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HOUSTON AMERICAN ENERGY CORP  
Form 10KSB/A  
November 07, 2005

SECURITIES AND EXCHANGE COMMISSION  
Washington, D.C. 20549

FORM 10-KSB/A  
Amendment No. 1

(Mark One)

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

For the Fiscal Year Ended December 31, 2004

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

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

Commission File No. 0-33027

HOUSTON AMERICAN ENERGY CORP.

-----  
(Name of Small Business Issuer in its charter)

Delaware

76-0675953

-----  
(State or other jurisdiction  
of incorporation or organization)

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

801 Travis Street, Suite 2020  
Houston, Texas 77002

-----  
(Address of principal executive offices) (Zip code)

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

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

| Title of each class | Name of each exchange on which each is registered |
|---------------------|---|
| -----<br>None       | -----<br>None                                     |

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

Common Stock, \$0.001 par value

-----  
(Title of Class)

Check whether the issuer: (1) filed all reports required to be filed by  
Section 13 or 15(d) of the Exchange Act during the past 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

Check if disclosure of delinquent filers in response to Item 405 of

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Regulation S-B is not contained in this form, 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-KSB or any amendment to this Form 10-KSB. [X]

The Issuer's revenues for the fiscal year ended December 31, 2004 were \$1,182,063.

The number of shares of the registrant's common stock, \$.001 par value per share, outstanding as of March 9, 2005 was 19,970,589. The aggregate market value of the voting and non-voting common equity held by non-affiliates of the registrant on March 9, 2005, based on the last sales price on the OTC Bulletin Board as of such date, was approximately \$6,854,450.

### DOCUMENTS INCORPORATED BY REFERENCE

None

Transition Small Business Disclosure Format: Yes [ ] No [X]

### EXPLANTORY NOTE

This Amendment No. 1 on Form 10-KSB/A hereby amends Item 8A. Controls and Procedures of Houston American Energy Corp's Annual Report on Form 10-KSB for the fiscal year ended December 31, 2004, which was filed on March 16, 2005. This Amendment No. 1 is being filed for the purpose of providing additional details to our disclosures in the original report pursuant to comments we received from the Staff of the U.S. Securities and Exchange Commission. This Amendment No. 1 is not intended to revise other information presented in our annual report on Form 10-KSB for the fiscal year ended December 31, 2004 as originally filed and all such other information in the original filing, which remains unchanged.

This Amendment No. 1 on Form 10-KSB/A does not reflect events occurring after the filing of the original Form 10-KSB and does not modify or update the disclosure therein in any way other than as required to reflect the amendments discussed above.

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PART III

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SIGNATURES

FORWARD-LOOKING STATEMENTS

This annual report on Form 10-KSB contains forward-looking statements within the meaning of the federal securities laws. These forwarding-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. 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-KSB.

As used in this annual report on Form 10-KSB, 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. DESCRIPTION OF BUSINESS

General

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

Exploration Projects

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

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

Our principal exploration projects as of December 31, 2004 consisted on the following:

Lavaca County, Texas. In Lavaca County, Texas, we hold two separate interests consisting of a 5% non-participating royalty interest in a 150 acre tract known as the Mavis Wharton Lease and a 38% working interest in a 65.645 acre tract known as the West Hardys Creek Prospect.

The Mavis Wharton #3 well was drilled on the Mavis Wharton Lease and, following completion, experienced production problems. The well was reworked and determined to be non-commercial and abandoned. Our royalty interest in the Mavis Wharton Lease does not bear any costs of well operations.

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The Goyen #1 well was drilled on the West Hardys Creek Prospect in the third quarter of 2003. The Goyen #1 well tested the Frio and Miocene Sands to a depth of 3,000 feet. The Goyen #1 well was successfully completed in September 2003 and commenced production as a gas well with an initial production rate of 350MCF per day. We presently have no plans with respect to drilling additional wells on the West Hardys Creek Prospect.

Matagorda County, Texas. In Matagorda County, Texas, we hold two separate interests consisting of a 3.5% working interest with a 2.415% net revenue interest in a 779 acre tract known as the S.W. Pheasant Prospect and an option to participate, based on a 3.5% working interest with a 2.415% net revenue interest, in a 672 acre tract known as the Turtle Creek Prospect.

A well was successfully completed on the S.W. Pheasant Prospect in July 2003 with initial production rates from the Frio K Sand of 1400 MCF and 35 barrels of oil per day. We presently have no plans with respect to drilling additional wells in Matagorda County.

San Patricio County, Texas. In San Patricio County, Texas, we hold a 5% working interest in a 380 acre leasehold known as the St. Paul Prospect. The Garza #1 well was drilled in the first quarter of 2004 and successfully completed as a gas well. We presently have no plans with respect to drilling additional wells on the St. Paul Prospect.

St. John the Baptist Parish, Louisiana. In St. John the Baptist Parish,

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Louisiana, we hold a 2% working interest with a 1.44% net revenue interest in a 726 acre leasehold known as the Bougere Estate and the Bougere Estate #1 well. The Bougere Estate #1 well was completed in June 2003 with initial production of 200 barrels of oil and 170 MCF of gas per day. Commercial production of the well commenced in December 2003 following installation of a gas sales pipeline. We presently have no additional plans with respect to drilling additional wells on the Bougere Estate.

Vermillion Parish, Louisiana. In Vermillion Parish, Louisiana, we hold a 3% working interest in the LaFurs F-16 well. The LaFurs F-16 well was drilled in the second quarter of 2004 and was completed as a gas well with commercial sales of gas beginning in the third quarter of 2004. We have no additional drilling rights or plans with respect to the Vermillion Parish prospect.

Acadia Parish, Louisiana. In Acadia Parish, Louisiana, we hold a 3% working interest and a 2.25% net revenue interest until payout in a 620 acre leasehold known as the Crowley Prospect. The Hoffpauer #1 (formerly the Baronet #1) was drilled in the third quarter of 2004. Commercial production of the well commenced in December 2004 with initial production rates of 1,525 MCF of gas and 15.5 barrels of condensate per day. We presently plan to drill the Baronet #2 well in the first quarter of 2005 to test the deeper Hayes formation of the prospect.

Terrebonne Parish, Louisiana. In Terrebonne Parish, Louisiana, we hold a 1.25% carried working interest to the casing point in a 194 acre leasehold known as the Donner Field. We plan to drill the Donner Field well in early 2005.

Plaquemines Parish, Louisiana. In Plaquemines Parish, Louisiana, we hold a 1.8% working interest after casing point, and a 1.35% net revenue interest in a 300 acre leasehold known as the Bakers Bay Prospect. The SL18077 #1 well was drilled in the fourth quarter of 2004. The well was completed as a gas and oil well in December 2005 and was awaiting a pipeline hookup at December 31, 2004 with sales expected to commence by April 2005. We presently have no plans with respect to drilling additional wells on the Bakers Bay Prospect.

North Louisiana. In December 2004, we sold our interest in a 1,428 acre leasehold in Northern Louisiana and joined the purchaser of that interest in forming a 7,680 acre area of mutual interest. Pursuant to that agreement, we received a 7.5% working interest in the first well drilled on the acreage, a 7.5% working interest back in after payout in the second and third wells and will have an option to participate for its 7.5% working interest in all subsequent wells. We also retained overriding royalty interests ranging from 1.35% to 2.5% on leases covering 3,200 acres. Drilling of the Northern Louisiana prospects is expected to begin during the first half of 2005.

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Llanos Basin, Colombia. In the Llanos Basin, Colombia, we hold interests in (1) a 232,050 acre tract known as the Cara Cara concession, (2) the Tambaqui Association Contract covering 88,000 acres in the State of Casanare, Colombia, and (3) two concessions, the Dorotea Contract and the Cabiona Contract, totaling over 185,000 acres.

Our interest in the Cara Cara concession and the two additional concessions is held through an interest in Hupecol, LLC. The additional concessions were acquired by Hupecol in the fourth quarter of 2004. We hold a 12.5% working interest in each of the prospects of Hupecol. In conjunction with our interest in Hupecol, we also acquired, and hold, a 12.6% working interest, with an 11.31% net revenue interest, in the Tambaqui Association Contract.

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

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

In December 2003, we exercised our right to participate in the acquisition, through Hupecol, of over 3,000 kilometers of seismic data in Colombia covering in excess of 20 million acres. The seismic data is being utilized to map prospects in key areas with a view to delineating multiple drilling opportunities. We will hold a 12.5% interest in all prospects developed by Hupecol arising from the acquired seismic data, including the two concessions acquired in the fourth quarter of 2004. Hupecol plans, during the first half of 2005, to acquire approximately 75 square miles of 3D seismic data covering the two additional concessions and 46 square miles of new 3D seismic on the Cara Cara concession.

During 2004, Hupecol drilled nine wells on the Cara Cara concession in Colombia to offset, and delineate, the Jaguar #1 well, with production commencing on the Jaguar #2 in March 2004, the Bengala #2 in April 2004, the Jaguar #6 in July 2004, the Jaguar #12 in September 2004, the Jaguar #3A in October 2004, and the Jaguar #15 in December 2004. The Cara Cara #1, the Cara Cara #7 and the Cara Cara #7 Side Track were dry holes. We hold a 1.59% working interest in each of the wells. Through Hupecol, we presently plan to drill an additional nine wells on the Cara Cara concession during 2005.

