

HOUSTON AMERICAN ENERGY CORP  
Form 10QSB/A  
December 01, 2006

UNITED STATES  
SECURITIES AND EXCHANGE COMMISSION  
Washington, DC 20549

FORM 10-QSB/A  
Amendment No. 2

(Mark One)

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

For the quarterly period ended June 30, 2005

OR

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

For the transition period from \_\_\_\_\_ to \_\_\_\_\_ .

Commission File Number 0-33027.

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

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

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

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

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

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

As of August 10, 2005, we had 19,968,089 shares of \$.001 par value Common Stock outstanding.

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

EXPLANATORY NOTE

This quarterly report on Form 10-QSB/A ("Form 10-QSB/A") amendment #2 is being filed to amend our quarterly report on Form 10-QSB for the quarter ended June 30, 2005 (the "Original Form 10-QSB"), which was originally filed with the Securities and Exchange Commission ("SEC") on August 12, 2005 and amended on November 7, 2005.

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On February 3, 2006, the independent registered public accounting firm of Houston American Energy (the "Company"), in conjunction with the preparation of the Company's Form 10-KSB for the year ended December 31, 2005 and the related financial statements, advised management of the Company that the previously filed consolidated financial statements of the Company as of and for the quarterly and year-to-date periods ended June 30, 2005 and September 30, 2005 needed to be restated. The restatement results from errors in accounting for financial derivatives embedded in convertible notes and warrants issued by the Company during 2005.

The Company concluded, after consultation with its audit committee and independent registered public accounting firm, that it was necessary to restate its financial results for the interim period ended June 30, 2005 to account for the embedded derivatives in accordance with SFAS 133, including recording an appropriate derivative liability, deemed interest expense associated with the derivative liability and related charges associated with changes in the value of embedded derivatives, as more fully described in Note 3 to the financial statements included in this Form 10-QSB/A.

Pursuant to rule 12b-15 under the Securities Exchange Act of 1934, the Form 10-QSB/A contains complete text of Items 1, 2 and 3 of Part I and Items 1 and 6 of Part II, as amended, as well as currently dated certifications from the Principal Executive Officer and the Principal Financial Officer.

This Form 10-QSB/A does not reflect events occurring after the filing of the Original Form 10-QSB and does not modify or update the disclosure therein in any way other than as required to reflect the amendments discussed above.

HOUSTON AMERICAN ENERGY CORP.  
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FORM 10-QSB/A

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## PART I - FINANCIAL INFORMATION

## ITEM 1. Financial Statements

HOUSTON AMERICAN ENERGY CORP.  
BALANCE SHEET  
June 30, 2005  
(Unaudited)  
(Restated)

## ASSETS

-----

## CURRENT ASSETS:

Cash	\$ 1,929,671
Accounts receivable	402,271
Prepaid expenses	33,411
	-----
Total current assets	2,365,353
	-----

## PROPERTY, PLANT AND EQUIPMENT

Oil and gas properties - full cost method	
Costs subject to amortization	2,842,709
Costs not being amortized	511,763
Furniture and equipment	10,878
	-----
Total property, plant and equipment	3,365,350
Accumulated depreciation and depletion	(1,179,713)
	-----
Total property, plant and equipment, net	2,185,637
	-----

## OTHER ASSETS

	101,074
	-----
Total Assets	\$ 4,652,064
	=====

## LIABILITIES AND SHAREHOLDERS' EQUITY

-----

## CURRENT LIABILITIES:

Accounts payable and accrued liabilities	\$ 282,261
Derivative liability	2,472,577
	-----
Total current liabilities	2,754,838
	-----

## LONG-TERM DEBT:

Notes payable to principal shareholder	1,000,000
Subordinated convertible notes, net of \$2,118,111 discount	6,889
Reserve for plugging costs	44,456
	-----
Total long-term liabilities	1,051,345
	-----

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SHAREHOLDERS' EQUITY:

Common stock, \$.001 par value; 100,000,000 shares	
Authorized; 19,968,089 shares outstanding	19,968
Additional paid-in capital	2,798,324
Treasury stock, at cost; 100,00 shares	(85,834)
Accumulated deficit	(1,886,576)
	-----
Total shareholders' equity	845,882
	-----
Total liabilities and shareholders' equity	\$ 4,652,064
	=====

The accompanying notes are an integral part of these financial statements

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HOUSTON AMERICAN ENERGY CORP.  
STATEMENT OF OPERATIONS  
(Unaudited)

