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HOUSTON AMERICAN ENERGY CORP

Form 10-Q

November 05, 2007

UNITED STATES
SECURITIES AND EXCHANGE COMMISSION
Washington, DC 20549

FORM 10-Q

(Mark One)

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

For the quarterly period ended September 30, 2007

OR

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

For the transition period from _____ to _____.

Commission File Number 1-32955

HOUSTON AMERICAN ENERGY CORP.
(Exact name of registrant as specified in its charter)

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

801 Travis Street, Suite 1425, Houston, Texas 77002
(Address of principal executive offices) (Zip Code)

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

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

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

Indicate by check mark whether the registrant is a large accelerated filer,
an accelerated filer or a non-accelerated filer. See definition of "accelerated
filer and large accelerated filer" in Rule 12b-2 of the Exchange Act. (Check
one):

Large accelerated filer ☐ Accelerated filer ☐ Non-accelerated filer ☒

Indicate by check mark whether the registrant is a shell company (as
defined in Rule 12b-2 of the Exchange Act). Yes No ☒

As of October 15, 2007, we had 27,920,172 shares of \$.001 par value Common
Stock outstanding.

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HOUSTON AMERICAN ENERGY CORP.

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PART I - FINANCIAL INFORMATION

ITEM 1. Financial Statements

HOUSTON AMERICAN ENERGY CORP. BALANCE SHEET (Unaudited)

September 30, 2007 December 31, 2006

ASSETS

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CURRENT ASSETS:

| | | | | |
|---|----|------------|----|------------|
| Cash | \$ | 948,525 | \$ | 409,008 |
| Marketable securities | | 9,850,000 | | 14,000,000 |
| Accounts receivable | | 281,182 | | 325,436 |
| Prepaid expenses and other current assets | | 68,727 | | - |
| | | ----- | | ----- |
| Total current assets | | 11,148,434 | | 14,734,444 |
| | | ----- | | ----- |

PROPERTY AND EQUIPMENT

| | | | | |
|---|--|-------------|--|-------------|
| Oil and gas properties - full cost method | | | | |
| Costs subject to amortization | | 11,831,281 | | 6,796,308 |
| Costs not being amortized | | 325,894 | | 700,549 |
| Office equipment | | 11,878 | | 11,878 |
| | | ----- | | ----- |
| Total property and equipment | | 12,169,053 | | 7,508,735 |
| Accumulated depreciation and depletion | | (3,376,340) | | (2,260,463) |
| | | ----- | | ----- |
| Total property and equipment, net | | 8,792,713 | | 5,248,272 |
| | | ----- | | ----- |

OTHER ASSETS

| | | | | |
|--------------|----|------------|----|------------|
| | | 3,167 | | 3,167 |
| | | ----- | | ----- |
| Total Assets | \$ | 19,944,314 | \$ | 19,985,883 |
| | | ===== | | ===== |

LIABILITIES AND SHAREHOLDERS' EQUITY

CURRENT LIABILITIES:

| | | | | |
|------------------------------|----|---------|----|---------|
| Accounts payable | \$ | 195,678 | \$ | 399,159 |
| Accrued expenses | | 7,535 | | 11,909 |
| Foreign income taxes payable | | 153,602 | | 121,216 |
| | | ----- | | ----- |
| Total current liabilities | | 356,815 | | 532,284 |
| | | ----- | | ----- |

LONG-TERM LIABILITIES:

| | | | | |
|-----------------------------|--|--------|--|--------|
| Reserve for plugging costs | | 40,697 | | 38,816 |
| | | ----- | | ----- |
| Total long-term liabilities | | 40,697 | | 38,816 |
| | | ----- | | ----- |

SHAREHOLDERS' EQUITY:

| | | | | |
|---|----|-------------|----|-------------|
| Common stock, \$0.001 par value; 100,000,000 shares authorized; 27,920,172 shares outstanding | | 27,920 | | 27,920 |
| Additional paid-in capital | | 22,336,665 | | 22,042,624 |
| Treasury stock, at cost; 100,000 shares | | (85,834) | | (85,834) |
| Accumulated deficit | | (2,731,949) | | (2,569,927) |
| | | ----- | | ----- |
| Total shareholders' equity | | 19,546,802 | | 19,414,783 |
| | | ----- | | ----- |
| Total liabilities and shareholders' equity | \$ | 19,944,314 | \$ | 19,985,883 |
| | | ===== | | ===== |

