

HOUSTON AMERICAN ENERGY CORP
Form 10-K
April 01, 2013

SECURITIES AND EXCHANGE COMMISSION
Washington, D.C. 20549

FORM 10-K

(Mark One)

ANNUAL REPORT UNDER SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934

For the Fiscal Year Ended December 31, 2012

TRANSITION REPORT UNDER SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934

For the transition period from _____ to _____
Commission File No. 1-32955

HOUSTON AMERICAN ENERGY CORP.

(Exact name of registrant specified in its charter)

Delaware
(State or other jurisdiction of incorporation or
organization)

76-0675953
(I.R.S. Employer Identification No.)

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

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

Securities registered pursuant to Section 12(b) of the Act:

Title of each class	Name of each exchange on which each is registered
Common Stock, \$0.001 par value	NYSE MKT

Securities registered pursuant to Section 12(g) of the Act:

None
(Title of Class)

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Indicate by check mark if the registrant is a well-known seasoned issuer, as defined in Rule 405 of the Securities Act. Yes No

Indicate by check mark if the registrant is not required to file reports pursuant to Section 13 or 15(d) of the Exchange Act. Yes No

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

Indicate by check mark whether the registrant has submitted electronically and posted on its corporate Web site, if any, every Interactive Data File required to be submitted and posted pursuant to Rule 405 of Regulation S-T (§232.405 of this chapter) during the preceding 12 months (or for such shorter period that the registrant was required to submit and post such files). Yes No

Indicate by check mark if disclosure of delinquent filers pursuant to Item 405 of Regulation S-K is not contained herein, and will not be contained, to the best of registrant's knowledge, in definitive proxy or information statements incorporated by reference in Part III of this Form 10-K or any amendment to this Form 10-K.

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

Large accelerated filer Accelerated filer Non-accelerated filer Smaller reporting company

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

The aggregate market value of the voting and non-voting common equity held by non-affiliates of the registrant on June 30, 2012, based on the closing sales price of the registrant's common stock on that date, was approximately \$26.5 million. Shares of common stock held by each current executive officer and director and by each person known by the registrant to own 5% or more of the outstanding common stock have been excluded from this computation in that such persons may be deemed to be affiliates.

The number of shares of the registrant's common stock, \$0.001 par value, outstanding as of March 18, 2013 was 52,180,045.

DOCUMENTS INCORPORATED BY REFERENCE

Portions of the Company's Proxy Statement for its 2013 Annual Meeting are incorporated by reference into Part III of this Report.

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FORWARD-LOOKING STATEMENTS

This annual report on Form 10-K contains forward-looking statements within the meaning of the federal securities laws. These forward-looking statements include without limitation statements regarding our expectations and beliefs about the market and industry, our goals, plans, and expectations regarding our properties and drilling activities and results, our intentions and strategies regarding future acquisitions and sales of properties, our intentions and strategies regarding the formation of strategic relationships, our beliefs regarding the future success of our properties, our expectations and beliefs regarding competition, competitors, the basis of competition and our ability to compete, our beliefs and expectations regarding our ability to hire and retain personnel, our beliefs regarding period to period results of operations, our expectations regarding revenues, our expectations regarding future growth and financial performance, our beliefs and expectations regarding the adequacy of our facilities, and our beliefs and expectations regarding our financial position, ability to finance operations and growth and the amount of financing necessary to support operations. These statements are subject to risks and uncertainties that could cause actual results and events to differ materially. See “Item 1A. Risk Factors” for a discussion of certain risk factors. We undertake no obligation to update forward-looking statements to reflect events or circumstances occurring after the date of this annual report on Form 10-K.

As used in this annual report on Form 10-K, unless the context otherwise requires, the terms “we,” “us,” “the Company,” and “Houston American” refer to Houston American Energy Corp., a Delaware corporation.

PART I

Item 1. Business

General

Houston American Energy Corp is an independent oil and gas company focused on the development, exploration, exploitation, acquisition, and production of natural gas and crude oil properties in the U.S. Gulf Coast region and in South America. Our oil and gas reserves and operations are concentrated primarily in the South American country of Colombia and in the onshore Gulf Coast region, particularly Texas and Louisiana.

Our mission is to deliver outstanding net asset value per share growth to our investors via attractive oil and gas investments. Our strategy is to focus on early identification of, and entrance into, existing and emerging resource plays, particularly in South America and the U.S. Gulf Coast. We typically seek to partner with larger operators in the development of resources or retain interests, with or without contribution on our part, in prospects identified, packaged and promoted to larger operators. By entering these plays earlier and partnering with, or promoting to, larger operators, we believe we can capture larger resource potential at lower cost and minimize our exposure to drilling risks and costs and ongoing operating costs.

We, along with our partners, actively manage our resources through opportunistic acquisitions and divestitures where reserves can be identified, developed, monetized and financial resources redeployed with the objective of growing reserves, production and shareholder value.

Properties

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

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

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Consistent with our strategy of opportunistically divesting holdings and redeploying financial resources to grow our reserve positions, in early 2012, our indirect interests in two concessions in Colombia were sold for net proceeds, before escrow holdbacks, of \$1.2 million. The interests sold accounted for 82% of our estimated proved oil and natural gas reserves at December 31, 2011 and 7% of our oil and natural gas revenues in 2011. During 2012, proceeds from that sale were redeployed principally to exploration costs associated with our CPO 4 prospect in Colombia.