	Six Months Ended June 30,		Three Months Ended June 30,	
	2005	2004	2005	2004
	(Restated)		(Restated)	
Revenue:				
Oil and gas	\$ 1,091,940	\$ 303,548	\$ 646,429	\$ 166,561
	-----	-----	-----	-----
Expenses of operations:				
Lease operating expense and severance tax	440,710	119,497	269,937	51,676
Joint venture expenses	27,424	6,048	13,601	6,048
General and administrative Expense	340,048	127,280	171,951	81,524
Depreciation and depletion	170,358	57,493	107,731	34,687
	-----	-----	-----	-----
Total operating expenses	978,540	310,318	563,220	173,935
	-----	-----	-----	-----
Income (loss) from operations	113,400	(6,770)	83,209	(7,374)
	-----	-----	-----	-----
Other (income) expenses:				
Interest income	(7,770)	(4,302)	(5,566)	(1,537)
Interest expense	26,920	-	28,624	-
Interest expense - derivatives	292,436	-	292,436	-
Net change in fair value of derivative liabilities	62,030	-	62,030	-
Interest expense - shareholders	36,000	31,600	18,000	13,600
Financing costs	4,045	-	4,045	-
	-----	-----	-----	-----
Total other expense, net	413,661	27,298	399,569	12,063
	-----	-----	-----	-----

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Net loss before taxes	(300,261)	(34,068)	(316,360)	(19,437)
Income tax expense	30,265	-	18,939	-
	-----	-----	-----	-----
Net loss	\$ (330,526)	\$ (34,068)	\$ (335,299)	\$ (19,437)
	=====	=====	=====	=====
Basic and diluted loss per share	\$ (0.02)	\$ (0.00)	\$ (0.02)	\$ (0.00)
	=====	=====	=====	=====
Basic and diluted weighted average shares	19,968,089	19,536,060	19,968,089	19,565,279
	=====	=====	=====	=====

The accompanying notes are an integral part of these financial statements

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

	For the Six Months Ended June 30,	
	2005	2004
	-----	-----
	(Restated)	
CASH FLOWS FROM OPERATING ACTIVITIES		
Net loss	\$ (330,526)	\$ (34,068)
Adjustments to reconcile net loss to net cash from operations		
Depreciation and depletion	168,858	55,993
Non-cash expenses	-	18,666
Change in fair value of derivatives	62,030	-
Amortization of debt discounts	292,436	-
Changes in operating assets and liabilities:		
(Increase) in accounts receivable	(162,130)	(67,043)
(Increase) decrease in prepaid expense	56,536	(98,502)
(Increase) decrease in other assets	(97,907)	36,863
Increase in accounts payable and accrued expenses	41,700	33,265
	-----	-----
Net cash provided (used) by operations	30,997	(54,826)
	-----	-----
CASH FLOWS FROM INVESTING ACTIVITIES		
Acquisition of oil and gas properties	(947,939)	(441,778)
	-----	-----
Net cash used by investing activities	(947,939)	(441,778)
	-----	-----
CASH FLOWS FROM FINANCING ACTIVITIES		
Sale of common stock	-	91,193

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Issuance of debt	2,125,000	-
	-----	-----
Net cash provided by financing activities	2,125,000	91,193
	-----	-----
Increase (decrease) in cash and equivalents	1,208,058	(405,411)
Cash, beginning of period	721,613	663,422
	-----	-----
Cash, end of period	\$ 1,929,671	\$ 258,011
	=====	=====
SUPPLEMENT CASH FLOW INFORMATION:		
Interest paid	\$ 36,000	\$ 36,000
	=====	=====
SUPPLEMENT NON-CASH INVESTING AND FINANCING ACTIVITIES		
Non-cash expense	-	18,666
Stock issued for oil and gas activity	-	47,500
Stock issued for financial public relations	-	103,000

The accompanying notes are an integral part of these financial statements

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HOUSTON AMERICAN ENERGY CORP.  
Notes to Financial Statements  
June 30, 2005  
(Unaudited)

NOTE 1. - BASIS OF PRESENTATION

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

These financial statements should be read in conjunction with the financial statements and footnotes, which are included as part of the Company's Form 10-KSB for the year ended December 31, 2004 and 2005.

NOTE 2. - CHANGES IN PRESENTATION

Certain financial presentations for the periods presented for 2004 have been reclassified to conform to the 2005 presentation.

NOTE 3. - RESTATED FINANCIAL STATEMENTS

The accompanying financial statements as of June 30, 2005 and for the three-month and six-month periods ended June 30, 2005 are restated from those originally issued to reflect certain adjustments related to derivative financial

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instruments.

The restatement relates to the accounting for embedded features in certain convertible notes and warrants issued by the Company during 2005 (See Note 4 below). The notes were originally recorded at their notional amounts; and the fair value of the warrants was included in Shareholders' Equity. The Company subsequently determined that the convertible notes and warrants contain detachable and embedded derivatives that should have been accounted for as derivative financial instruments in accordance with SFAS 133 and EITF 00-19 (See Note 5 below).

In connection with the referenced restatement, interest income and certain financing costs have been reclassified from operating revenue and expense, respectively, to other (income) expense.

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The following is a summary of the restatement adjustments.