Included in our interest in the Tambaqui Association Contract was an interest in a producing well, the Tambaqui #1, and in two exploration wells. The Tambaqui #1 is no longer producing due to uneconomic production rates. The first exploration well drilled as an offset to the Tambaqui #1, the Tambaqui #1Am, was dry. The Tambaqui #2 well was successfully drilled and began production in June 2004. We presently plan to drill an additional one well under the Tambaqui Association Contract during 2005.

Through Hupecol, we presently plan to commence drilling on the Dorotea Contract and the Cabiona Contract during 2005.

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

Acres Leased or Under Option at  
December 31, 2004 (1)

-----

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| Project Area                                    | Project Gross | Project Net | Company Net | Project Interest |
|---|---------------|-------------|-------------|------------------|
| TEXAS:  |               |             |             |                  |
| Lavaca County, Texas                            |               |             |             |                  |
| Mavis Wharton .....                             | 300.00        | 150.00      | 7.50        | 5.00%            |
| West Hardys Creek .....                         | 65.65         | 65.65       | 24.95       | 38.00%           |
| San Patricio County, Texas                      |               |             |             |                  |
| St. Paul Prospect .....                         | 380.00        | 380.00      | 19.00       | 5.00%            |
| Matagorda County, Texas                         |               |             |             |                  |
| S.W. Pheasant Prospect .....                    | 779.00        | 779.00      | 27.27       | 3.50%            |
| Turtle Creek Prospect .....                     | 672.00        | 672.00      | 23.52       | 3.50%            |
| Texas Sub-Total .....                           | 2,196.65      | 2,046.65    | 102.24      |                  |
| LOUISIANA:                                      |               |             |             |                  |
| Vermillion Parish, Louisiana ..                 | 830.00        | 830.00      | 24.90       | 3.00%            |
| Acadia Parish, Louisiana .....                  | 620.00        | 620.00      | 18.60       | 3.00%            |
| Terrebonne Parish, Louisiana ..                 | 194.00        | 194.00      | 2.42        | 1.25%            |
| Plaquemines Parish, Louisiana .                 | 300.00        | 300.00      | 5.40        | 1.80%            |
| Northern Louisiana .....                        | 1,668.71      | 1,668.71    | 125.15      | 7.50%            |
| St. John the Baptist Parish,<br>Louisiana ..... | 726.00        | 726.00      | 14.52       | 2.00%            |
| Louisiana Sub-Total .....                       | 4,338.71      | 4,338.71    | 190.99      |                  |
| OKLAHOMA  |               |             |             |                  |
| Jenny #1-14 .....                               | 160.00        | 160.00      | 3.78        | 2.36%            |
| Oklahoma Sub-Total .....                        | 160.00        | 160.00      | 3.78        |                  |
| COLOMBIA  |               |             |             |                  |
| Cara Cara Concession .....                      | 232,050.00    | 232,500.00  | 3,689.00    | 1.59%            |
| Tambaqui Assoc. Contract (2)                    | 88,000.00     | 88,000.00   | 11,088.00   | 12.6%            |
| Dorotea Contract .....                          | 82,065.00     | 82,065.00   | 10,258.00   | 12.5%            |
| Cabiona Contract .....                          | 103,740.00    | 103,740.00  | 12,967.00   | 12.5%            |
| Colombia Sub-Total .....                        | 505,855.00    | 505,855.00  | 38,002.00   |                  |

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|             |            |            |           |
|-------------|------------|------------|-----------|
| Total ..... | 512,550.36 | 512,400.36 | 38,299.01 |
|             | =====      | =====      | =====     |

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- (1) Project Gross Acres refers to the number of acres within a project. Project Net Acres refers to leaseable acreage by tract. Company Net Acres are either leased or under option in which we own an undivided interest. Company Net Acres were determined by multiplying the Project Net Acres leased or under option times our working interest therein.
- (2) The project interest is the working interest in the concession and not necessarily the working interest in the well.

Drilling Activities

From April 2001 (inception of the Company) through December 31, 2004, we drilled 18 exploratory and 7 developmental wells, of which 18 were completed and 7 were dry holes. In 2003, 3 exploratory and 1 developmental wells were drilled of which 3 were completed and 1 was a dry hole. In 2004, 9 exploratory and 7 developmental wells were drilled of which 11 were completed and 5 were dry holes.

The following table sets forth certain information regarding the actual drilling results for each of the years 2003 and 2004 as to wells drilled in each such individual year:

|                  | Exploratory Wells (1) |       | Developmental Wells (1) |       |
|------------------|-----------------------|-------|-------------------------|-------|
|                  | Gross                 | Net   | Gross                   | Net   |
| 2003             |                       |       |                         |       |
| Productive ..... | 3                     | 0.435 | 0                       | 0     |
| Dry .....        | 0                     | 0.000 | 1                       | 0.125 |
| 2004             |                       |       |                         |       |
| Productive ..... | 4                     | 0.128 | 7                       | 0.220 |
| Dry .....        | 5                     | 0.238 | 0                       | 0     |

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

One well was in progress at December 31, 2004, on the Cara Cara prospect.

Productive Well Summary

The following table sets forth certain information regarding our ownership as of December 31, 2004 of productive gas and oil wells in the areas indicated:



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|                    | Gas      |              | Oil      |              |
|--------------------|----------|--------------|----------|--------------|
|                    | Gross    | Net          | Gross    | Net          |
| Texas .....        | 3        | 0.465        | 0        | 0            |
| Louisiana .....    | 4        | 0.078        | 0        | 0            |
| Oklahoma .....     | 1        | 0.024        | 0        | 0            |
| Colombia .....     | 0        | 0            | 8        | 0.236        |
| <b>Total .....</b> | <b>8</b> | <b>0.567</b> | <b>8</b> | <b>0.236</b> |

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Volume, Prices and Production Costs

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

|  | Year Ended December 31, |        |
|--|-------------------------|--------|
|  | 2003                    | 2004   |
| <b>Net Production:</b>                                     |                         |        |
| <b>Gas (Mcf):</b>  |                         |        |
| North America .....  | 15,993                  | 61,519 |
| South America .....  | 0                       | 0      |
| <b>Oil (Bbls):</b>   |                         |        |
| North America .....  | 246                     | 886    |
| South America .....  | 5,880                   | 24,040 |
| <b>Average sales price:</b>                                |                         |        |
| Gas (\$ per Mcf) .....                                     | 5.11                    | 5.43   |
| Oil (Bbls) .....   | 30.17                   | 33.85  |
| <b>Average production expense and taxes (\$ per Bble):</b> |                         |        |
| North America .....  | 2.35                    | 5.32   |
| South America .....  | 24.88                   | 14.74  |

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### Natural Gas and Oil Reserves

The following table summarizes the estimates of our historical net proved reserves as of December 31, 2003 and 2004, and the present value attributable to these reserves at these dates. The reserve data and present values were prepared by Pressler Petroleum Consultants, Inc., independent petroleum engineering consultants:

|   | At December 31, |              |
|---|-----------------|--------------|
|   | 2003            | 2004         |
| Net proved reserves (1):                      |                 |              |
| Natural gas (Mcf) .....                       | 176,600         | 202,420      |
| Oil (Bbls) .....                              | 274,107         | 307,290      |
| Standardized measure of discounted future net |                 |              |
| cash flows (2) .....                          | \$ 3,172,639    | \$ 4,005,624 |

(1) At December 31, 2004, net proved reserves, by region, consisted of 295,700 barrels of oil in South America and 11,590 barrels of oil in North America; all natural gas reserves were in North America.

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

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

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and other factors, which revision may be material. Accordingly, reserve estimates may be different from the quantities of natural gas and oil that we are ultimately able to recover and are highly dependent upon the accuracy of the underlying assumptions. Our estimated proved reserves have not been filed with or included in reports to any federal agency.

### Leasehold Acreage

The following table sets forth as of December 31, 2004, the gross and net acres of proved developed and proved undeveloped and unproven gas and oil leases which we hold or have the right to acquire:

|                 | Proved Developed |        | Proved Undeveloped |        | Unproven   |           |
|-----------------|------------------|--------|--------------------|--------|------------|-----------|
|                 | Gross            | Net    | Gross              | Net    | Gross      | Net       |
| Texas .....     | 1,524.65         | 78.72  | 0                  | 0      | 672.00     | 23.52     |
| Louisiana ..... | 2,244.00         | 57.32  | 0                  | 0      | 2,094.71   | 133.67    |
| Oklahoma .....  | 160.00           | 3.78   | 0                  | 0      | 0          | 0         |
| Colombia .....  | 2,560.00         | 75.61  | 6,720.00           | 141.76 | 496,575.00 | 37,784.63 |
| Total .....     | 6,488.65         | 215.43 | 6,720.00           | 141.76 | 499,341.71 | 37,941.82 |

During 2004, (1) we released 35% of the acreage in the Cara Cara concession, (2) our Jackson County, Texas lease of the W. Harmon Prospect expired, and (3) we leased 290 acres in Wharton County, Texas and subsequently sold our 50% interest in the lease retaining a 9.5% carried interest in two wells that were drilled as dry holes.