The following table sets forth information relating to our principal properties as of December 31, 2012:

	Net	Average	Gross	Net proved	2012 Net Production	
	acreage	working	producing	reserves	Oil	Natural
		interest	wells	(boe)	(bbls)	Gas
		%				(mcf)
Oklahoma	4	2.36	% 1	997	5	744
Louisiana	1,646	35.30	% 3	18,726	806	10,484
Texas	36	3.40	% 2	660	221	838
Total U.S.	1,686	34.57	% 6	20,383	1,032	12,066
Colombia	178,570	30.64	% 0	0	1,755	—
Total	180,256	30.67	% 6	20,383	2,787	12,066

In March 2013, we entered into a settlement agreement with SK Innovation, operator of the 345,452 acre CPO 4 prospect in Colombia, pursuant to which we assigned to SK Innovation our 37.5% interest in the prospect and each party provided mutual releases of all rights and obligations relating to the prospect, including any obligation on our part relating to past and future funding obligations.

- United States Properties:

In the United States, our properties and operations are principally located in the on-shore Gulf Coast region of Louisiana and Texas.

Louisiana Properties

Our principal producing and exploration properties in Louisiana consist of the following:

East Baton Rouge Parish— we hold a 37.5% working interest in the Profit Island and North Profit Island prospects, covering 3,632 gross acres in East Baton Rouge Parish, Louisiana. In addition, we hold a 7.29% royalty interest in 2,485 royalty acres, as well as a 5.675% royalty interest in the Crown Paper #01 well.

Plaquemines Parish — we hold a 1.8% working interest in the SL 180771 well and prospect which covers 300 gross acres. We have no present plans to drill additional wells on the South Sibley Prospect.

Vermilion Parish — we hold a 27.0% working interest in the Emerald and North Jade prospects, covering 963 gross acres in Vermilion Parish, Louisiana operated by Clayton Williams Energy. We also hold a 2.25% working interest in the 830 acre La Furs, Inc. F-16 well and prospect.

Texas Properties

Our principal exploration properties in Texas consist of the following:

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Jim Hogg County — we hold a 4.375% working interest in the 340 acre Hog Heaven Prospect in Jim Hogg County, Texas. At December 31, 2012, the Hog Heaven Prospect produced gas from a single 6,200-foot well. We have no present plans to drill additional wells on the Hog Heaven Prospect.

Matagorda Country — we hold a 2.71% working interest in the 779 acre Harrison Prospect in Matagorda County, Texas. We have no present plans to drill on the Harrison Prospect.

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- Colombian Properties:

At December 31, 2012, we held interests in multiple prospects in Colombia covering 737,657 gross acres. As noted, during the first quarter of 2013, we terminated our interest in the 345,452 acre CPO 4 prospect. Giving effect to the termination of our interest in the CPO 4 prospect, our holdings in Colombia are located entirely within the Caguan Putumayo Basin. We identify our Colombian prospects by the concessions operated.

The following table sets forth information relating to our interests in prospects in Colombia at December 31, 2012, giving effect to the subsequent termination of our interest in the CPO 4 prospect:

Property	Operator	Ownership Interest	Total Gross Acres	Total Gross Developed Acres	Gross Productive Wells
Los Picachos	Hupecol	12.5 %	86,235	—	—
Macaya	Hupecol	12.5 %	195,201	—	—
Serrania	Hupecol	12.5 %	110,769	—	—
Total			392,205	—	—

At December 31, 2012 we held interests in three concessions operated by Hupecol Operating Co. in Colombia. The Los Picachos, Macaya and Serrania concessions are located in the Caguan Putumayo Basin of Colombia. The concessions cover an aggregate area of 392,205 acres. Our interest in each of the concessions is subject to an escalating royalty ranging from 8% to 20% depending upon production volumes and pricing and an additional 6% to 10% per concession when 5,000,000 barrels of oil have been produced on a field in a concession.

During the first quarter of 2012, we sold our interest in the 48,000 La Cuerva concession and the 40,000 acre LLA 62 concession, both of which were operated by Hupecol. Included in our interest sold in the La Cuerva concession was our entire interest in 16 gross (0.256 net) wells which accounted for approximately 51 barrels of oil per day to our interest at the time of sale. As of December 31, 2012, no production had taken place on any of the fields in our then existing concessions in Colombia.

As operator of our various prospects, Hupecol has substantial control over the timing of drilling and selection of prospects to be drilled and we have limited ability to influence the selection of prospects to be drilled or the timing of such drilling operations and have no effective means of controlling the costs of such drilling operations. Accordingly, our drilling budget is subject to fluctuation based on the prospects selected to be drilled by Hupecol, the decisions of Hupecol regarding timing of such drilling operations and the ability of Hupecol to drill and operate wells within estimated budgets.

For 2013, Hupecol has advised us that they plan to drill the first two wells on the Serrania concession as well as begin seismic on the Los Picachos and Macaya concessions. Hupecol's drilling and seismic plans for 2013 may change based on field conditions and other factors beyond our control or the control of Hupecol. Our estimated net cost associated with drilling the first two wells on the Serrania concession as well as our portion of the seismic expenses related to the Los Picachos and Macaya concessions is approximately \$2.5 million.

Serrania Block

Our interest in the Serrania concession was acquired through a Farmout Agreement with the original operator of the block pursuant to which we will pay 25% of designated Phase 1 geological and seismic costs in return for a 12.5% interest in the Contract for Exploration and Production covering the concession.

Seismic work on the Serrania Block was completed in 2010. Drilling preparation and seismic processing work was performed in 2011 and 2012 in connection with the planned drilling of initial test wells on the concession. The National Hydrocarbon Agency of Colombia (the "ANH") has granted extensions of required development commitments, including drilling of a first test well on the Serrania concession, until security conditions allow operations.

Los Picachos and Macaya Prospects

Our Los Picachos and Macaya prospects adjoin our Serrania concession. Hupecol has advised us that they plan to begin seismic on the Los Picachos and Macaya concessions during 2013.

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