	0	0	0
Colombia. . . .	2,720.00	78.48	1760.00	27.98	1,033,329.00	104,307.54

Total . . .	7,618.02	357.82	2410.00	52.16	1,039,799.59	105,004.32
	=========	=========	=========	=========	============	==========

During 2005, we acquired interests in (1) the 4,000+ acre South Sibley Prospect, (2) the Holley #1 well and 640 acre unit, (3) the 300 acre Green Jacket Prospect, (4) the 425 acre Sugarland Prospect, (5) the 500 acre Hog Heaven Prospect, (6) the 900 acre West Fargo Prospect, (7) the 1,340 acre Obenhaus Prospect, (8) the Allar #2 well and associated acreage, (9) the 69,189 acre Surimena concession in Colombia, (10) the 103,784 acre Las Garzas concession in Colombia, (11) the 324,695 acre Jagueyes TEA in Colombia, and (12) the 166,301 Simon TEA in Colombia. Also, during 2005, we relinquished (1) all acreage (approximately 84,000 acres) in the Tambaqui Association Contract, other than 4,403 acres around the producing wells, (2) the 194 acre Donner Field lease in Terrebone Parish, Louisiana, (3) the 726 acre Bougere Estate lease and Bougere #1 well in St. John the Baptist Parish, Louisiana, and (4) approximately 1,668 acres of leaseholds in North Louisiana.

TITLE TO PROPERTIES

Title to properties is subject to royalty, overriding royalty, carried working, net profits, working and other similar interests and contractual arrangements customary in the gas and oil industry, liens for current taxes not yet due and other encumbrances. As is customary in the industry in the case of undeveloped properties, little investigation of record title is made at the time of acquisition (other than preliminary review of local records).

Investigation, including a title opinion of local counsel, generally are made before commencement of drilling operations.

MARKETING

At March 29, 2006, we had no contractual agreements to sell our gas and oil production and all production was sold on spot markets.

EMPLOYEES

As of March 29, 2006, we had 1 full-time employee and no part time employees. The employee is not covered by a collective bargaining agreement, and we do not anticipate that any of our future employees will be covered by such agreement. If our operations continue to grow as expected, we anticipate hiring as many as 2 additional employees by the end of 2006.

PROPERTIES

We currently lease approximately 2,000 square feet of office space in Houston, Texas as our executive offices. Management anticipates that our space will be sufficient for the foreseeable future. The monthly rental under the lease, which expires on November 30, 2006, is $3,302.59.

A description of our interests in oil and gas properties is included above.

LEGAL PROCEEDINGS

We may from time to time be a party to lawsuits incidental to our business. As of June 1, 2006, we were not aware of any current, pending, or threatened litigation or proceedings that could have a material adverse effect on our results of operations, cash flows or financial condition.

MANAGEMENT

The following table sets forth the names, ages and offices of our present executive officers and directors. The periods during which such persons have served in such capacities are indicated in the description of business experience of such persons below.

Name	Age	Position
John Terwilliger	58	President, Treasurer and Director
Orrie Lee Tawes III	58	Director
Edwin Broun III	53	Director
Stephen Hartzell	52	Director
John Boylan	39	Director

The following is a biographical summary of the business experience of the present directors and executive officers of the Company:

John F. Terwilliger has served as our president, secretary and treasurer since our inception in April 2001. From 1988 to April 2002, Mr. Terwilliger served as the chairman of the board and president of Moose Oil & Gas Company, and its wholly-owned subsidiary, Moose Operating Co., Inc., both Houston, Texas based companies. Prior to 1988, Mr. Terwilliger was the chairman of the board and president of Cambridge Oil Company, a Houston, Texas based oil exploration and production company. Mr. Terwilliger served in the United States Army, receiving his honorable discharge in 1969. On April 9, 2002, Moose Oil & Gas Company and its wholly-owned subsidiary, Moose Operating Co., Inc., filed a bankruptcy petition under Chapter 7 of the United States Bankruptcy Code in Cause No. 02-33891-H507: 02-22892, in the United States District Court for the Southern District of Texas, Houston Division. At the time of the filing of the bankruptcy petition, Mr. Terwilliger was the chairman of the board and president of both Moose Oil & Gas Company and Moose Operating Co., Inc. Mr. Terwilliger resigned those positions on April 9, 2002.