	As Previously Reported	Adjustments	As R
Balance Sheet -----			
Current assets			
Prepaid expense	65,978	(32,567)	
Total current assets	2,397,920	(32,567)	2,
Other assets	225,913	(124,839)	
Total assets	4,809,470	(157,406)	4,
Currently liabilities			
Derivative liability	-	2,472,577	2,
Total current liabilities	282,261	2,472,577	2,
Long term debt			
Subordinated convertible notes	2,125,000	(2,118,111)	
Total long term debt	3,169,456	(2,118,111)	1,
Shareholder equity			
Additional paid in capital	2,962,589	(164,265)	2,
Accumulated deficit	(1,538,970)	(347,606)	(1,
Total stockholders' equity	1,357,753	(511,871)	
Total liabilities and shareholders equity	4,809,470	(157,406)	4,
Statement of Operations Six Months Ended 6/30/05 -----			
Other (income) expense			
Interest expense-derivative	-	292,436	
Net change in fair value of derivative liabilities	-	62,030	
Financing costs	9,201	(5,156)	
Interest expense	64,624	(1,704)	
Total other (income) expense	66,055	347,606	
Income (loss) before income taxes	47,345	(347,606)	(
Net income (loss)	17,080	(347,606)	(

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Basic and diluted income (loss) per share	\$	0.00	\$	(0.02)	\$
Three Months Ended 6/30/05 -----					
Other (income) expense					
Interest expense-derivative		-		292,436	
Net change in fair value of derivative liabilities		-		62,030	
Financing costs		9,201		(5,156)	
Total other (income) expense		50,259		349,310	
Income (loss) before income taxes		32,950		(349,310)	
Net income (loss)		14,011		(349,310)	
Basic and diluted income (loss) per share	\$	0.00	\$	(0.02)	\$

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#### NOTE 4. - SUBORDINATED CONVERTIBLE NOTES AND WARRANTS

On May 4, 2005, the Company entered into Purchase Agreements (the "Purchase Agreements") with multiple investors pursuant to which the Company sold \$2,125,000 of 8% Subordinated Convertible Notes Due 2010 (the "Notes").

The Notes bear interest at 8%, provide for semi-annual interest payments and mature May 1, 2010. The Notes are convertible, at the option of the holders, into common stock of the Company at a price of \$1.00 per share (the "Conversion Price"), subject to standard anti-dilution provisions relating to splits, reverse splits and other transactions, including issuances of common stock at prices below the Conversion Price. The Notes are subject to automatic conversion in the event the Company conducts an underwritten public offering of its common stock from which the Company receives at least \$5 million and the public offering price is at least 150% of the then applicable Conversion Price. The Company has the right to cause the Notes to be converted into common stock after May 1, 2006 if the price of the Company's common stock exceeds 200% of the then applicable Conversion Price on the date of conversion and for at least 20 trading days over the preceding 30 trading days. The Company has the right to repurchase the Notes after May 1, 2007 at 103% of the face amount during 2007, 102% of the face amount during 2008, 101% of the face amount during 2009 and 100% of the face amount thereafter. The Notes are unsecured general obligations of the Company and are subordinated to all other indebtedness of the Company unless the other indebtedness is expressly made subordinate to the Notes.

The Notes were offered and sold in private placement transaction pursuant to the exemption from registration provided by Section 4(2) of the Securities Act of 1933 and Rule 506 promulgated thereunder. Each of the investors is either an "accredited investor", as defined in Rule 501 promulgated under the Securities Act, or a "qualified institutional buyer", as defined in Rule 144A promulgated under the Securities Act.

Pursuant to the terms of the Purchase Agreements, the Company and the investors entered into Registration Rights Agreements under which the Company agreed to file with the Securities and Exchange Commission, within 90 days, a registration statement covering the Notes and the common stock underlying the Notes and to use its best efforts to cause the registration statement to become effective within 180 days.

In connection with the placement of the Notes, the Company issued to the placement agent in the offering a three year warrant (the "Placement Agent Warrant") to purchase 191,250 shares of the Company's common stock at \$1.00 per



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share and paid commissions totaling \$127,500. The Registration Rights Agreements provide that the shares of common stock underlying the Placement Agent Warrant are to be included in the registration statement required to be filed.

### NOTE 5. - DERIVATIVE LIABILITIES

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

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At June 30, 2005, the Notes comprised the following:

Notional balance of Convertible Notes at June 30, 2005	\$ 2,125,000
Adjustment - Discount for single compound derivative liability	(2,118,111)
	-----
Convertible Notes balance at June 30, 2005, as adjusted	\$ 6,889
	=====

For the period from inception (May 4, 2005) through June 30, 2005, the amortization of unamortized discount on the Notes was \$6,889, which has been classified as interest expense in the accompanying statement of operation.