The accompanying notes are an integral part of these financial statements

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HOUSTON AMERICAN ENERGY CORP. STATEMENT OF OPERATIONS (Unaudited)

| | Nine Months Ended September 30, | | Three Months Ended September 30, | |
|---|------------------------------------|--------------|-------------------------------------|------------|
| | 2007 | 2006 | 2007 | 2006 |
| Revenue: | | | | |
| Oil and gas | \$ 3,153,914 | \$ 2,380,593 | \$ 1,168,829 | \$ 891,029 |
| Total revenue | 3,153,914 | 2,380,593 | 1,168,829 | 891,029 |
| Expenses of operations: | | | | |
| Lease operating expense and severance tax | 1,419,442 | 736,803 | 524,630 | 285,767 |
| Joint venture expenses | 99,291 | 121,206 | 20,237 | 40,083 |
| General and administrative expense | 1,285,533 | 971,698 | 410,752 | 454,257 |
| Depreciation and depletion | 1,115,877 | 455,246 | 449,120 | 275,234 |
| Total operating expenses | 3,920,143 | 2,284,953 | 1,404,739 | 1,055,341 |
| Income (loss) from operations | (766,229) | 95,640 | (235,910) | (164,312) |
| Other (income) expenses: | | | | |
| Interest income | (504,763) | (316,697) | (144,209) | (238,814) |
| Interest expense | - | 57,278 | - | - |
| Interest expense - derivative | - | 37,773 | - | - |
| Net change in fair value of derivative liabilities | - | 170,949 | - | - |
| Interest expense - shareholders | - | 20,440 | - | - |
| Financing costs | - | 110,787 | - | 104 |
| Total other (income) expenses, net | (504,763) | 80,530 | (144,209) | (238,710) |
| Net income before taxes | (261,466) | 15,110 | (91,701) | 74,398 |
| Income tax expense (benefit) | (99,443) | 198,099 | (366,891) | 76,402 |
| Net income (loss) | \$ (162,023) | \$ (182,989) | \$ 275,190 | \$ (2,004) |
| Basic income (loss) per share | \$ (0.01) | \$ (0.01) | \$ 0.01 | \$ (0.00) |
| Diluted income (loss) per share | \$ (0.01) | \$ (0.01) | \$ 0.01 | \$ (0.00) |
| Basic weighted average shares | 27,920,172 | 22,297,527 | 27,920,172 | 27,820,172 |
| Diluted weighted average shares | 27,920,172 | 22,297,527 | 28,021,482 | 27,820,172 |

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

| | For the Nine Months Ended S | |
|---|-----------------------------|--------------|
| | 2007 | |
| CASH FLOWS FROM OPERATING ACTIVITIES | | |
| Net loss | \$ | (162,023) \$ |
| Adjustments to reconcile net loss | | |
| to net cash from operations | | |
| Depreciation and depletion | | 1,115,877 |
| Stock based compensation | | 294,042 |
| Accretion expense - asset retirement obligation | | 1,881 |
| Change in fair value of derivatives | | - |
| Amortization of debt discounts and deferred financing costs | | - |
| Changes in operating assets and liabilities: | | |
| (Increase) decrease in accounts receivable and other assets | | 34,601 |
| (Increase) decrease in prepaid expense | | (59,074) |
| Increase (decrease) in accounts payable, foreign income taxes | | |
| payable and accrued expenses | | (175,469) |
| Net cash provided by operations | | 1,049,835 |
| CASH FLOWS FROM INVESTING ACTIVITIES | | |
| Sale of marketable securities | | 4,150,000 |
| Acquisition of oil and gas properties | | (4,660,318) |
| Net cash used by investing activities | | (510,318) |
| CASH FLOWS FROM FINANCING ACTIVITIES | | |
| Sale of common stock, net of expenses | | - |
| Exercise of warrants | | - |
| Repayment of shareholder loan | | - |
| Net cash provided by financing activities | | - |
| Increase in cash and equivalents | | 539,517 |
| Cash, beginning of period | | 409,008 |
| Cash, end of period | \$ | 948,525 \$ |

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SUPPLEMENTAL CASH FLOW INFORMATION:

Interest paid

\$ - \$

SUPPLEMENTAL SCHEDULE OF NON-CASH INVESTING

AND FINANCING ACTIVITIES:

Conversion of convertible notes to common stock

\$ - \$

Exercise of warrants

\$ - \$

The accompanying notes are an integral part of these financial statements

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HOUSTON AMERICAN ENERGY CORP.