### Title to Properties

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

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

### Marketing

At March 9, 2005, we had no contractual agreements to sell our gas and oil production and all production was sold on spot markets.

### Risks Related to Our Oil and Gas Operations

Operational Hazards and Insurance. Our development, exploitation and exploration activities may be unsuccessful for many reasons, including weather, cost overruns, equipment shortages and mechanical difficulties. Moreover, the successful drilling of a natural gas and oil well does not ensure a profit on investment. A variety of factors, both geological and market related can cause a

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well to become uneconomical or only marginally profitable. Our business involves a variety of operating risks which may adversely affect our profitability, including:

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- fires;
- explosions;
- blow-outs and surface cratering;
- uncontrollable flows of oil, natural gas, and formation water;
- natural disasters, such as hurricanes and other adverse weather conditions;
- pipe, cement, or pipeline failures;
- casing collapses;
- embedded oil field drilling and service tools;
- abnormally pressured formations; and
- environmental hazards, such as natural gas leaks, oil spills, pipeline ruptures and discharges of toxic gases.

In accordance with industry practice, our insurance protects us against some, but not all, operational risks. Further, we do not carry business interruption insurance at levels that would provide enough cash for us to continue operating without access to additional funds. As pollution and environmental risks generally are not fully insurable, our insurance may be inadequate to cover any losses or exposure for such liability.

Volatility of Oil and Gas Prices. As an independent oil and gas producer, our revenue, profitability and future rate of growth are substantially dependent upon the prevailing prices of, and demand for, natural gas, oil, and condensate. Our realized profits affect the amount of cash flow available for capital expenditures. Our ability to maintain or increase our borrowing capacity and to obtain additional capital on attractive terms is also substantially dependent upon oil and gas prices. Prices for oil and natural gas are subject to wide fluctuation in response to relatively minor changes in the supply of, and demand for, oil and gas, market uncertainty and a variety of additional factors that are beyond our control. Among the factors that can cause the volatility of oil and gas prices are:

- worldwide or regional demand for energy, which is affected by economic conditions;
- the domestic and foreign supply of natural gas and oil;
- weather conditions;
- domestic and foreign governmental regulations;
- political conditions in natural gas and oil producing regions;
- the ability of members of the Organization of Petroleum Exporting Countries to agree upon and maintain oil prices and production

levels; and

- the price and availability of other fuels.

#### Operations in South America

As described above, we currently have interests in four concessions in the South American country of Colombia and expect to be active in Colombia for the foreseeable future. The political climate in Colombia is unstable and could be subject to radical change over a very short period of time. In the event of a significant negative change in political and economic stability in the vicinity of our Colombian operations, we may be forced to abandon or suspend our efforts. Either of such events could be harmful to our expected business prospects.

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#### Competition

Competition in the oil and gas industry is intense and we compete with major and other independent oil and gas companies with respect to the acquisition of producing properties and proved undeveloped acreage. Our competitors actively bid for desirable oil and gas properties, as well as for the equipment and labor required to operate and develop the properties. Many of those competitors, however, have financial resources and exploration and development budgets that are substantially greater than ours and may be able to absorb the burden of any changes in federal, state and local laws and regulations more easily than we can do so, which would adversely affect our competitive position. These competitors may be able to pay more for natural gas and oil properties and may be able to define, evaluate, bid for and purchase a greater number of properties than we can. Our ability to acquire additional properties and develop new and existing properties in the future will depend on our capability to conduct operations, to evaluate and select suitable properties and to consummate transactions in this highly competitive environment.

#### Governmental Regulation

Our business and the oil and gas industry in general are subject to extensive laws and regulations, including environmental laws and regulations. As such, we may be required to make large expenditures to comply with environmental and other governmental regulations. State and federal regulations, including those enforced by the Texas Railroad Commission as the primary regulator of the oil and gas industry in the State of Texas, are generally intended to prevent waste of oil and gas, protect rights to produce oil and gas between owners in a common reservoir and control contamination of the environment. Matters subject to regulation in the State of Texas include:

- location and density of wells;
- the handling of drilling fluids and obtaining discharge permits for drilling operations;
- accounting for and payment of royalties on production from state, federal and Indian lands;
- bonds for ownership, development and production of natural gas and oil properties;
- transportation of natural gas and oil by pipelines;
- operation of wells and reports concerning operations; and

- taxation.

Under these laws and regulations, we could be liable for personal injuries, property damage, oil spills, discharge of hazardous materials, remediation and clean-up costs and other environmental damages. Failure to comply with these laws and regulations also may result in the suspension or termination of our operations and subject us to administrative, civil and criminal penalties. Moreover, these laws and regulations could change in ways that substantially increase our operating costs.

Natural gas operations are subject to various types of regulation at the federal, state and local levels. Prior to commencing drilling activities for a well, we are required to procure permits and/or approvals for the various stages of the drilling process from the applicable state and local agencies. Permits and approvals include those for the drilling of wells, and regulations including maintaining bonding requirements in order to drill or operate wells and the location of wells, the method of drilling and casing wells, the surface use and restoration of properties on which wells are drilled, the plugging and abandoning of wells, and the disposal of fluids used in connection with operations.

Our operations are also subject to various conservation laws and regulations. These include the regulation of the size of drilling and spacing units and the density of wells, which may be drilled and the unitization or pooling of natural gas properties. In this regard, some states allow the forced pooling or integration of tracts to facilitate exploration while other states rely primarily or exclusively on voluntary pooling of lands and leases. In areas where pooling is voluntary, it may be more difficult to form units, and therefore, more difficult to develop a project if the operator owns less than 100 percent of the leasehold.

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Regulation of Sales and Transportation of Natural Gas. Historically, the transportation and resale of natural gas in interstate commerce have been regulated by the Natural Gas Act of 1938, the Natural Gas Policy Act of 1978, and the regulations promulgated by the Federal Energy Regulatory Commission. Maximum selling prices of some categories of natural gas sold in "first sales," whether sold in interstate or intrastate commerce, were regulated under the NGPA. The Natural Gas Well Head Decontrol Act removed, as of January 1, 1993, all remaining federal price controls from natural gas sold in "first sales" on or after that date. FERC's jurisdiction over natural gas transportation was unaffected by the Decontrol Act. While sales by producers of natural gas and all sales of crude oil, condensate and natural gas liquids can currently be made at market prices, Congress could reenact price controls in the future.

Sales of natural gas are affected by the availability, terms and cost of transportation. The price and terms for access to pipeline transportation are subject to extensive regulation. In recent years, FERC has undertaken various initiatives to increase competition within the natural gas industry. As a result of initiatives like FERC Order No. 636, issued in April 1992, the interstate natural gas transportation and marketing system has been substantially restructured to remove various barriers and practices that historically limited non-pipeline natural gas sellers, including producers, from effectively competing with interstate pipelines for sales to local distribution companies and large industrial and commercial customers. The most significant provisions of Order No. 636 require that interstate pipelines provide transportation separate or "unbundled" from their sales service, and require that pipelines make available firm and interruptible transportation service on an open access

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basis that is equal for all natural gas suppliers.

In many instances, the result of Order No. 636 and related initiatives has been to substantially reduce or eliminate the interstate pipelines' traditional role as wholesalers of natural gas in favor of providing only storage and transportation services. Another effect of regulatory restructuring is the greater transportation access available on interstate pipelines. In some cases, producers and marketers have benefited from this availability. However, competition among suppliers has greatly increased and traditional long-term producer pipeline contracts are rare. Furthermore, gathering facilities of interstate pipelines are no longer regulated by FERC, thus allowing gatherers to charge higher gathering rates.

Environmental Regulations. Our operations are subject to additional laws and regulations governing the discharge of materials into the environment or otherwise relating to environmental protection. Public interest in the protection of the environment has increased dramatically in recent years. It appears that the trend of more expansive and stricter environmental legislation and regulations will continue.

We generate wastes that may be subject to the Federal Resource Conservation and Recovery Act ("RCRA") and comparable state statutes, which have limited the approved methods of disposal for some hazardous wastes. Additional wastes may be designated as "hazardous wastes" in the future, and therefore become subject to more rigorous and costly operating and disposal requirements. Although management believes that we utilize good operating and waste disposal practices, prior owners and operators of our properties may not have done so, and hydrocarbons or other wastes may have been disposed of or released on or under the properties owned or leased by us or on or under locations where wastes have been taken for disposal. These properties and the wastes disposed on the properties may be subject to the Comprehensive Environmental Response, Compensation and Liability Act ("CERCLA"), RCRA and analogous state laws, which require the removal and remediation of previously disposed wastes, including waste disposed of or released by prior owners or operators.

CERCLA and similar state laws impose liability, without regard to fault or the legality of the original conduct, on some classes of persons that are considered to have contributed to the release of a "hazardous substance" into the environment. These persons include the owner or operator of the disposal site or sites where the release occurred and companies that disposed of or arranged for the disposal of the hazardous substances found at the site. Persons who are or were responsible for release of hazardous substances under CERCLA may be subject to joint and several liability for the costs of cleaning up the hazardous substances that have been released into the environment and for damages to natural resources, and it is not uncommon for neighboring landowners and other third parties to file claims for personal injury and property damage allegedly caused by the hazardous substances released into the environment.