The Derivative Liability reflected on the balance sheet at June 30, 2005 consists of the Derivative Liability-Compound Embedded Derivatives within the Notes plus the Derivative Liability-Compound Embedded Derivatives within the Warrants issued in conjunction with the Notes.

The Derivative Liability-Compound Embedded Derivatives within Notes reflect the following activity for the period from Inception (May 4, 2005) through June 30, 2005:

Balance at inception (May 4, 2005)	\$2,368,485
Mark-to-market adjustment for the period from inception to June 30, 2005	23,712
	-----
Balance at June 30, 2005	\$2,392,197
	=====

The Derivative Liability-Compound Embedded Derivatives within Warrants reflect the following activity for the period from inception (May 4, 2005) to June 30,

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2005.

Balance at inception (May 4, 2005)	\$42,063
Mark-to-market adjustment for the period from inception to June 30, 2005	38,317
	-----
Balance at June 30, 2005	\$80,380
	=====

NOTE 6. - WARRANTS

Activity of warrants during the three months ended June 30, 2005 is as follows:

	Warrants	Weighted Average Share Price
	-----	-----
Outstanding at beginning of period		
Granted	191,250	\$ 1.00
	-----	-----
Outstanding at end of period	191,250	\$ 1.00
	=====	=====

Warrants outstanding and exercisable as of June 30, 2005:

Exercise Price	Number of Shares	Remaining Life	Number of Shares
-----	-----	-----	-----
1.00	191,250	2.83	191,250
=====	=====	=====	=====

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NOTE 7. - FINANCING COSTS

In conjunction with the issuance of long-term debt described in Note 4 above, the Company paid \$127,500 in commissions and issued a warrant to the placement agent to purchase 191,250 shares of the Company's common stock at an exercise price of \$1.00 per share expiring May 3, 2008. The market price on the date the warrants were granted was \$0.85. The warrants are accounted for as derivative instruments pursuant to SFAS 133 and EITF 00-19 (see Note 5 above).

The aggregate financing costs of \$127,500, comprised of commissions, are being expensed ratably over the life of the Notes as financing costs. \$4,045 of financing costs were expensed during the quarter and the six months ended June 30, 2005. Unamortized financing costs of \$97,907 are classified as other assets; the remaining balance of \$25,548 is classified as prepaid expense.

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

FORWARD-LOOKING INFORMATION

This Form 10-QSB quarterly report of Houston American Energy Corp. (the "Company") for the six months ended June 30, 2005, contains certain forward-looking statements within the meaning of Section 27A of the Securities Act of 1933, as amended, and Section 21E of the Securities Exchange Act of 1934, as amended, which are intended to be covered by the safe harbors created thereby. To the extent that there are statements that are not recitations of historical fact, such statements constitute forward-looking statements that, by definition, involve risks and uncertainties. In any forward-looking statement, where the Company expresses an expectation or belief as to future results or

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events, such expectation or belief is expressed in good faith and believed to have a reasonable basis, but there can be no assurance that the statement of expectation or belief will be achieved or accomplished.

The following are factors that could cause actual results or events to differ materially from those anticipated, and include, but are not limited to: general economic, financial and business conditions; the Company's ability to minimize expenses and exposures related to its oil and gas properties in which other companies have control over the operations conducted on such properties; changes in and compliance with governmental laws and regulations, including various state and federal environmental regulations; the Company's current dependency on John F. Terwilliger, its sole director and executive officer; and the Company's ability to obtain additional necessary financing from outside investors and/or bank and mezzanine lenders.

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

The oil and gas industry is subject to volatile price movements based on various factors including supply and demand and other factors beyond the control of the Company. While the industry has generally benefited from higher prices during the past two years, sudden and/or sustained decreases in energy prices can occur, which could limit our ability to fund planned levels of capital expenditures.

Additionally, the following discussion regarding the Company's financial condition and results of operations should be read in conjunction with the financial statements and related notes contained in Item 1 of Part 1 of this Form 10-QSB, as well as the financial statements in Item 7 of Part II of the Company's Form 10-KSB for the fiscal year ended December 31, 2004.

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### CRITICAL ACCOUNTING POLICIES

The Company's discussion and analysis of its financial condition and results of operations are based upon the Company's financial statements, which have been prepared in accordance with accounting principles generally accepted in the United States of America. The Company believes certain critical accounting policies affect its more significant judgments and estimates used in the preparation of its financial statements. A description of the Company's critical accounting policies is set forth in the Company's Form 10-KSB for the year ended December 31, 2004. As of, and for the quarter ended, June 30, 2005, there have been no material changes or updates to the Company's critical accounting policies other than (1) the application of derivative accounting treatment prescribed by SFAS 133 and EITF 00-19 to outstanding convertible notes and warrants, and (2) the following updated information relating to Unevaluated Oil and Gas Properties:

UNEVALUATED OIL AND GAS PROPERTIES. Unevaluated oil and gas properties not subject to amortization include the following at June 30, 2005:

Acquisition costs	\$ 59,269
Evaluation costs	452,494
	-----
Total	\$511,763
	=====

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The carrying value of unevaluated oil and gas prospects include \$439,333 expended for properties in the South American country of Colombia at June 30, 2005. We are maintaining our interest in these properties and development has or is anticipated to commence within the next twelve months.