Notes to Financial Statements

September 30, 2007

(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-Q. They do not include all of the information and footnotes required by accounting principles generally accepted in the United States of America for a complete financial presentation. In the opinion of management, all adjustments, consisting only of normal recurring adjustments, considered necessary for a fair presentation, have been included in the accompanying unaudited 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, 2006.

NOTE 2. - CHANGES IN PRESENTATION

Certain financial presentations for the periods presented for 2006 have been reclassified to conform to the 2007 presentation.

NOTE 3. - RECENT ACCOUNTING PRONOUNCEMENTS

On February 15, 2007, the Financial Accounting Standards Board issued SFAS No. 159, "The Fair Value Option for Financial Assets and Financial Liabilities," which gives companies the option to measure eligible financial assets, financial liabilities and firm commitments at fair value (i.e., the fair value option), on an instrument-by-instrument basis, that are otherwise not permitted to be accounted for at fair value under other accounting standards. The election to use the fair value option is available when an entity first recognizes a financial asset or financial liability or upon entering into a firm commitment. Subsequent changes in fair value must be recorded in earnings. SFAS No. 159 is effective for financial statements issued for fiscal years beginning after November 15, 2007. We are in the process of evaluating the impact, if any, of adopting this pronouncement.

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NOTE 4. - MARKETABLE SECURITIES

At September 30, 2007 the Company held \$9,850,000 in marketable securities, which consisted of investments in corporate and municipal bonds. The Company accounts for its investments in marketable securities pursuant to SFAS No. 115 "Accounting for Certain Investments in Debt and Equity Securities", and has classified all of its marketable securities as available-for-sale. Accordingly, the investments are carried at fair market value with unrealized gains and losses, net of tax, reported as a separate component of stockholders equity. Realized gains and losses and declines in value determined to be other than temporary in nature are included in interest income, net. There were no unrealized gains or losses associated with these marketable securities at September 30, 2007. There were no realized gains and losses recorded during the nine month period ending September 30, 2007.

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NOTE 5. - STOCK-BASED COMPENSATION EXPENSE

On January 1, 2006, the Company adopted Statement of Financial Accounting Standards 123R, "Share-Based Payments", or SFAS 123R. The Company periodically grants options to employees, directors and consultants under the Company's 2005 Stock Option Plan. These are accounted for in accordance with the provisions of SFAS 123R and Emerging Issues Task Force Abstract No. 96-18, "Accounting for Equity Instruments That are Issued to Other Than Employees for Acquiring or in Conjunction with Selling, Goods or Services" as well as other authoritative accounting pronouncements. The Company is required to make estimates of the fair value of the related instruments and recognize expense over the period benefited, usually the vesting period.

A summary of stock option activity and related information for the nine months ended September 30, 2007 is presented below:

| | Options | Weighted-Average Exercise Price | Aggregate Intrinsic Value |
|-----------------------------------|---------|------------------------------------|------------------------------|
| Outstanding at January 1, 2007 | 309,000 | \$ 2.89 | \$ 450,450 |
| Granted to Directors | 30,000 | 5.45 | - |
| Exercised | - | - | - |
| Forfeited | - | - | - |
| Outstanding at September 30, 2007 | 339,000 | \$ 3.12 | \$ 450,450 |
| Exercisable at September 30, 2007 | 272,000 | \$ 3.15 | \$ 359,117 |

The following table reflects share-based compensation recorded by the Company for the nine months ended September 30, 2007 and 2006:

| | Nine Months Ended September 30, 2007 | 2006 |
|---|---|------|
| Share-based compensation expense included in reported net | | |

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| | | |
|---|------------|------------|
| income (loss) | \$ 294,042 | \$ 209,867 |
| Basic and diluted earnings per share effect of share-based compensation expense | \$ (.01) | \$ (.01) |
| | ===== | ===== |