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### Employees

As of March 9, 2005, we had one full-time employee and no part time employees. The employee is not covered by a collective bargaining agreement, and we do not anticipate that any of our future employees will be covered by such agreement. If our operations continue to grow as expected, we anticipate hiring as many as three additional employees by the end of 2005.

### ITEM 2. DESCRIPTION OF PROPERTY

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

A description of our interests in oil and gas properties is included in "Item 1. Description of Business."

### ITEM 3. LEGAL PROCEEDINGS

During the quarter ended March 31, 2004, we were named as defendant in a suit styled Alan Gerger, Trustee for the Substantially Consolidated Bankruptcy Estate of Moose Oil and Gas Company and Moose Operating Company v. John Terwilliger, Marlin Data Research, Inc. and Houston American Energy Corp., filed in the United States Bankruptcy Court for the Southern District of Texas. The plaintiff alleges that expenses relating to the formation and operation of Houston American were paid by Moose Oil and Gas or Moose Operating Company, that interests in certain oil and gas properties were transferred to Houston American from Moose Oil and Gas or Moose Operating Company and that the alleged payments and transfers constituted fraudulent transfers and voidable preferences. The plaintiff seeks to recover all properties alleged to have been wrongfully transferred as well as costs of suit and other relief. We believe that the action is without merit and intend to vigorously contest the same.

### ITEM 4. SUBMISSION OF MATTERS TO A VOTE OF SECURITY HOLDERS

None

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## PART II

### ITEM 5. MARKET FOR COMMON EQUITY AND RELATED STOCKHOLDER MATTERS

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

|                     | High   | Low    |
|---------------------|--------|--------|
|                     | ----   | ---    |
| Calendar Year 2004  |        |        |
| Fourth Quarter..... | \$1.05 | \$0.83 |
| Third Quarter.....  | 1.10   | 0.83   |
| Second Quarter..... | 1.35   | 0.60   |
| First Quarter.....  | 1.00   | 0.65   |
| Calendar Year 2003  |        |        |
| Fourth Quarter..... | \$0.75 | \$0.38 |
| Third Quarter.....  | 0.52   | 0.31   |
| Second Quarter..... | 0.42   | 0.23   |
| First Quarter.....  | 0.51   | 0.30   |

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

At March 9, 2005, the closing bid price of the Common Stock was \$0.84.



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As of March 9, 2005, there were approximately 992 record holders of our Common Stock.

In December 2004, the Company issued an aggregate of 305,000 shares of common stock for a purchase price of \$259,250 to one accredited investor.

The issuance of all shares of our common stock described above was pursuant to the exemption from registration provided by Section 4(2) of the Securities Act of 1933, as amended and related state private offering exemptions. All of the investors were Accredited Investors as defined in the Securities Act who took their shares for investment purposes without a view to distribution and had access to information concerning the Company and its business prospects, as required by the Securities Act.

In addition, there was no general solicitation or advertising for the purchase of our shares. Our securities were sold only to persons with whom we had a direct personal preexisting relationship, and after a thorough discussion. All certificates for our shares contain a restrictive legend. Finally, our stock transfer agent has been instructed not to transfer any of such shares, unless such shares are registered for resale or there is an exemption with respect to their transfer.

No commissions were paid in connection with the issuances described above.

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### ITEM 6. MANAGEMENT'S DISCUSSION AND ANALYSIS OR PLAN OF OPERATION

#### General

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

#### Overview of Operations

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

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

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

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prices of oil and natural gas sold and our percentage interest in each prospect.

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

### Business Developments During 2004

#### Drilling Activities

During 2004, we drilled four successful on-shore domestic wells as follows:

- o A test well in San Patricio County, Texas, the Saint Paul Prospect Garza #1, was drilled in January 2004 and completed as a natural gas well. Natural gas sales from the well began March 1, 2004. We hold a 5% working interest in the well.
- o A test well in Vermillion Parish, Louisiana, the LaFurs #F-16, was drilled in May 2004 and completed as a natural gas well. Natural gas sales from the well began in September 2004. We hold a 3% working interest in the well.
- o A test well in Acadia Parish, Louisiana, the Hoffpauer #1 (formerly, the Baronet #1), on the 620-acre Crowley Prospect, was drilled in September 2004. After reaching a depth of 12,042 feet, the well encountered a stuck drill pipe. The well was plugged back and a side track attempt was made. After encountering a second stuck drill pipe and following negotiations with the operator, the well was taken off of turnkey, intermediate casing was set and a completion rig is being contracted with the objective of completing a well in the Camerina sands that produced gas shows. The well was completed and production began in December 2004. We hold a 3% working interest in the well. A second rig has been contracted to drill a new well to test the Hayes sands on the prospect. Drilling is expected to begin in the first quarter of 2005.

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- o A test well in Plaquemines Parish, Louisiana, the SL18077 #1, was drilled in December 2004. The well was completed in January 2005. We hold a 1.8% working interest in the well.

We also participated in two dry holes drilled during 2004, the Hutchins Peareson #1 and the Hutchins Peareson #2 drilled in Wharton County, Texas.

At December 31, 2004, we had no domestic wells being drilled but plan drilling operations during 2005 on three prospects in Louisiana.

During 2004, we drilled seven international wells in South America as follows:

- o Drilling of six offset wells on the Cara Cara concession in Colombia was completed with production commencing on the Jaguar #2 in March 2004, the Bengala #2 in April 2004, the Jaguar #6 in July 2004, the Jaguar #12 in September 2004 and the Jaguar #3A in October 2004. The sixth well, the Cara Cara #1 is shut in pending evaluation. We hold a 1.59% working interest in each of the wells.

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- o An oil well, the Tambaqui #2, was drilled and successfully completed under the Company's Tambaqui Association Contract in Columbia and began production in June 2004. The Company holds a 12.6% working interest and an 11.59% net revenue interest in the well.

At December 31, 2004, we had no wells being drilled in South America but we presently plan to drill during 2005, with our partners, up to 9 additional wells on the Cara Cara concession and 1 well under the Tambaqui Association Contract. We also plan to commence, during 2005, a drilling program on the two additional concessions secured in Colombia during 2004.

### Leasehold Activities

During 2004, we invested approximately \$612,000 for the acquisition of oil and gas properties, consisting of (1) acquisition of a 3% interest in the North Freshwater Bayou Field in Louisiana, (2) acquisition of a 100% interest in the South Sibley Prospect, (3) acquisition of a 50% interest in the Southern Star Wharton Prospect, and (4) acquisition, by Hupecol, of two additional concessions in Colombia covering approximately 180,000 acres.

In September 2004, we sold our 50% interest in a 280 acre leasehold in Wharton County, Texas to an independent exploration and production company. We received funds in excess of our acquisition cost on the Wharton County lease. The excess proceeds from the sale, totaling approximately \$21,650, were applied to reduce the cost of oil and gas properties. Pursuant to the terms of the sale, the buyer agreed to drill two wells on the prospect with the Company retaining a carried working interest of 9.5% to the casing point and a net revenue interest of 7.125%. The two wells, the Hutchins Peareson #1 and the Hutchins Peareson #2 were drilled as dry holes.

In December 2004, we sold our interest in a 1,428 acre leasehold in Northern Louisiana and joined the purchaser of that interest in forming a 7,680 acre area of mutual interest. Pursuant to that agreement, we received a 7.5% working interest in the first well drilled on the acreage, a 7.5% working interest back in after payout in the second and third wells and will have an option to participate for its 7.5% working interest in all subsequent wells. We also retained overriding royalty interests ranging from 1.35% to 2.5% on leases covering 3,200 acres. Drilling of the Northern Louisiana prospects is expected to begin during the first half of 2005.

### Other Developments

In August 2004, we joined a Libya Study Group consisting of twelve oil companies for the purpose of developing drilling prospects and applying for concessions to exploit drilling opportunities in Libya. The study group plans to have completed the process of defining prospects followed by a formal request for drilling concessions in early 2005.

In September 2004, we approved the payment of a salary of \$15,000 per month, commencing in October 2004, to John Terwilliger, our President and Chief Executive Officer. Mr. Terwilliger had previously served without compensation.

### Critical Accounting Policies

The following describes the critical accounting policies used in reporting our financial condition and results of operations. In some cases, accounting standards allow more than one alternative accounting method for reporting, such as the case with accounting for oil and gas activities described below. In those

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cases, our reported results of operations would be different should we employ an alternative accounting method.