-- DERIVATIVES. The Company determined that the convertible notes and warrants issued during 2005 contain detachable and embedded derivatives that should have been accounted for as derivative instruments in accordance with SFAS 133 and EITF 00-19. In assessing the value of the derivative instruments in accordance with SFAS 133 and EITF 00-19, the Company utilizes a fair value model comprised of multiple probability-weighted scenarios under various assumptions reflecting the economics of the Convertible Notes, such as the risk-free interest rate, expected Company stock price and volatility, likelihood of conversion and or redemption, and likelihood default status and timely registration. Changes in the subjective assumptions can materially affect the estimated fair value of derivative instruments and consequently, the related amounts recognized in the financial statements. See Note 5 of the Notes to the Financial Statements in this Form 10-QSB for further discussion of derivative instruments.

### CURRENT YEAR DEVELOPMENTS

#### Drilling, Leasehold and Seismic Activity

Through August 10, 2005, the Company has drilled two on-shore domestic wells as follows:

- Drilling of a 10,600-foot well, the first well, on the South Sibley Prospect in Webster Parish, Louisiana was completed in May 2005 with multiple pay sands apparently identified. Sales from the well commenced June 28, 2005. The Company has a 7.5% working interest at an 8.3% net revenue interest carried to point of sales for the well.
- 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

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and production began in June 2005. The Company has a 3% working interest and 2.25% net revenue interest until payout for the well.

Assuming the Baronet #2 performs consistently, the Company plans to drill a developmental well on the Crowley Prospect during the fourth quarter of 2005.

Through August 10, 2005, the Company has drilled six international wells in Colombia as follows:

- Drilling of 5 offset wells on the Cara Cara concession in Colombia was completed with production commencing on the Bengala #4, #5, #6 and #7 and the Jaguar #5 in the first and second quarters of 2005. The Company holds a 1.59% working interest in each of the wells subject to a 30% reversionary interest to Ecopetrol at payout.
- The Tambaqui #5 well commenced drilling, and production, in March 2005. The Company holds a 12.6% working interest in the well.

Seismic surveying began on our Cara Cara concession in Colombia as part of our

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planned delineation of additional drilling prospects on the concession. Seismic surveying was completed on our Dorotea and Cabiona concessions to establish drilling prospect locations.

The Company and its partners plan to drill up to 5 additional wells on the Cara Cara concession through the end of 2005.

The Company and its partners are permitting 30 drilling locations on the Dorotea and Cabiona concessions. The Company and its partners plan to add a second rig to begin drilling as soon as permits are obtained and locations are built.

### Financing Activity

In May 2005, the Company sold \$2,125,000 of 8% Subordinated Convertible Notes Due 2010 (the "Notes").

The Notes bear interest at 8%, provide for semi-annual interest payments and mature May 1, 2010. The Notes are convertible, at the option of the holders, into common stock of the Company at a price of \$1.00 per share (the "Conversion Price"), subject to standard anti-dilution provisions relating to splits, reverse splits and other transactions, including issuances of common stock at prices below the Conversion Price. The Notes are subject to automatic conversion in the event the Company conducts an underwritten public offering of its common stock from which the Company receives at least \$5 million and the public offering price is at least 150% of the then applicable Conversion Price. The Company has the right to cause the Notes to be converted into common stock after May 1, 2006 if the price of the Company's common stock exceeds 200% of the then applicable Conversion Price on the date of conversion and for at least 20 trading days over the preceding 30 trading days. The Company has the right to repurchase the Notes after May 1, 2007 at 103% of the face amount during 2007, 102% of the face amount during 2008, 101% of the face amount during 2009 and 100% of the face amount thereafter. The Notes are unsecured general obligations of the Company and are subordinated to all other indebtedness of the Company unless the other indebtedness is expressly made subordinate to the Notes.

Pursuant to the terms of the Purchase Agreements, the Company and the investors entered into Registration Rights Agreements under which the Company agreed to file with the Securities and Exchange Commission, within 90 days, a registration statement covering the Notes and the common stock underlying the Notes and to use its best efforts to cause the registration statement to become effective within 180 days.

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In connection with the placement of the Notes, the Company issued to the placement agent in the offering a three year warrant (the "Placement Agent Warrant") to purchase 191,250 shares of the Company's common stock at \$1.00 per share and paid commissions totaling \$127,500. The Registration Rights Agreements provide that the shares of common stock underlying the Placement Agent Warrant are to be included in the registration statement required to be filed.