The following table reflects share-based compensation recorded by the Company for the three months ended September 30, 2007 and 2006:

| | Three Months Ended September | |
|---|------------------------------|------------|
| | 2007 | 2006 |
| Share-based compensation expense included in reported net loss | \$ 41,166 | \$ 164,166 |
| Basic and diluted earnings per share effect of share-based compensation expense | \$ (0.00) | \$ (0.00) |
| | ===== | ===== |

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NOTE 6. - CONTINGENCIES AND COMMITMENTS

Executive Compensation

In July 2007, the Company's Compensation Committee approved the payment of cash bonuses to the Company's President, in the amount of \$50,000, and the Company's Chief Financial Officer, in the amount of \$30,000, and approved an increase in base salary of each, effective July 1, 2007, with the salary of the Company's President increasing from \$300,000 to \$315,000 and the salary of the Company's Chief Financial Officer increasing from \$125,000 to \$150,000.

In conjunction with the actions of the Compensation Committee regarding the payment of bonuses and increase in base salary, the Compensation Committee also approved grants of restricted stock to the Company's President (41,700 shares) and the Company's Chief Financial Officer (13,900 shares). The restricted stock has not been issued and the issuance of shares pursuant to these grants is subject to satisfaction of various contingencies, including receipt of shareholder approval and confirmation of compliance with applicable Nasdaq corporate governance provisions, which will determine the ultimate measurement date.

Possible Hupecol Transaction

On July 17, 2007, management of the Company was advised that Hupecol LLC ("Hupecol") had retained an investment bank for purposes of evaluating a possible transaction (a "Transaction") involving the monetization of Hupecol assets. The Transaction may involve the sale of some or all of the assets and operations of Hupecol, an exchange or trade of assets, a public offering or other similar transaction and may be effected in a single transaction or a series of transactions.

The Company is an investor in Hupecol and the Company's interest in the assets and operations of Hupecol represent all of the Company's assets and operations in Colombia and are the principal assets and operations of the Company. The Company's management intends to closely monitor the nature and progress of the

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Transaction in order to protect the interests of the Company and its shareholders. However, the Company has no effective ability to alter or prevent a Transaction and is unable to predict whether or not a Transaction will in fact occur or the nature or timing of any such Transaction. Further, the Company is unable to estimate the actual value that it might derive from any such Transaction and whether any such Transaction will ultimately be beneficial to the Company and its shareholders.

NOTE 7 - GEOGRAPHICAL INFORMATION

The Company currently has operations in two geographical areas, the United States and Colombia. Revenues for the nine months ended September 30, 2007 and Long Lived Assets as of September 30, 2007 attributable to each geographical area are presented below:

| Nine Months Ended September 30, 2007 | | | |
|--------------------------------------|--------------|----|------------------------|
| | Revenues | | Long Lived Assets, Net |
| United States | \$ 402,797 | \$ | 2,136,449 |
| Colombia | 2,751,117 | | 6,656,264 |
| | \$ 3,153,914 | \$ | 8,792,713 |

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NOTE 8. - HUPECOL TAX ALLOCATION CREDITS

In August 2007, the Company was advised that Hupecol would be adjusting the division of interests among the members of the various Hupecol entities to reflect revised Colombian tax allocations among the various Hupecol entities. Specifically, Hupecol advised that Colombian tax attributes were allocated among the Hupecol entities without taking into account the specific contributions of each individual entity resulting in an improper shifting of tax expenses and benefits among the Hupecol entities and, in turn, the members of each of the Hupecol entities, including the Company.

As a result of the adjustment by Hupecol, during the quarter ended September 30, 2007, the Company received a net credit from Hupecol for excess Colombian taxes allocated to the Company in the amount of \$662,688. The credit is reflected in the Company's financial statements as a credit to income tax expense.

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ITEM 2. MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS

FORWARD-LOOKING INFORMATION

This Form 10-Q quarterly report of Houston American Energy Corp. (the "Company") for the nine months ended September 30, 2007, 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,

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such statements constitute forward-looking statements that, by definition, involve risks and uncertainties. In any forward-looking statement, where the Company expresses an expectation or belief as to future results or events, such expectation or belief is expressed in good faith and believed to have a reasonable basis, but there can be no assurance that the statement of expectation or belief will be achieved or accomplished.