O. Lee Tawes III has served as a director since August 2005. Mr. Tawes is Executive Vice President and Head of Investment Banking, and a Director at Northeast Securities Inc. From 2000-2001 he was Managing Director of Research for C.E. Unterberg, Towbin, an investment and merchant banking firm specializing in high growth technology companies. Mr. Tawes spent 20 years at Oppenheimer & Co. Inc. and CIBC World Markets, where he was Director of Equity Research from 1991 to 1999. He was also Chairman of the Stock Selection Committee at CIBC, a member of the firm's Executive Committee, and Commitment Committee. From 1972 to 1990, Mr. Tawes was an analyst covering the food and diversified industries at Goldman Sachs & Co. from 1972 to 1979, and Oppenheimer from 1979 to 1990. As food analyst, he was named to the Institutional Investor All America Research Team five times from 1979 through 1989. Mr. Tawes has served as a Director of Baywood International, Inc. since 2001. Mr. Tawes is a graduate of Princeton University and received his MBA from Darden School at the University of Virginia.

Edwin Broun III has served as a director since August 2005. Mr. Broun is the owner/operator of Broun Energy, LLC, an oil and gas exploration and production company. He co-founded, and from 1994 to 2003 was Vice President and Managing Partner of, Sierra Mineral Development, L.C., an oil and gas exploration and production company where he was responsible for reserve and economic evaluation of acquisitions, drill site selection and workover design. From 1992 to 1994 he was a partner and consultant in Tierra Mineral Develoment, L.C., where he evaluated, negotiated and structured acquisitions, workovers and divestitures of oil and gas holdings. From 1975 to 1992, Mr. Broun served in various petroleum engineering capacities, beginning as a petroleum engineer with Atlantic Richfield Company from 1975 to 1979 and Tenneco Oil Company from 1979 to 1982 and rising to serving in various management capacities as Acquisitions Manager from 1982 to 1986 and Vice President, Engineering from 1986 to 1987 at ITR Petroleum, Inc.; Vice President, Acquisitions from 1987 to 1988 and Vice

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President, Houston District from 1988 to 1990 at General Atlantic Resources, Inc.; and Vice President, Engineering and Acquisitions from 1990 to 1992 at West Hall Associates, Inc. Mr. Broun received his B.S. in Petroleum Engineering from the University of Texas and an M.S. in Engineering Management from the University of Alaska.

Stephen Hartzell has served as a director since August 2005. Mr. Hartzell has over 27 years of experience as a petroleum geologist. Since 2003, Mr. Hartzell has been an owner operator of Southern Star Exploration, LLC, an independent oil and gas company. From 1986 to 2003, Mr. Hartzell served as an independent consulting geologist. From 1978 to 1986, Mr. Hartzell served as a petroleum geologist, division geologist and senior geologist with Amoco Production Company, Tesoro Petroleum Corporation, Moore McCormack Energy and American Hunter Exploration. Mr. Hartzell received his B.S. in Geology from Western Illinois University and an M.S. in Geology from Northern Illinois University.

John Boylan has served as a director since May 2006. Mr. Boylan has served as Chief Financial Officer and Director of Business Development of Atasca Resources, an independent oil and gas exploration and production company, since 2003. Since 1996 Mr. Boylan has also served as owner/operator of Boylan Energy Corporation, an independent oil and gas exploration company. Mr. Boylan's energy industry experience also includes serving as President, CEO and Managing Partner of Birdwell Partners, an oil field services company, from 1999 to 2003 and service as Chief Financial Officer and Director of Business Development of Prolithic Energy Company, an independent oil and gas exploration company, from 1998 to 2002. Prior to entering the energy business, Mr. Boylan was a consultant and senior auditor providing professional services in a range of accounting, financial and project management roles, including service as a senior auditor for KPMG Peat Marwick from 1988 to 1990, service as a project management consultant for R.L. Townsend & Associates from 1990 to 1991 and service as senior associate project management consultant for Coopers & Lybrand Consulting from 1991 to 1995. Mr. Boylan holds a Bachelors Degree in Accounting from the University of Texas and an MBA Degree in Finance, Economics and International Business from New York University. Mr. Boylan is a Certified Public Accountant.