### RESTATEMENT OF FINANCIAL STATEMENTS

The financial statements as of June 30, 2005 and for the three-month and six-month periods ended June 30, 2005 are restated from those originally issued to reflect certain adjustments related to derivative financial instruments.

The restatement relates to the accounting for embedded features in the Notes and Placement Agent Warrants issued by the Company during 2005. The Notes were originally recorded at their notional amounts; and the fair value of the

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Placement Agent Warrants were included in Shareholders' Equity. The Company subsequently determined that the Notes and Placement Agent Warrants contain detachable and embedded derivatives that should have been accounted for as derivative financial instruments in accordance with SFAS 133 and EITF 00-19.

In connection with the referenced restatement, interest income and certain financing costs have been reclassified from operating revenue and expense, respectively, to other (income) expense.

### RESULTS OF OPERATIONS

Oil and Gas Revenues. Total oil and gas revenues increased 260% to \$1,091,940 in the six months ended June 30, 2005 when compared to the six months ended June 30, 2004. 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 the second half of 2004 and the first half of 2005, and (2) increases in oil prices. The Company had interests in 13 producing wells in Colombia and 7 producing wells in the U.S. during the 2005 period as compared to 4 producing wells in Colombia and 5 producing wells in the U.S. during the 2004 period. Average prices from sales were \$38.22 per barrel of oil and \$5.93 per mcf of gas during the 2005 period as compared to \$28.43 per barrel of oil and \$5.10 per mcf of gas during the 2004 period. Following is a summary comparison, by region, of oil and gas sales for the periods.

	Columbia	U.S.	Total
	-----	-----	-----
2005 Period			
Oil sales	\$ 844,210	\$ 42,640	\$886,850
Gas sales	-	205,090	205,090
2004 Period			
Oil sales	149,358	8,067	157,425
Gas sales	-	146,123	146,123

Lease Operating Expenses. Lease operating and severance tax expenses, excluding joint venture expenses relating to our Columbian operations discussed below, increased 269% to \$440,710 in the 2005 period from \$119,497 in the 2004 period. The increase in lease operating expenses was attributable to the increase in the number of wells operated during the 2005 period (20 wells as compared to 10 wells). Following is a summary comparison of lease operating expenses for the periods.

	Columbia	U.S.	Total
	-----	-----	-----
2005 Period	\$ 420,472	\$20,238	\$440,710
2004 Period	98,084	21,413	119,497

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Joint Venture Expenses. The Company's allocable share of joint venture expenses attributable to the Colombian Joint Venture totaled \$27,424 during the 2005 period and \$6,048 during the 2004 period. 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 \$170,358 and \$57,493 for the periods ended June 30, 2005 and 2004, respectively. The increase is due to increases in domestic and Colombian production.

General and Administrative Expenses. General and administrative expense increased by 167% to \$340,048 during the 2005 period from \$127,280 in the 2004 period. The increase in general and administrative expense was primarily

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attributable to the payment of salary (up \$97,184 from \$0) to the Company's principal officer beginning in the fourth quarter of 2004 and increases in professional fees (up \$136,594, or 243%) relating primarily to legal fees associated with the ongoing Moose Oil litigation.

Other Expense, Net. Other expense, net, 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, net of interest earned by the Company. 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 \$27,298 in the six-month period ended June 30, 2004 to \$413,661 in the six-month period ended June 30, 2005. 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. During the 2004 period, other expense was entirely attributable to interest accruing on a shareholder loan \$31,600 offset by earned interest \$4,302. During the 2005 period, other expense related primarily to deemed interest on the derivative liability \$292,436, the net change in fair value of the derivative liability \$62,030, interest accrued on the convertible notes \$26,920, interest accrued on the shareholder loan \$36,000 and financing costs \$4,045, offset by interest earnings \$7,770.

### FINANCIAL CONDITION

Liquidity and Capital Resources. At June 30, 2005 we had a cash balance of \$1,929,671 and working capital of \$2,083,092 compared to a cash balance of \$721,613 and working capital of \$771,392 at December 31, 2004. The increase in cash and working capital during the period was primarily attributable to the sale, during 2005, of \$2,125,000 of Subordinated Convertible Notes partially offset by investing activities relating to oil and gas properties.

Derivative liabilities of \$2,472,577 are recorded as current liabilities at June 30, 2005 as compared to \$0 at December 31, 2004, 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 June 30, 2005. Included within the derivative liabilities at June 30, 2005 was \$2,118,111 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 \$0 at December 31, 2004.

Operating cash flows for the 2005 period totaled \$30,997 as compared to cash used in operations during the 2004 period of \$54,826. The improvement in operating cash flow was primarily attributable to improved profitability and increases in depreciation and depletion, partially offset by changes in operating assets and liabilities.

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Investing activities used \$947,939 during the 2005 period as compared to \$441,778 used during the 2004 period. The increase in funds used in investing activities during the current period was primarily attributable to the payment of the Company's portion of seismic survey costs on Colombian prospects totaling \$447,605.