**Full Cost Method of Accounting for Oil and Gas Activities.** The Securities and Exchange Commission ("SEC") prescribes in Regulation S-X the financial accounting and reporting standards for companies engaged in oil and gas producing activities. Two methods are prescribed: the successful efforts method and the full cost method. We follow the full cost method of accounting for oil and gas property acquisition, exploration and development activities. Under this method, all productive and nonproductive costs incurred in connection with the exploration for and development of oil and gas reserves are capitalized. Capitalized costs include lease acquisition, geological and geophysical work, delay rentals, costs of drilling, completing and equipping successful and unsuccessful oil and gas wells and related internal costs that can be directly identified with acquisition, exploration and development activities, but does not include any cost related to production, general corporate overhead or similar activities. Gain or loss on the sale or other disposition of oil and gas properties is not recognized unless significant amounts of oil and gas reserves are involved. No corporate overhead has been capitalized as of December 31, 2004. The capitalized costs of oil and gas properties, plus estimated future development costs relating to proved reserves are amortized on a units-of-production method over the estimated productive life of the reserves. Unevaluated oil and gas properties are excluded from this calculation. The capitalized oil and gas property costs, less accumulated amortization, are limited to an amount (the ceiling limitation) equal to the sum of: (a) the present value of estimated future net revenues from the projected production of proved oil and gas reserves, calculated at prices in effect as of the balance sheet date (with consideration of price changes only to the extent provided by contractual arrangements) and a discount factor of 10%; (b) the cost of unproved and unevaluated properties excluded from the costs being amortized; (c) the lower of cost or estimated fair value of unproved properties included in the costs being amortized; and (d) related income tax effects. Excess costs are charged to proved properties impairment expense.

**Unevaluated Oil and Gas Properties.** Unevaluated oil and gas properties consist principally of our cost of acquiring and evaluating undeveloped leases, net of an allowance for impairment and transfers to depletable oil and gas properties. When leases are developed, expire or are abandoned, the related costs are transferred from unevaluated oil and gas properties to depletable oil and gas properties. Additionally, we review the carrying costs of unevaluated oil and gas properties for the purpose of determining probable future lease expirations and abandonments, and prospective discounted future economic benefit attributable to the leases. We record an allowance for impairment based on a review of present value of future cash flows. Any resulting charge is made to operations and reflected as a reduction of the carrying value of the recorded asset. Unevaluated oil and gas properties not subject to amortization include the following at December 31, 2004 and 2003:

|                   | At December 31, 2004 | At December 31, 2003 |
|-------------------|----------------------|----------------------|
|                   | -----                | -----                |
| Acquisition costs | \$ 48,636            | \$ 103,404           |
| Evaluation costs  | 12,159               | 23,470               |
|                   | -----                | -----                |
| Total             | \$ 60,795            | \$ 126,874           |
|                   | =====                | =====                |

The carrying value of unevaluated oil and gas prospects include \$12,519 and \$5,617 expended for properties in South America at December 31, 2004 and December 31, 2003, respectively. We are maintaining our interest in these properties and development has or is anticipated to commence within the next

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twelve months.

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### Results of Operations

Year Ended December 31, 2004 Compared to Year Ended December 31, 2003

Oil and Gas Revenues. Total oil and gas revenues increased \$961,463, or 435%, to \$1,182,063 in fiscal 2004 when compared to fiscal 2003. The increase in revenue is due to (1) increased production resulting from the development of the South American fields and the new domestic wells that have come on line during 2003 and 2004 and (2) increases in oil prices. We had interests in 8 producing wells in South America and 8 producing wells in North America during 2004 as compared to 2 producing wells in South America and 3 producing wells in North America during 2003. Average prices from sales were \$33.85 per barrel of oil and \$5.43 per mcf of gas during 2004 as compared to \$30.17 per barrel of oil and \$5.11 per mcf of gas during 2003. Following is a summary comparison, by region, of oil and gas sales for the periods.

|                 | South America | North America | Total      |
|-----------------|---------------|---------------|------------|
| Year ended 2004 |               |               |            |
| Oil sales       | \$ 808,472    | \$ 39,376     | \$ 847,848 |
| Gas sales       | 0             | 334,215       | 334,215    |
| Year ended 2003 |               |               |            |
| Oil sales       | \$ 128,520    | \$ 11,957     | \$ 140,477 |
| Gas sales       | 0             | 80,123        | 80,123     |

Lease Operating Expenses. Lease operating expenses, excluding joint venture expenses relating to our South American operations discussed below, increased 182% to \$413,723 in 2004 from \$146,914 in 2003. The increase in lease operating expenses was attributable to the increase in the number of wells operated during 2004. Following is a summary comparison of lease operating expenses for the years ended December 31, 2004 and 2003.

|                 | South America | North America | Total   |
|-----------------|---------------|---------------|---------|
| Year ended 2004 | \$ 354,448    | 59,275        | 413,723 |
| Year ended 2003 | 109,348       | 37,566        | 146,914 |

Joint Venture Expenses. Joint venture expenses totaled \$41,944 in 2004 compared to \$36,940 in 2003. The joint venture expenses represent our allocable share of the indirect field operating and region administrative expenses billed by the operator of the South American CaraCara and Tambaqui concessions. The increase in joint venture expenses was attributable to increased exploration and production in South America.

Depreciation and Depletion Expense. Depreciation and depletion expense increased by 275% to \$211,759 in fiscal 2004 when compared to \$56,434 in 2003. The increase in depreciation and depletion expense was primarily attributable to the increased production from new wells coming on line during 2004.

Interest Expense. Interest expense decreased 49% to \$72,000 in 2004 compared to \$142,349 in 2003. The interest expense decrease was attributable to reduced debt relating to the conversion of certain debt to equity in 2003 and a reduction in the interest rate.

General and Administrative Expenses. General and administrative expense increased by 79% to \$327,354 in 2004 from the \$182,293 in 2003. The increase in

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G&A expense was principally attributable to (1) a 137% increase in professional fees arising in connection with the Moose Oil litigation commenced during 2004 and (2) the commencement of salary to our President and CEO during the fourth quarter of 2004, totaling \$15,000 per month for three months.

### Financial Condition

Liquidity and Capital Resources. At December 31, 2004, we had a cash balance of \$721,613 and working capital of \$771,392 compared to a cash balance of \$663,422 and working capital of \$654,451 at December 31, 2003. The change in our working capital position, is attributable to the debt restructuring and conversion in December of 2003. As previously mentioned, \$627,530 of loans and interest was converted to equity. In addition, the open shareholder loans were restructured to long-term notes with a due date in 2007.

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As discussed in our prior financial statements, our revenue was previously insufficient to cover our costs and expenses. In addition to the income received from our wells, certain significant shareholders, including John F. Terwilliger, our sole director and executive officer, previously provided us the funds needed to continue our development and operations. During 2004, we, for the first time, operated profitably and with positive cash flow. At current production levels and prices, our operations are self-supporting from a cash flow standpoint. Management anticipates raising any necessary funds for major capital expenditures from outside investors or commercial bank or mezzanine lenders.

During 2004, we (1) issued 532,991 shares of common stock for cash consideration of \$350,443, (2) in conjunction with an agreement with an individual to assist us in locating viable oil and gas prospects, issued 50,000 shares of common stock, valued at \$47,500, and granted an interest equal to 10% of our interest in any prospects generated by the individual's contacts, and (3) issued 100,000 shares of common stock, valued at \$103,000, for financial public relations services over a six month period. We terminated the financial public relations service contract and the 100,000 shares previously issued in connection with the contract were returned and are reflected as treasury stock.

Loans from shareholders totaled \$1,000,000 at December 31, 2004.

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, and from sales of common stock. We expect that future capital and exploration expenditures will be funded principally through additional stock offerings, mezzanine loans, funds on hand and funds generated from operations.

During 2004, we invested approximately \$559,380 for the acquisition and development of oil and gas properties, consisting of (1) acquisition of a 3% interest in the North Freshwater Bayou Field in Louisiana, (2) acquisition of a 100% interest in the South Sibley Prospect, (3) acquisition of a 50% interest in the Southern Star Wharton Prospect, (4) consulting fee in forming the joint venture with a private company and (5) drilling and/or completing expenses for the Jaguar #2, Bengala #1, Cara Cara #1, Tambaqui #2, Jaguar #6, Jaguar #12 and Jaguar #3A wells in South America and the Garza #1, LaFurs #F-16, Hoffpauer #1 and SL 18077 #1 in the U.S.

Our only material contractual obligations requiring determinable future payments on our part are a note payable to our principal shareholder and our lease

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relating to our executive offices.

The following table details our contractual obligations as of December 31, 2003:

|                             | Payments due by period |           |              |             |            |
|-----------------------------|------------------------|-----------|--------------|-------------|------------|
|                             | Total                  | 2005      | 2006 - 2007  | 2008 - 2009 | Thereafter |
| Long-term debt              | \$ 1,000,000           | \$ 0      | \$ 1,000,000 | \$ 0        | \$ 0       |
| Operating lease commitments | 72,657                 | 39,631    | 33,026       | 0           |            |
| Total                       | \$ 1,072,657           | \$ 39,631 | \$ 1,033,026 | \$ 0        | \$ 0       |

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 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 employees, including officers, consultants and third parties. As of December 31, 2004, we had granted ORRIs to affiliates, including our President, ranging from 1.0% to 4.02166% of our interest in selected properties.

At December 31, 2004, we had 8 revenue producing wells in South America, 3 revenue producing wells in south Texas, 4 revenue producing well in south Louisiana and 1 producing well in Oklahoma.

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At January 1, 2005, our acquisition and drilling budget for 2005 totaled \$886,000, consisting of (1) \$216,000 for drilling of 9 wells in South America on the Cara Cara concession and \$170,000 to drill one additional concession acquired in South America in 2004, and (2) \$500,000 for seismic surveying in Colombia. Our acquisition and drilling budget has historically been subject to substantial fluctuation over the course of a year based upon successes and failures in drilling and completion of prospects and the identification of additional prospects during the course of a year.