Our board of directors is divided into three classes, each elected for staggered three-year terms. Messrs. Tawes, Broun and Hartzell are Class A directors with terms expiring on the first annual meeting following their appointment. Mr. Boylan is a Class B director with a term expiring on the second annual meeting following his appointment. Mr. Terwilliger is a Class C director. His term is scheduled to expire at the third annual meeting following his appointment.

Our executive officers are elected by our board of directors and serve terms of one year or until their death, resignation or removal by the board of directors.

EXECUTIVE COMPENSATION

The following table sets forth information concerning cash and non-cash compensation paid or accrued for services in all capacities during the year ended December 31, 2005 of each person who served as our Chief Executive Officer during fiscal 2005 and the next four most highly paid executive officers (the "Named Officers").

Name and Principal Position	Year	Annual Compensation Salary($)	Bonus($)	Other ($)
John Terwilliger	2005	192,000	-0-	-0-(1)(2)
President and	2004	45,000	-0-	-0-(1)(2)
Chief Executive Officer	2003	-0-	-0-	-0-(1)(2)

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(1) Mr. Terwilliger receives no other compensation or benefits other than vacation benefits, expense reimbursements and participation in medical, retirement and other benefit plans which are generally available to our executives.

(2) Mr. Terwilliger received overriding royalty interests in three properties identified by Mr. Terwilliger. No value was assigned to those overriding royalty interests for purposes of this table. Payments received by Mr. Terwilliger pursuant to those overriding royalty interests totaled $38,109, $21,170, and $3,600 in 2005, 2004 and 2003, respectively.

We have no employment agreements with any of our officers or employees.

DIRECTOR COMPENSATION

Effective May 17, 2006, non-employee directors are reimbursed all expenses associated with attendance of, or participation in, meetings and are entitled to: (1) an annual retainer of $6,000 payable in quarterly installments, (2) an annual retainer of $2,000 per committee on which a director serves, payable in quarterly installments, (3) an annual retainer of $2,500 for service as audit committee chair, payable in quarterly installments, (4) an annual retainer of $1,500 for service as chair of committees other than the audit committee, payable in quarterly installments, (5) a grant of 20,000 stock options on initial election or appointment as a director, and (6) a grant of 10,000 stock options immediately following each subsequent shareholders meeting at which a director stands for reelection and is reelected. The options granted to non-employee directors are exercisable at fair market value on the date of grant and have a term of ten years. Prior to May 17, 2006, non-employee directors were paid $1,000 per meeting attended or $500 per telephonic meeting.

BOARD COMMITTEES

We do not presently maintain an audit committee or any other committee of our board of directors. Our board has approved the establishment of an audit committee and compensation committee effective upon the listing of our stock on an exchange, of which there can be no assurance that such listing will occur. Because we do not presently maintain an audit committee, we have no audit committee financial expert although we have determined that John Boylan satisfies the criteria for service as an audit committee financial expert.

CERTAIN RELATIONSHIPS AND RELATED TRANSACTIONS

In December 2003, Mr. Terwilliger converted $441,516.29 of loans into 1,103,791 shares of our common stock and modified the repayment terms with respect to the balance of the loans to us, totaling $1 million, to reduce the interest rate on the loans to 7.2% and provide for a fixed maturity date of January 1, 2007. Also, in December 2003, O. Lee Tawes, a principal shareholder, converted the entire principal and accrued interest on his loans to us, in the amount of $186,016.83, into 465,042 shares of common stock. As of December 31, 2005, we owed $904,400 to Mr. Terwilliger, including accrued interest.