Financing activities provided \$2,125,000 during the 2005 period attributable to the sale of Subordinated Convertible Notes and \$91,193 during the 2004 period

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attributable to the issue of common stock.

Long-Term Debt. At June 30, 2005, our long-term debt was \$1,051,345 as compared to \$1,000,000 at December 31, 2004. Long-term debt at June 30, 2005 consisted of a reserve for plugging costs of \$44,456, a note payable to our principal shareholder in the amount of \$1,000,000 and 8% subordinated convertible notes in the principal amount of \$2,125,000, recorded net of discounts in the amount of \$2,118,111 relating to the fair value of the embedded derivatives included in the subordinated convertible notes. The increase in long-term debt was attributable to the issuance during the period of the subordinated convertible notes and recording the plugging cost reserve.

Notes payable to our principal shareholder, in the amount of \$1,000,000, bear interest at 7.2% and mature January 1, 2007.

Notes payable also included \$2,125,000 in principal amount of Convertible Notes. The Convertible Notes bear interest at 8%, provide for semi-annual interest payments and mature May 1, 2010. The Convertible Notes are convertible, at the option of the holders, into common stock of the Company at a price of \$1.00 per share (the "Conversion Price"), subject to standard anti-dilution provisions relating to splits, reverse splits and other transactions, including issuances of common stock at prices below the Conversion Price. The Convertible Notes are subject to automatic conversion in the event the Company conducts an underwritten public offering of its common stock from which the Company receives at least \$5 million and the public offering price is at least 150% of the then applicable Conversion Price. The Company has the right to cause the Convertible Notes to be converted into common stock after May 1, 2006 if the price of the Company's common stock exceeds 200% of the then applicable Conversion Price on the date of conversion and for at least 20 trading days over the preceding 30 trading days. The Company has the right to repurchase the Convertible Notes after May 1, 2007 at 103% of the face amount during 2007, 102% of the face amount during 2008, 101% of the face amount during 2009 and 100% of the face amount thereafter. The Convertible Notes are unsecured general obligations of the Company and are subordinated to all other indebtedness of the Company unless the other indebtedness is expressly made subordinate to the Convertible Notes.

Capital and Exploration Expenditures and Commitments. Our principal capital and exploration expenditures relate to our ongoing efforts to acquire, drill and complete prospects. Historically, we funded our capital and exploration expenditures from funds borrowed from John F. Terwilliger, our principal shareholder and officer. With the receipt of additional equity financing in 2003, 2004 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 half of 2005, we invested approximately \$947,939 for the acquisition and development of oil and gas properties, consisting of (1) seismic surveying in Colombia (\$447,605), (2) drilling the well on the Crowley Prospect, and (3) drilling 6 wells in Colombia.

At June 30, 2005, our only material contractual obligations requiring determinable future payments on our part were notes payable to our principal shareholder and holders of subordinated convertible notes and our lease relating to our executive offices.

In addition to the contractual obligations requiring that we make fixed payments, in conjunction with our efforts to secure oil and gas prospects, financing and services, we have, from time to time, granted overriding royalty



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interests (ORRI) in various properties, and may grant ORRIs in the future, pursuant to which we will be obligated to pay a portion of our interest in revenues from various prospects to third parties.

At June 30, 2005, our acquisition and drilling budget for the balance of 2005 totaled approximately \$427,500, consisting of (1) \$120,000 for drilling of 5 wells in South America on the Cara Cara concession, (2) \$187,500 to drill one additional concession acquired in South America in 2004 and (3) \$120,000 to drill an additional well on the Crowley Prospect. Our acquisition and drilling budget has historically been subject to substantial fluctuation over the course of a year based upon successes and failures in drilling and completion of prospects and the identification of additional prospects during the course of a year.

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

### OFF-BALANCE SHEET ARRANGEMENTS

We had no off-balance sheet arrangements or guarantees of third party obligations at June 30, 2005.

### INFLATION

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

### ITEM 3. CONTROLS AND PROCEDURES

The Company maintains disclosure controls and procedures (as defined in Exchange Act Rule 13a-15(e) and 15d-15(e)) that are designed to ensure that information required to be disclosed in the Company's Exchange Act reports is recorded, processed, summarized and reported within the time periods specified in the Securities and Exchange Commission's rules and forms, and that such information is accumulated and communicated to the Company's management, including its Chief Executive Officer and Chief Financial Officer, as appropriate, to allow timely decisions regarding the required disclosure.

In designing and evaluating the disclosure controls and procedures, management recognizes that any controls and procedures, no matter how well designed and operated, can provide only reasonable assurance of achieving the desired control objectives, and management necessarily is required to apply its judgment in evaluating the cost-benefit relationship of possible controls and procedures.