Management anticipates that our current financing strategy of private debt and equity offerings, combined with an expected increase in revenues, will meet our anticipated objectives and business operations for the next 12 months. Management continues to evaluate producing property acquisitions as well as a number of drilling prospects. Subject to our ability to obtain adequate financing at the applicable time, we may enter into definitive agreements on one or more of those projects.

#### Off-Balance Sheet Arrangements

We had no off-balance sheet arrangements or guarantees of third party obligations at December 31, 2004.

#### Inflation

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

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since inception.

### ITEM 7. FINANCIAL STATEMENTS

Our financial statements, together with the independent accountants report thereon of Thomas Leger & Co., L.L.P., appears immediately after the signature page of this report. See "Index to Financial Statements" on page 28 of this report.

### ITEM 8. CHANGES IN AND DISAGREEMENTS WITH ACCOUNTANTS ON ACCOUNTING AND FINANCIAL DISCLOSURE

None

### ITEM 8A. 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 executive officer ("CEO") who also serves as chief financial officer. Based on this evaluation, our management, including the CEO, concluded that our disclosure controls and procedures were effective.

In connection with the audit of our financial statements for the fiscal year ended December 31, 2004, our independent registered public accounting firm informed us that we have significant deficiencies constituting material weaknesses as defined by the standards of the Public Company Accounting Oversight Board.

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

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 to the company were (1) the lack of segregation of duties necessary to maintain proper checks and balances between functions and (2) the failure of internal personnel to adequately communicate the scope and nature of non-routine transactions. The absence of qualified full time accounting personnel in the company was a contributing factor to the problems identified by the auditor. The specific circumstances giving rise to the weaknesses include the company's President serving as both Chief Executive Officer and as Chief Financial Officer and the company's 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 company's outside contract accountants, certain journal entries were not made until the time of the audit when the need for such entries was identified by the auditor.

Because the company lacks the financial resources to support in-house accounting personnel at this time, no formal steps have as yet been taken to resolve the weaknesses identified by the auditor. The company is, however, emphasizing improvement in its communications with its outside accounting personnel to assure that non-routine transactions are accounted for in a timely manner.

Management concluded that the company's disclosure controls and procedures were effective because the relevant information and data in question were known to proper members of management to allow proper and timely disclosure in its reports filed with the SEC and was, in fact, timely reported. The weaknesses in question relate to internal control over financial reporting and not weaknesses



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in disclosure controls and procedures.

During the quarter ended December 31, 2004, 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.

### ITEM 8B. OTHER INFORMATION

NA

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## PART III

### ITEM 9. DIRECTORS, EXECUTIVE OFFICERS, PROMOTERS AND CONTROL PERSONS; COMPLIANCE WITH SECTION 16(a) OF THE EXCHANGE ACT

#### Directors and Executive Officers

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

| Name<br>----     | Age<br>--- | Position<br>-----                 |
|------------------|------------|-----------------------------------|
| John Terwilliger | 57         | President, Treasurer and Director |

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

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

Although we currently have only one director, our board of directors is divided into three classes, each elected for staggered three-year terms. Mr. Terwilliger, our only director, is a Class C director. His term is scheduled to expire at the third annual meeting following the end of our 2001 fiscal year. Our executive officers are elected by our board of directors and serve terms of one year or until their death, resignation or removal by the board of directors.

#### Committees of the Board

We do not presently maintain an audit committee, a compensation committee, a nomination committee or any other committees of our board of directors.

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Similarly, we do not have an "audit committee financial expert".

At such time as our Board determines that the size and scope of our operations and our available financial resources warrant such, we expect to seek to add independent directors and to form committees to perform the functions of an audit committee, compensation committee and nominating committee.

### Codes of Ethics

The Board of Directors has adopted a Code of Business Ethics covering all of our officers, directors and employees. We require all employees to adhere to the Code of Business Ethics in addressing legal and ethical issues encountered in conducting their work. The Code of Business Ethics requires that our employees avoid conflicts of interest, comply with all laws and other legal requirements, conduct business in an honest and ethical manner and otherwise act with integrity and in the company's best interest.

The Board of Directors has also adopted a separate Code of Business Ethics for the CEO and Senior Financial Officers. This Code of Ethics supplements our general Code of Business Ethics and is intended to promote honest and ethical conduct, full and accurate reporting, and compliance with laws as well as other matters.

The Code of Business Ethics for the CEO and Senior Financial Officers is filed as an exhibit to this Annual Report on Form 10-KSB for the year ended December 31, 2004 and is available for review at the SEC's web site at [www.sec.gov](http://www.sec.gov).

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### Compliance With Section 16(a) of Exchange Act

Under the securities laws of the United States, our directors, executive officers, and any person holding more than ten percent of our Common Stock are required to report their initial ownership of our Common Stock and any subsequent changes in that ownership to the Securities and Exchange Commission. Specific due dates for these reports have been established and we are required to disclose any failure to file by these dates during fiscal year 2004. To our knowledge, all of the filing requirements were satisfied on a timely basis in fiscal year 2004. In making these disclosures, we have relied solely on written statements of our directors, executive officers and shareholders and copies of the reports that they filed with the Commission.

### ITEM 10. EXECUTIVE COMPENSATION

#### Executive Compensation

The following table sets forth information concerning cash and non-cash compensation paid or accrued for services in all capacities to the Company during the year ended December 31, 2004 of each person who served as the Company's Chief Executive Officer during fiscal 2004 and the next four most highly paid executive officers (the "Named Officers").

| Name and<br>Principal Position<br>----- | Year<br>---- | Salary (\$)<br>----- | Annual Compensation |                     |
|---|--------------|----------------------|---------------------|---------------------|
|   |              |                      | Bonus (\$)<br>----- | Other (\$)<br>----- |
| John Terwilliger                        | 2004         | 45,000               | -0-                 | -0- (1) (2)         |

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|                         |      |     |     |     |         |
|-------------------------|------|-----|-----|-----|---------|
| President and           | 2003 | -0- | -0- | -0- | (1) (2) |
| Chief Executive Officer | 2002 | -0- | -0- | -0- | (1) (2) |

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

(2) Mr. Terwilliger received overriding royalty interests in three properties identified by Mr. Terwilliger. No value was assigned to those overriding royalty interests for purposes of this table. Payments received by Mr. Terwilliger pursuant to those overriding royalty interests totaled \$21,170, \$3,600 and \$0 in 2004, 2003 and 2002, respectively.

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

Director Compensation

We do not compensate our directors for serving in such capacity.

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ITEM 11. SECURITY OWNERSHIP OF CERTAIN BENEFICIAL OWNERS AND MANAGEMENT AND RELATED STOCKHOLDER MATTERS

The following table sets forth information as of March 9, 2005, based on information obtained from the persons named below, with respect to the beneficial ownership of shares of our Common Stock held by (i) each person known by us to be the owner of more than 5% of the outstanding shares of our Common Stock, (ii) each director, (iii) each named executive officer, and (iv) all executive officers and directors as a group:

| Name and Address<br>of Beneficial Owner (1)   | Number of Shares<br>Beneficially Owned (2) | Percentage<br>of Class |
|---|--|------------------------|
| -----   | -----                                      | -----                  |
| John F. Terwilliger<br>801 Travis, Suite 2020<br>Houston, Texas 77002   | 8,574,486                                  | 42.9%                  |
| Orrie Lee Tawes (3)<br>c/o O. Lee Tawes<br>C.E. Unterberg Towbin<br>350 Madison Avenue, 8th Floor<br>New York, New York 10017 | 3,236,044                                  | 16.2%                  |
| All directors and officers<br>as a group (one person)   | 8,574,486                                  | 42.9%                  |

-----  
 (1) Unless otherwise indicated, each beneficial owner has both sole voting and sole investment power with respect to the shares beneficially owned by such person, entity or group. The number of shares shown as beneficially owned include all options, warrants and convertible securities held by such person, entity or group that are exercisable or convertible within 60 days of March 9, 2005.

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- (2) The percentages of beneficial ownership as to each person, entity or group assume the exercise or conversion of all options, warrants and convertible securities held by such person, entity or group which are exercisable or convertible within 60 days, but not the exercise or conversion of options, warrants and convertible securities held by others shown in the table.
- (3) Shares shown as beneficially owned by Orrie Lee Tawes include 119,034 held by his wife, Marsha Russell.

### ITEM 12. CERTAIN RELATIONSHIPS AND RELATED TRANSACTIONS

In July 2001, we borrowed approximately \$664,000 from John F. Terwilliger, our sole director and executive officer. We utilized a portion of the funds borrowed from Mr. Terwilliger to pay the principal and accrued interest on the \$216,981 promissory note that was payable to Moose Oil & Gas Company upon the purchase of our oil and gas properties, and to repay Moose Operating for the operating expenses and drilling and completing costs it had advanced on our behalf pursuant to the Operating Agreement.