The actual results or events may differ materially from those anticipated and as reflected in forward-looking statements included herein. Factors that may cause actual results or events to differ from those anticipated in the forward-looking statements included herein include the Risk Factors described in Item 1 of the Company's Form 10-KSB for the year ended December 31, 2006.

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-Q to be accurate as of the date hereof. Changes may occur after that date, and the Company will not update that information except as required by law in the normal course of its public disclosure practices.

Additionally, the following discussion regarding the Company's financial condition and results of operations should be read in conjunction with the financial statements and related notes contained in Item 1 of Part 1 of this Form 10-Q, as well as the Risk Factors in Item 1 and the financial statements in Item 7 of Part II of the Company's Form 10-KSB for the fiscal year ended December 31, 2006.

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, 2006. As of, and for the nine months ended, September 30, 2007, there have been no material changes or updates to the Company's critical accounting policies other than the following updated information relating to Unevaluated Oil and Gas Properties:

-- UNEVALUATED OIL AND GAS PROPERTIES. Unevaluated oil and gas properties not subject to amortization include the following at September 30, 2007:

| | September 30, 2007 |
|-------------------|--------------------|
| | ----- |
| Acquisition costs | \$ 186,869 |
| Evaluation costs | 52,164 |
| Retention costs | 86,861 |
| | ----- |
| Total | \$ 325,894 |
| | ===== |

The carrying value of unevaluated oil and gas prospects includes \$13,330 expended for properties in the South American country of Colombia at September

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30, 2007. We are maintaining our interest in these properties and development has or is anticipated to commence within the next twelve months.

CURRENT YEAR DEVELOPMENTS

Drilling Activity

During the nine months ended September 30, 2007, the Company drilled 19 international wells in Colombia, as follows:

- Eight wells were drilled on concessions in which we hold a 12.5% working interest, of which two were on production as of September 30, 2007, one was abandoned prior to reaching its target sands, one was converted to a water disposal well after an unsuccessful completion attempt, one was shut in due to mechanical problems, one was completed as a producer and subsequently temporarily shut in due to weather conditions, and two were dry holes.
- 11 wells were drilled on concessions in which we hold a 1.6% working interest, of which seven were in production as of September 30, 2007, one was being completed as of September 30, 2007, two were dry holes, and one completed well was shut in due to mechanical problems.

Two domestic wells, the Baronet #3 and the Weil #2 were drilled during the nine months ended. The Baronet #3 was producing at September 30, 2007 and the Weil #2 was a dry hole. We hold a 17.5% working interest with a 13.125% net revenue interest in the Baronet #3 and a 4.38% working interest with a 3.19% net revenue interest in the Weil #2.

At September 30, 2007 we planned to drill six additional international wells over the balance of 2007.

We plan to drill 1 domestic well on the Caddo Lake Prospect, described below, over the balance of 2007.

Leasehold Activity

During the quarter ended September 30, 2007, we acquired no additional oil and gas interests. In October 2007, we acquired an interest in a 640 acre prospect known as the Caddo Lake Prospect in Caddo Parish, Louisiana with a right to participate in drilling on an additional 4,400 acres. We will pay 35% of the costs of the initial well drilled on the Caddo Lake Prospect and have a 33.5% Working Interest (25.125% Net Revenue Interest) until well payout. After well payout, we will own a 27.25% Working Interest and 20.4375% Net Revenue Interest. On all additional well costs after the initial well and on all additional lease costs, we will have a 27.25% Working Interest with a 20.4375% Net Revenue Interest.

Seismic Activity

During the quarter ended September 30, 2007, we conducted no new seismic activity.

Possible Hupecol Transaction

On July 17, 2007, our management was advised that Hupecol LLC ("Hupecol") had retained an investment bank for purposes of evaluating a possible transaction (a "Transaction") involving the monetization of Hupecol assets. The Transaction may involve the sale of some or all of the assets and operations of Hupecol, an exchange or trade of assets, a public offering or other similar transaction and may be effected in a single transaction or a series of transactions.

We are an investor in Hupecol and our interest in the assets and operations of Hupecol represent all of our assets and operations in Colombia and are our principal assets and operations. Our management intends to closely monitor the nature and progress of the Transaction in order to protect our interests. However, we have no effective ability to alter or prevent a Transaction and are unable to predict whether or not a Transaction will in fact occur or the nature or timing of any such Transaction. Further, we are unable to estimate the actual value that it might derive from any such Transaction and whether any such Transaction will ultimately be beneficial to our company and our shareholders.