At the time the original Quarterly Report on Form 10-QSB was prepared and filed on August 12, 2005, an evaluation as of the end of the period covered by this report had been carried out under the supervision and with the participation of our management, including our chief executive officer and chief financial officer, of the effectiveness of our disclosure controls and procedures, as such term is defined under Rule 13a-15(e) and Rule 15d-15(e) promulgated under the Securities Exchange Act of 1934, as amended (the "Exchange Act"). This evaluation was performed in light of weaknesses identified, and described in the original Quarterly Report, relating to accounting for non-routine transactions. Based on their evaluation, our chief executive officer, who also served at that time as chief financial officer, had originally concluded that our disclosure

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controls and procedures were effective to ensure that we record, process, summarize, and report information required to be disclosed by us in our reports filed under the Securities Exchange

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Act within the time periods specified by the Securities and Exchange Commission's rules and forms even though weaknesses in controls were identified.

In connection with the audit of our financial statements for the fiscal year ended December 31, 2005, our independent registered public accounting firm informed us that we had significant deficiencies constituting material weaknesses as defined by the standards of the Public Company Accounting Oversight Board, some of which had previously been identified in connection with the audit of our financial statements for the fiscal year ended December 31, 2004 and continued to exist at December 31, 2005.

The weaknesses in question were detected during the audit of our financial statements for the fiscal year ended December 31, 2004, which audit occurred in February/March 2005, and during the audit of our financial statements for the fiscal year ended December 31, 2005, which audit occurred in March 2006.

The weaknesses were detected in the routine course of the audit review of accounting for certain non-routine transactions.

The specific problems identified by the auditor were (1) lack of segregation of duties necessary to maintain proper checks and balances between functions, (2) failure of internal personnel to adequately communicate the scope and nature of non-routine transactions, and (3) application of improper accounting principles to financial derivatives. The absence of qualified full time accounting personnel was a contributing factor to the problems identified by the auditor. The specific circumstances giving rise to the weaknesses include our President serving as both Chief Executive Officer and as Chief Financial Officer and our utilizing the services of contract accountants on a part time basis in the absence of internal accounting personnel. As a result of the absence of full time in-house accounting personnel and the failure of in-house personnel to adequately communicate information to the outside contract accountants, certain journal entries required during 2004 and 2005 were not made until the time of the audit when the need for such entries was identified by the auditor.

As a result of our review of the items identified by our auditors, we have concluded that our previous derivative accounting policies were incorrect.

In light of the above items, we have restated our financial statements for the quarterly and year-to-date periods ended June 30, 2005 and September 30, 2005 to correct our accounting for derivatives.

Further, based on the material weaknesses described herein, we have re-evaluated our disclosure controls at June 30, 2005 and concluded that our disclosure controls and procedures were not effective at the reasonable assurance level at June 30, 2005. More specifically, our failure to maintain effective controls over the selection, application and monitoring of our accounting policies to assure that certain transactions were accounted for in conformity with generally accepted accounting principles resulted in a failure to record an appropriate derivative liability, deemed interest expense associated with the derivative liability and related charges associated with changes in the value of embedded derivatives, all arising from the issuance of convertible notes and warrants that included embedded derivatives.

Because we lack the financial resources to support in-house accounting personnel at this time, no formal steps had been taken as of the time of filing of the

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original quarterly report for the period ended June 30, 2005 to resolve the weaknesses identified by the auditor. We, however, began emphasizing improvement in communications with outside accounting personnel to assure that non-routine transactions are accounted for in a timely manner. Further, with respect to the specific accounting principles that were subject of the weaknesses identified - derivatives accounting and compensation accounting - we placed an emphasis on reviewing the application of such principles in connection with all future accounting periods.

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During the quarter ended June 30, 2005, there were no changes in our internal controls over financial reporting that materially affected, or are reasonably likely to materially affect, internal controls over financial reporting. We subsequently hired a full-time in-house chief financial officer and expect that such hiring will alleviate some or all of the weaknesses in disclosure control previously identified.

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PART II

ITEM 6. EXHIBITS

Exhibit Number -----	Description -----
31.1	Certification of CEO pursuant to Section 302 of the Sarbanes-Oxley Act of 2002
31.2	Certification of CFO pursuant to Section 302 of the Sarbanes-Oxley Act of 2002
32.1	Certification of CEO Pursuant to 18 U.S.C. Section 1350, as Adopted Pursuant to Section 906 of the Sarbanes-Oxley Act of 2002
32.2	Certification of CFO Pursuant to 18 U.S.C. Section 1350, as Adopted Pursuant to Section 906 of the Sarbanes-Oxley Act of 2002

SIGNATURES

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

HOUSTON AMERICAN ENERGY CORP.

By: /s/ John Terwilliger

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John Terwilliger  
CEO and President

By: /s/ James Jacobs

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James Jacobs  
Chief Financial Officer

Date: December 1 , 2006