In December 2003, Mr. Terwilliger converted \$441,516.29 of loans into 1,103,791 shares of common stock of Houston American and modified the repayment terms with respect to the balance of the loans to Houston American, totaling \$1 million, to reduce the interest rate on the loans to 7.2% and provide for a fixed maturity date of January 1, 2007. Also, in December 2003, Orrie L. Tawes, a principal shareholder of the Company, converted the entire principal and accrued interest on his loans to Houston American, in the amount of \$186,016.83, into 465,042 shares of common stock. As of December 31, 2004, we owed \$1,004,400 to Mr. Terwilliger, including accrued interest.

In conjunction with the Company's efforts to secure oil and gas prospects, financing and services, it has, from time to time, granted overriding royalty interests in the Company's various mineral properties to Orrie L. Tawes, a significant shareholder. During 2004, approximately \$14,500 was paid to Mr. Tawes from these royalty interests.

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### ITEM 13. EXHIBITS

#### Exhibit

#### Number

#### Description of Exhibit

- | ----- | -----   |
|-------|---|
| 2.1   | Amended and Restated Plan and Agreement of Merger dated as of September 26, 2001, between Texas Nevada Oil & Gas Co. and Houston American Energy Corp. (incorporated by reference to Exhibit 2.1 to Amendment No. 5 to the Company's Registration Statement on Form SB-2, registration number 333-66638 (the "Company's Registration Statement"), filed with the SEC on November 30, 2001). |
| 3.1   | Certificate of Incorporation of Houston American Energy Corp. filed April 2, 2001 (incorporated by reference to Exhibit 3.1 to the Company's Registration Statement filed with the SEC on August 3, 2001).  |
| 3.2   | Certificate of Merger Merging Opportunity Acquisition Company with and into Houston American Energy Corp. filed April 12, 2001 (incorporated by reference to Exhibit 3.2 to the Company's Registration Statement filed with the SEC on August 3, 2001).   |
| 3.3   | Bylaws of Houston American Energy Corp. adopted April 2, 2001   |

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(incorporated by reference to Exhibit 3.3 to the Company's Registration Statement filed with the SEC on August 3, 2001).

- 3.4 Certificate of Amendment to the Certificate of Incorporation of Houston American Energy Corp. filed September 25, 2001 (incorporated by reference to Exhibit 3.4 to Amendment No. 1 to the Company's Registration Statement filed with the SEC on October 1, 2001).
- 3.5 Certificate of Merger Merging Texas Nevada Oil & Gas Co. with and into Houston American Energy Corp. filed January 17, 2002 (incorporated by reference to Exhibit 3.5 to the Company's Annual Report on Form 10-QSB filed with the SEC on March 27, 2002).
- 4.1 Text of Common Stock Certificate of Houston American Energy Corp. (incorporated by reference to Exhibit 4.1 to the Company's Registration Statement filed with the SEC on August 3, 2001).
- 4.2 Text of Preferred Stock Certificate of Houston American Energy Corp. (incorporated by reference to Exhibit 4.2 to the Company's Registration Statement filed with the SEC on August 3, 2001).
- 10.1 Model Form Operating Agreement dated April 6, 2001, between Moose Operating Co., Inc. and Houston American Energy Corp. (incorporated by reference to Exhibit 10.1 to the Company's Registration Statement filed with the SEC on August 3, 2001).
- 10.2 Agreement to Assign Interests in Oil and Gas Leases dated as of April 6, 2001, between Moose Oil & Gas Company and Houston American Energy Corp. (incorporated by reference to Exhibit 10.2 to the Company's Registration Statement filed with the SEC on August 3, 2001).
- 10.3 Assignment of Interests in Oil and Gas Leases and Bill of Sale effective as of April 6, 2001, between Moose Oil & Gas Company and Houston American Energy Corp. (incorporated by reference to Exhibit 10.3 to the Company's Registration Statement filed with the SEC on August 3, 2001).
- 10.4 Promissory Note of Houston American Energy Corp. in the amount of \$216,981.06 dated April 15, 2001, payable to Moose Oil & Gas Company. (incorporated by reference to Exhibit 10.4 to the Company's Registration Statement filed with the SEC on August 3, 2001).
- 10.5 Plan and Agreement of Merger dated as of April 12, 2001, between Opportunity Acquisition Company and Houston American Energy Corp. (incorporated by reference to Exhibit 10.5 to the Company's Registration Statement filed with the SEC on August 3, 2001).
- 10.6 Agreement dated as of March 23, 2001, between Unicorp, Inc., Equitable Assets, Incorporated, Texas Nevada Oil & Gas Co. and Opportunity Acquisition Company (incorporated by reference to Exhibit 10.6 to the Company's Registration Statement filed with the SEC on August 3, 2001).
- 10.7 First Amendment of Agreement dated as of July 31, 2001, between Unicorp, Inc., Equitable Assets, Incorporated, Texas Nevada Oil & Gas Co. and Houston American Energy Corp. (incorporated by reference to Exhibit 10.7 to the Company's Registration Statement filed with the SEC on August 3, 2001).
- 10.8 Gas Purchase Contract No. 36-1599 dated as of May 1, 2001, between Kinder

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- Morgan Texas Pipeline, L.P. and Moose Operating Co., Inc. (incorporated by reference to Exhibit 10.8 to Amendment No. 1 to the Company's Registration Statement filed with the SEC on October 1, 2001).
- 10.9 Gas Purchase Agreement dated July 31, 1997, between Dominion Pipeline Company (as predecessor-in-interest to Pinnacle Natural Gas Co.) and Moose Operating Co., Inc. (incorporated by reference to Exhibit 10.9 to Amendment No. 1 to the Company's Registration Statement filed with the SEC on October 1, 2001).
- 10.10 Model Form Operating Agreement dated December 11, 1997, between Louis Dreyfus Natural Gas Corp., Seisgen Exploration, Inc. and Moose Operating Co., Inc. (incorporated by reference to Exhibit 10.10 to Amendment No. 1 to the Company's Registration Statement filed with the SEC on October 1, 2001).
- 10.11 Promissory Note of Houston American Energy Corp. in the amount of \$390,000 dated July 2, 2001, payable to John F. Terwilliger (incorporated by reference to Exhibit 10.11 to Amendment No. 4 to the Company's Registration Statement filed with the SEC on November 21, 2001).
- 10.12 Promissory Note of Houston American Energy Corp. in the amount of \$285,000 dated July 30, 2001, payable to John F. Terwilliger (incorporated by reference to Exhibit 10.12 to Amendment No. 4 to the Company's Registration Statement filed with the SEC on November 21, 2001).
- 10.13 Assignment of Term Royalty Interest dated July 18, 2002, between Houston American Energy Cop. and Marlin Data Research, Inc. (incorporated by reference to Exhibit 2.5 to the July 2002 8-K).
- 10.14 Bill of Sale dated July 18, 2002, between Houston American Energy Cop. and Marlin Data Research, Inc. (incorporated by reference to Exhibit 2.6 to the July 2002 8-K).
- 10.15 Registration Rights Agreement dated July 14, 2003, between Houston American Energy Corp. and LibertyView Funds, LP (incorporated by reference to Exhibit 10.19 to the Company's Form 10-QSB for the quarter ended June 30, 2003 (the "June 2003 Form 10-QSB")).
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- 10.16 Registration Rights Agreement dated July 14, 2003, between Houston American Energy Corp. and LibertyView Special Opportunities Fund, LP (incorporated by reference to Exhibit 10.20 to the Company's June 2003 Form 10-QSB).
- 10.17 Registration Rights Agreement dated July 21, 2003, between Houston American Energy Corp. and William D. Forster (incorporated by reference to Exhibit 10.21 to the Company's June 2003 Form 10-QSB).
- 10.18 Registration Rights Agreement dated July 21, 2003, between Houston American Energy Corp. and James V. Pizzo & Ellen London-Pizzo (incorporated by reference to Exhibit 10.22 to the Company's June 2003 Form 10-QSB).
- 10.19 Registration Rights Agreement dated July 21, 2003, between Houston American Energy Corp. and Sensus LLC (incorporated by reference to Exhibit 10.23 to the Company's June 2003 Form 10-QSB).
- 10.20 Registration Rights Agreement dated July 14, 2003, between Houston

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American Energy Corp. and Stephen P. Hartzell (incorporated by reference to Exhibit 10.24 to the Company's June 2003 Form 10-QSB).