In conjunction with our efforts to secure oil and gas prospects, financing and services, we have, from time to time, granted overriding royalty interests in various mineral properties to Mr. Tawes. During 2005, approximately $25,000 was paid to Mr. Tawes from these royalty interests.

In May 2005, Northeast Securities, Inc. acted as placement agent in connection with our offer and sale of $2,125,000 of Subordinated Convertible Notes for which Northeast Securities received commissions totaling $127,500 and a warrant to purchase 191,250 shares of common stock at $1.00 per share. Mr. Tawes is Executive Vice President, head of Investment Banking and a Director of Northeast Securities.

In April 2006, we repaid the balance of the note owed to Mr. Terwilliger.

SECURITY OWNERSHIP OF CERTAIN BENEFICIAL OWNERS AND MANAGEMENT

The following table sets forth information as of June 1, 2006, based on information obtained from the persons named below, with respect to the beneficial ownership of shares of our common stock held by (i) each person known by us to be the owner of more than 5% of the outstanding shares of our common stock, (ii) each director, (iii) each named executive officer, and (iv) all executive officers and directors as a group:

Name and Address of Beneficial Owner(1)	Number of Shares Beneficially Owned	Percentage of Class(2)
John F. Terwilliger 801 Travis, Suite 2020 Houston, Texas 77002	8,574,486	30.8%
Orrie Lee Tawes 100 Wall Street New York, New York 10005	3,307,044 (3)	11.9%
Edwin Broun III 6025 Riverview Way Houston, Texas 77056	1,030,000 (4)	3.7%
Stephen Hartzell	76,000 (5)	*
John P. Boylan	20,000 (5)	*
All directors and officers as a group (five persons)	13,007,530 (6)	46.6%

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* Less than 1%.

(1) Unless otherwise indicated, each beneficial owner has both sole voting and sole investment power with respect to the shares beneficially owned by such person, entity or group. The number of shares shown as beneficially owned include all options, warrants and convertible securities held by such person, entity or group that are exercisable or convertible within 60 days of June 1, 2006.

(2) The percentages of beneficial ownership as to each person, entity or group assume the exercise or conversion of all options, warrants and convertible securities held by such person, entity or group which are exercisable or convertible within 60 days, but not the exercise or conversion of options, warrants and convertible securities held by others shown in the table.

(3) Shares shown as beneficially owned by Orrie Lee Tawes include 20,000 shares issuable upon exercise of options held by Mr. Tawes and 119,034 held by his wife, Marsha Russell. Excludes shares underlying warrants held by Northeast Securities, Inc. as to which shares Mr. Tawes disclaims beneficial ownership.

(4) Includes 20,000 shares issuable upon exercise of options held by Mr. Broun and 10,000 shares held by his wife.

(5) Includes 20,000 shares issuable upon exercise of options.

(6) Includes 80,000 shares issuable upon exercise of outstanding options and conversion of notes.

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SELLING SHAREHOLDERS

The selling securityholders are holders of 7,849,583 shares of common stock and the holders of warrants to purchase 415,000 shares of common stock. The shares consist of (1) 5,533,333 shares issued in April 2006 in a private placement to accredited investors, (2) 2,125,000 shares issued in May 2006 pursuant to the conversion of $2,125,000 in principal amount of 8% Subordinated Convertible Notes that were issued in May 2005 in a private placement to accredited investors, and (3) 191,250 shares issued in May 2006 pursuant to the exercise of $1.00 placement agent warrants that were issued in connection with the May 2005 private placement. The warrants consist of 415,000 warrants, exercisable at $3.00 per share, issued to the placement agent in the April 2006 private placement. Pursuant to the terms of the sale of the convertible notes, we entered into a Registration Rights Agreement with each of the selling securityholders wherein we agreed to register for resale the notes and the shares of common stock issuable upon conversion of the notes and exercise of the warrants issued in conjunction with the issuance of the notes. Pursuant to the terms of the sale of the shares of common stock in the April 2006 private placement, we entered into a Registration Rights Agreement with each of the selling securityholders wherein we agreed to register for resale the shares of common stock issued in the private placement and the shares of common stock issuable upon exercise of the warrants issued in the conjunction with the private placement.