Hupecol Tax Allocation Credits

In August 2007, we were advised that Hupecol would be adjusting the division of interests among the members of the various Hupecol entities to reflect revised Colombian tax allocations among the various Hupecol entities. Specifically, Hupecol advised that Colombian tax attributes were allocated among the Hupecol entities without taking into account the specific contributions of each individual entity resulting in an improper shifting of tax expenses and benefits among the Hupecol entities and, in turn, the members of each of the Hupecol entities, including the Company.

As a result of the adjustment by Hupecol, during the quarter ended September 30, 2007, we received a net credit from Hupecol for excess Colombian taxes allocated to the Company in the amount of \$662,688. The credit is reflected in the Company's financial statements as a credit to income tax expense.

RESULTS OF OPERATIONS

Oil and Gas Revenues. Total oil and gas revenues increased 31.2% to \$1,168,829 in the quarter ended September 30, 2007 when compared to the quarter ended September 30, 2006. For the first nine months of 2007, oil and gas revenues increased 32.5%, to \$3,153,914, when compared to the first nine months of 2006.

The increase in oil and gas revenue for both the quarter and nine months over 2006 is principally due to increased production resulting from the development of the Colombian fields. We had interests in 31 producing wells in Colombia, 2 of which were temporarily shut in, as of September 30, 2007, and eight producing wells in the U.S. during the 2007 nine month period as compared to 21 producing wells in Colombia and 12 producing wells in the U.S. during the 2006 nine month period. As of September 30, 2007, one of the Colombian wells was shut in due to an inability to transport the oil as a result of weather conditions and one was shut in due to mechanical problems.

The following table sets forth a comparison of hydrocarbon prices for the quarter and nine month periods:

| | Quarter Ended September 30 | | Nine Months Ended September 30, | |
|--------------------------------|----------------------------|----------|---------------------------------|----------|
| | 2007 | 2006 | 2007 | 2006 |
| Hydrocarbon prices: | | | | |
| Oil - Average price per barrel | \$ 62.57 | \$ 60.54 | \$ 61.12 | \$ 58.65 |
| Gas - Average price per mcf | 6.33 | 5.99 | 6.68 | 7.25 |

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The following table sets forth a comparison of oil and gas sales by region for the quarter and nine month periods.

| | | Quarter Ended September 30, | | Nine Months, Ended September 30 | |
|-------|-------------|-----------------------------|------------|---------------------------------|--------------|
| | | 2007 | 2006 | 2007 | 2006 |
| Sales | | | | | |
| Oil | Colombia | \$ 896,463 | \$ 733,177 | \$ 2,751,117 | \$ 1,816,048 |
| | US | 40,979 | 18,324 | 102,777 | 69,916 |
| | Total - Oil | \$ 937,442 | \$ 751,501 | \$ 2,853,894 | \$ 1,885,964 |
| Gas | Colombia | \$ - | \$ - | \$ - | \$ - |
| | US | 231,387 | 139,528 | 300,020 | 494,629 |
| | Total - Gas | \$ 231,387 | \$ 139,528 | \$ 300,020 | \$ 494,629 |

Lease Operating Expenses. Lease operating expenses, excluding joint venture expenses relating to our operations discussed below, increased 83.6% to \$524,630 in the 2007 quarter from \$285,767 in the 2006 quarter. For the nine months ended September 30, 2007, lease operating expenses, excluding joint venture expenses, increased 92.6%, to \$1,419,442, compared to the 2006 nine month period.

The increase in lease operating expenses was attributable to the increase in the number of Colombian wells we operated during 2007 (31 wells as compared to 21 wells). Additionally operations have increased in workovers as well as in the Dorotea and Cabiona areas. The company has a higher working interest in these areas (12.5%), which increased the amount of operating expense the company incurred during the period.

| | | Quarter Ended September 30, | | Nine Months Ended | |
|--|--|-----------------------------|------------|-------------------|----|
| | | 2007 | 2006 | 2007 | |
| Lease Operating Expenses and Severance Tax | | | | | |
| Colombia | | \$ 472,089 | \$ 226,318 | \$ 1,321,744 | \$ |
| U.S. | | 52,541 | 59,449 | 97,698 | |
| Total | | \$ 524,630 | \$ 285,767 | \$ 1,419,442 | \$ |

Joint Venture Expenses. The Company's allocable share of joint venture expenses attributable to the Colombian Joint Venture totaled \$20,237 during the 2007 quarter and \$40,083 for the 2006 quarter. For the nine months ended September 30, 2007, joint venture expenses for Colombia totaled \$99,291 as compared to \$121,206 for the nine months ended September 30, 2006. The decrease in joint venture expenses was attributable to the operator reducing personnel working on the undrilled contract areas.

Depreciation and Depletion Expense. Depreciation and depletion expense was \$449,120 and \$275,234 for the quarters ended September 30, 2007 and 2006, respectively, and \$1,115,877 and \$455,246 for the nine months ended September

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30, 2007 and 2006, respectively. The increase for both the quarter and nine months is due to increases in Colombian production and a 68.9% increase in the depletable cost pool.

General and Administrative Expenses. General and administrative expense (excluding stock based compensation) increased by 27.6% to \$369,586 during the quarter ended September 30, 2007 from \$289,590 in the 2006 quarter. For the nine months ended September 30, 2007, general and administrative expenses (excluding stock based compensation) increased 30.1%, to \$991,491 compared to the 2006 nine month period. The increase in general and administrative expense for the nine month period was primarily attributable to an increase in salary to our President in mid-2006, increases in base salary of our President and chief financial officer during the third quarter of 2007 and payment of bonuses during 2007.

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Stock based compensation expense included in general and administrative expenses decreased by 75% to \$41,166 during the quarter ended September 30, 2007. For the nine months ended September 30, 2007, stock based compensation expense increased 40.1% to \$294,042. The increase in stock-based compensation expense was attributable to the 2006 grant of stock options in connection with the hiring of our chief financial officer and the grants of options to our directors during 2007. The decrease in the quarter was due to decrease in stock based compensation attributable to the initial recording of stock compensation relating to the hiring of our chief financial officer.

Other Income (Expense). Other income (expense) consists of interest earned on cash balances and marketable securities, net 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 outstanding during the 2006 period. 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 income (expense), net totaled \$144,209 of income during the quarter ended September 30, 2007 as compared to net other expenses of \$238,710 during the 2006 quarter. For the nine months ended September 30, 2007, other income, net, totaled \$504,763 as compared to \$80,530 of net other expenses during the 2006 nine month period. The improvement in net other income (expense) resulted from (1) the increased interest income during the 2007 nine month period (\$504,763 in the 2007 nine month period compared to \$316,697 in the 2006 nine month period) attributable to substantial increases in cash and marketable securities held during the 2007 period following a 2006 private placement of common stock, and (2) the absence of interest expense, financing fees and derivative related expense during the 2007 period attributable to the retirement, or conversion, during 2006 of all outstanding shareholder loans and convertible notes.

Income Tax Expense (Benefit). Income tax expense decreased to a benefit of (\$366,891) during the 2007 quarter compared to the 2006 quarter. For the nine months ended September 30, 2007, income tax expense decreased to a benefit of \$99,443, as compared to the 2006 period. The decrease in income tax expense during the 2007 quarter and nine month period was attributable to the gain associated with the reallocation of the Hupecol tax credits discussed above, partially offset by an increase in revenue and an effective tax rate increase in Colombia. Income tax expense during the 2007 and 2006 periods was entirely attributable to operations in Colombia. The Company recorded no U.S. income tax liability in the 2007 or 2006 periods.

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FINANCIAL CONDITION

Liquidity and Capital Resources. At September 30, 2007 we had a cash balance of \$948,525 and working capital of \$10,791,619 compared to a cash balance of \$409,008 and working capital of \$14,202,160 at December 31, 2006. The decrease in cash and working capital during the period was primarily attributable to payment of drilling costs in Colombia and domestically in the United States.

Operating cash flows for the 2007 nine month period totaled \$1,049,836 as compared to cash provided by operations during the 2006 period of \$611,838. The change in operating cash flow was primarily attributable to the increase in oil and gas sales revenues partially offset by increases in lease operating expenses and general and administrative expense and reductions in payables and accrued expenses.