The following table sets forth information with respect to the selling securityholders and the respective common stock beneficially owned by each selling securityholder that may be offered under this prospectus. The information is based on information that has been provided to us by or on behalf of the selling securityholders. With the exception of Edwin Broun III who has served as one of our directors since August 2005, unless otherwise indicated herein, none of the selling securityholders listed in the following table has, or within the past three years has had, any position, office or other material relationship with us or any of our predecessors or affiliates. Because the selling securityholders may from time to time use this prospectus to offer all or some portion of the common stock offered hereby, we cannot provide an estimate as to the amount or percentage of any such type of security that will be held by any selling securityholder upon termination of any particular offering or sale under this prospectus. In addition, the selling securityholder identified below may have sold, transferred or otherwise disposed of all or a portion of any such securities since the date on which they provided us information regarding their holdings, in transactions exempt from the registration requirements of the Securities Act.

For the purposes of the following table, the number of our common shares beneficially owned has been determined in accordance with Rule 13d-3 of the Exchange Act, and such information is not necessarily indicative of beneficial ownership for any other purpose. Under Rule 13d-3, beneficial ownership includes any shares as to which a selling securityholder has sole or shared voting power or investment power and also any shares which that selling securityholder has the right to acquire within 60 days of the date of this prospectus through the exercise of any stock option, warrants or other rights.

Selling Securityholders	Common Stock Beneficially Owned Prior to Offering (1)	Percentage of Common Shares Outstanding (29)	Common S Offered He
E.C. Broun III	1,005,000	3.6%	
Lorraine DiPaolo (28)	261,625	*	
Camilla Bellick	150,000	*	
Jacob Harris (28)	125,000	*	
Alan M. Berman	100,000	*	
Peter S. Rawlings (28)	100,000	*	
Barry Garfinkel	100,000	*	
William Lippe	100,000	*	
David Schwartz & Florence Schwartz JTROW	100,000	*	
Richard Zorn (28)	180,625 (2)	*	
Ronald Sunderland	64,500 (3)	*	
Myron Zisser	50,000	*	
Gorel Realty Company (4)	50,000	*	
Mitchell Kessler	50,000	*	
Eric Lippe	50,000	*	
William P. Behrens (28)	62,000	*	
William T. Behrens	3,000	*	
The Churchill Fund QP, LP (5)	41,000	*	
The Churchill Fund, LP (5)	34,000	*	
Felix Z. Edwards III	25,000	*	
Mary Willis	25,000	*	
Judith Parnes	25,000	*	
Marie Carlino	25,000	*	
Michael Salmanson & Tobi E. Zemsky, JTROW	25,000	*	
Gem Holdings (6)	25,000	*	
Bear Stearns Securities Corp as Custodian for the benefit of			

Bernard Korman IRA	25,000	*
Stanley Weirthorn Rev Trust DTD 9/7/90	25,000	*
Edmund Dollinger	25,000	*
Southridge Drive Associates (7)	25,000	*
Mary A. Susnjara	35,000	
Johannah F. Stefanakis	25,000	*
Richard R. Davis (28)	25,000	*
Anne O'Malley	28,000	*
Malcolm O'Malley	27,000	*
Miriam Salmanson	25,000	*
Joseph Martello	25,000	*
Roy Nelson & Anne Nelson, JTROW	25,000	*
Edmund Karam & Barbara Karam, JTROW	26,000	*
Kathleen Mullinix	25,000	*
Northeast Securities, Inc. (8)(27)	30,000	*
David T.R. Tsiang (28)	25,000	*
Jon Salmanson (28)	34,000	*
Merrill Lynch, Pierce, Fenner & Smith FPO Robert A. Bonelli IRA (28)	15,000	*
Stephen Perrone (28)		