Investing activities used \$510,318 during the 2007 nine month period as compared to \$2,592,406 used during the 2006 period. The decrease in cash flows used by investing activities during the current period was primarily attributable to the receipt of funds from the sale of marketable securities which funded increased oil and gas acquisition and drilling activities during the 2007 period.

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Financing activities provided \$14,677,833 during the 2006 nine month period from the sale of common stock, exercise of warrants and repayment of a shareholder loan. We had no financing activities during the 2007 period.

Long-Term Liabilities. At September 30, 2007, we had long-term liabilities of \$40,697 as compared to \$38,816 at December 31, 2006. Long-term liabilities at September 30, 2007 and December 31, 2006 consisted of a reserve for plugging and abandonment costs.

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 2006 and prior years, and the increase in our revenues, we expect that future capital and exploration expenditures will be funded principally through funds on hand and funds generated from operations.

During the first nine months of 2007, we invested approximately \$4,660,318 for the acquisition and development of oil and gas properties, consisting of (1) drilling of 19 wells in Colombia (\$3,431,180), (2) the drilling of two domestic wells in the United States (\$1,136,769), and (3) lease retention payments on domestic properties of (\$92,369).

At September 30, 2007, our only material contractual obligation requiring determinable future payments was a lease relating to the Company's executive offices which was unchanged when compared to the 2006 Form 10-KSB.

At September 30, 2007, our acquisition and drilling budget for the balance of 2007 totaled approximately \$1,117,500, which consists of the drilling of six wells in Colombia and one well in the U.S. 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 increases in revenues over the past year will meet our anticipated objectives and business operations, including planned property acquisitions and drilling activities, for at least the next 12 months without the need for additional

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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 September 30, 2007.

INFLATION

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

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ITEM 3. QUANTITATIVE AND QUALITATIVE DISCLOSURES ABOUT MARKET RISK

COMMODITY PRICE RISK

The price we receive for our oil and gas production heavily influences our revenue, profitability, access to capital and future rate of growth. Crude 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 gas have been volatile, and these markets will likely continue to be volatile in the future. The prices we receive for production depends on numerous factors beyond our control.

We have not historically entered into any hedges or other transactions designed to manage, or limit exposure to oil and gas price volatility.

INTEREST RATE RISK

We invest funds in excess of projected short-term needs in interest rate sensitive securities, primarily fixed maturity securities. While it is generally our intent to hold our fixed maturity securities to maturity, we have classified a majority of our fixed maturity portfolio as available-for-sale. In accordance with SFAS No. 115, "Accounting for Certain Investments in Debt and Equity Securities," our available-for-sale fixed maturity securities are carried at fair value on the balance sheet with unrealized gains or losses reported net of tax in accumulated other comprehensive income.

Increases and decreases in prevailing interest rates generally translate into decreases and increases in fair values of fixed maturity securities. Additionally, fair values of interest rate sensitive instruments may be affected by the creditworthiness of the issuer, prepayment options, relative values of alternative investments, the liquidity of the instrument and other general market conditions. Because of the short-term nature of the interest bearing investments, the quality of the issuers and the intent to hold those investments to maturity, we do not believe we face any material interest rate risk with respect to such investments.

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ITEM 4. CONTROLS AND PROCEDURES

As of the end of the period covered by this report, we have evaluated the effectiveness of the design and operation of our disclosure controls and procedures under the supervision and with the participation of our chief

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executive officer ("CEO") and chief financial officer ("CFO"). Based on this evaluation, our management, including the CEO and CFO, concluded that our disclosure controls and procedures were not effective at September 30, 2007.

During the quarter ended September 30, 2007, 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.

Management notes that the Company continues to lack adequate segregation of duties in our financial reporting process, as our CFO serves as our only internal accounting and financial reporting personnel and, as such, performs all accounting and financial reporting functions. Accordingly, the preparation of financial statements and the related monitoring controls surrounding this process were not segregated.

We have no current plans to add accounting or financial reporting personnel and, accordingly, expect to continue to lack segregation of accounting, financial reporting and oversight functions. As operations increase in scope, we intend to evaluate hiring additional in-house accounting personnel so as to provide for appropriate segregation of duties within the accounting function.

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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
John Terwilliger CEO and
President

By: /s/ James J. Jacobs
James J. Jacobs Chief
Financial Officer

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Date: November 2, 2007