- 10.21 Registration Rights Agreement dated July 18, 2003, between Houston American Energy Corp. and Peter S. Rawlings (incorporated by reference to Exhibit 10.25 to the Company's June 2003 Form 10-QSB).
- 10.22 Registration Rights Agreement dated July 14, 2003, between Houston American Energy Corp. and Lior Bregman (incorporated by reference to Exhibit 10.26 to the Company's June 2003 Form 10-QSB).
- 10.23 Form of Subscription Agreement relating to December 2003 placement of shares (incorporated by reference to Exhibit 10.23 to the Company's Registration Statement on Form SB-2, registration number 333-111826 (the "Company's 2004 Registration Statement"), filed with the SEC on January 9, 2004).
- 10.24 Form of Registration Rights Agreement relating to December 2003 placement of shares (incorporated by reference to Exhibit 10.24 to the Company's 2004 Registration Statement).
- 10.25 Promissory Note, dated December 10, 2003, payable to John Terwilliger in the amount of \$724,658.67 (incorporated by reference to Exhibit 10.25 to the Company's 2004 Registration Statement).
- 10.26 Promissory Note, dated December 10, 2003, payable to John Terwilliger in the amount of \$275,341.33 (incorporated by reference to Exhibit 10.26 to the Company's 2004 Registration Statement).
- 14.1 Code of Ethics for CEO and Senior Financial Officers (incorporated by reference to Exhibit 14.1 to the Company's 2003 Form 10-KSB)
- 31.1 Section 302 Certifications
- 32.1 Section 906 Certifications

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### ITEM 14. PRINCIPAL ACCOUNTANT FEES AND SERVICES

#### Fees Paid to Independent Public Accountants

The following table presents fees for professional audit services rendered by Thomas Leger & Co., L.L.P. for the audit of the Company's annual financial statements for the years ended December 31, 2004 and December 31, 2003 and fees billed for other services rendered by Thomas Leger & Co., L.L.P. during those periods.

|                    | Fiscal 2004 | Fiscal 2003 |
|--------------------|-------------|-------------|
| Audit fees (1)     | \$ 31,750   | \$ 20,610   |
| Audit related fees | --          | --          |
| Tax fees           | --          | --          |
| All other fees     | --          | --          |
| Total              | \$ 31,750   | \$ 20,610   |

- (1) Audit Fees consist of fees billed for professional services rendered for the audit of the Company's consolidated annual financial statements and

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review of the interim consolidated financial statements included in quarterly reports and services that are normally provided by Thomas Leger & Co., L.L.P. in connection with statutory and regulatory filings or engagements.

Policy on Pre-Approval of Audit and Non-Audit Services of Independent Auditor

At such time, if ever, as we form an audit committee, we intend that the audit committee will establish a specific policy relating to pre-approval of all audit and non-audit services provided by our independent auditors. As we do not presently maintain an audit committee, no such policy has been adopted to date.

SIGNATURES

In accordance with Section 13 or 15(d) of the Exchange Act, the registrant caused this report to be signed on its behalf by the undersigned, thereunto duly authorized.

HOUSTON AMERICAN ENERGY CORP.

Dated: November 4, 2005

By: /s/ John F. Terwilliger

-----  
John F. Terwilliger  
President

HOUSTON AMERICAN ENERGY CORP.

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REPORT OF INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRM

Houston American Energy Corp.  
Houston, Texas

We have audited the accompanying balance sheet of Houston American Energy Corp. as of December 31, 2004 and the related statements of operations, shareholders' equity, and cash flows for the years ended December 31, 2004 and 2003. These



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financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on these financial statements based on our audit.

We conducted our audit in accordance with the standards of the Public Company Accounting Oversight Board (United States). Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the over-all financial statement presentation. We believe that our audit provides a reasonable basis for our opinion.

In our opinion, the financial statements referred to above present fairly, in all material respects the financial position of Houston American Energy Corp. as of December 31, 2004, and the results of its operations and its cash flows for the years ended December 31, 2004 and 2003 in conformity with accounting principles generally accepted in the United States of America.

Thomas Leger & Co., L.L.P.

March 4, 2004  
Houston, Texas

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HOUSTON AMERICAN ENERGY CORP.  
BALANCE SHEET  
December 31, 2004

=====

ASSETS

CURRENT ASSETS

|                     |            |
|---------------------|------------|
| Cash                | \$ 721,613 |
| Accounts receivable | 240,141    |
| Prepaid expenses    | 89,947     |

|                      |           |
|----------------------|-----------|
| Total current assets | 1,051,701 |
|----------------------|-----------|

PROPERTY, PLANT AND EQUIPMENT

|  |           |
|--|-----------|
| Oil and gas properties, full cost method |           |
| Costs subject to amortization            | 2,342,733 |
| Costs not being amortized                | 60,795    |
| Office equipment                         | 10,878    |

|   |             |
|---|-------------|
| Total properties  | 2,414,406   |
| Accumulated depreciation and depletion oil and gas properties | (1,010,855) |

|                                    |           |
|------------------------------------|-----------|
| Property, plant and equipment, net | 1,403,551 |
|------------------------------------|-----------|

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|  |    |              |
|--|----|--------------|
| OTHER ASSETS                               |    | 3,167        |
|  |    | -----        |
| TOTAL ASSETS                               |    | \$ 2,458,419 |
|  |    | =====        |
| LIABILITIES AND SHAREHOLDERS' EQUITY       |    |              |
| CURRENT LIABILITIES                        |    |              |
| Accounts payable                           | \$ | 195,774      |
| Accrued expenses                           |    | 80,135       |
| Accrued interest on shareholder loans      |    | 4,400        |
|  |    | -----        |
| Total current liabilities                  |    | 280,309      |
|  |    | -----        |
| LONG-TERM DEBT                             |    |              |
| Notes payable to principal shareholder     |    | 1,000,000    |
|  |    | -----        |
| SHAREHOLDERS' EQUITY                       |    |              |
| Common stock, par value \$.001;            |    |              |
| 100,000,000 shares authorized, 19,968,089  |    |              |
| shares outstanding                         |    |              |
|  |    | 19,968       |
| Additional paid-in capital                 |    | 2,800,027    |
| Treasury stock, at cost; 100,000 shares    |    | (85,834)     |
| Accumulated deficit                        |    | (1,556,051)  |
|  |    | -----        |
| Total shareholders' equity                 |    | 1,178,110    |
|  |    | -----        |
| TOTAL LIABILITIES AND SHAREHOLDERS' EQUITY |    | \$ 2,458,419 |
|  |    | =====        |

The accompanying notes are an integral part of these financial statements.

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HOUSTON AMERICAN ENERGY CORP.  
STATEMENT OF OPERATIONS  
For The Years Ended December 31, 2004 AND 2003

|                                      |              |            |
|--------------------------------------|--------------|------------|
|                                      | 2004         | 2003       |
|                                      | -----        | -----      |
| OIL AND GAS REVENUE                  | \$ 1,182,063 | \$ 220,600 |
|                                      | -----        | -----      |
| EXPENSES OF OPERATIONS               |              |            |
| Lease operating expense              | 413,723      | 146,914    |
| Joint venture expense                | 41,944       | 36,940     |
| Depreciation and depletion           | 211,759      | 56,434     |
| Interest expense on shareholder debt | 72,000       | 142,349    |
| General and administrative expense   |              |            |

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|   |            |              |
|---|------------|--------------|
| Professional fees                         | 150,603    | 63,630       |
| Rent                                      | 39,772     | 41,219       |
| Investor relations                        | 29,363     | 41,402       |
| Salary                                    | 45,000     | --           |
| Miscellaneous                             | 62,616     | 36,042       |
|   | -----      | -----        |
| Total expenses                            | 1,066,780  | 564,930      |
|   | -----      | -----        |
| FEDERAL INCOME TAXES                      | --         | --           |
|   | -----      | -----        |
| NET INCOME (LOSS)                         | \$ 115,283 | \$ (344,330) |
|   | =====      | =====        |
| Basic and diluted income (loss) per share | \$ 0.01    | \$ (0.02)    |
|   | =====      | =====        |
| Basic and diluted weighted average shares | 19,619,084 | 15,398,070   |
|   | =====      | =====        |

The accompanying notes are an integral part of these financial statements.

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HOUSTON AMERICAN ENERGY CORP.  
STATEMENT OF SHAREHOLDERS' EQUITY  
For the Years Ended December 31, 2004 and 2003

|                                   | Common Stock |           |                      | Treasury Stock |       |
|-----------------------------------|--------------|-----------|----------------------|----------------|-------|
|                                   | Shares       | Amount    | Paid - in<br>Capital | Shares         | Am    |
|                                   | -----        | -----     | -----                | -----          | ----- |
| Balance at December 31, 2002      | 13,424,883   | \$ 13,425 | \$ 283,575           | --             | \$    |
| Stock issued for -                |              |           |                      |                |       |
| Cash                              | 4,271,390    | 4,271     | 1,382,651            | --             |       |
| Services                          | 20,000       | 20        | 7,580                | --             |       |
| Converted shareholder debt        | 1,568,825    | 1,569     | 625,961              | --             |       |
| Net loss                          | --           | --        | --                   | --             |       |
|                                   | -----        | -----     | -----                | -----          | ----- |
| Balance at December 31, 2003      | 19,285,098   | 19,285    | 2,299,767            | --             |       |
| Stock issued for -                |              |           |                      |                |       |
| Cash                              | 532,991      | 533       | 349,910              | --             |       |
| Oil and gas activity and services | 150,000      | 150       | 150,350              | --             |       |
| Purchase of treasury stock        | --           | --        | --                   | (100,000)      |       |
| Net income                        | --           | --        | --                   | --             |       |
|                                   | -----        | -----     | -----                | -----          | ----- |
| Balance at December 31, 2004      | 19,968,089   | \$ 19,968 | \$ 2,800,027         | (100,000)      | \$    |
|                                   | =====        | =====     | =====                | =====          | ===== |

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|                                   | Accumulated<br>Equity<br>(Deficit) | Total          |
|-----------------------------------|------------------------------------|----------------|
|                                   | -----                              | -----          |
| Balance at December 31, 2002      | \$ (1,327,004)                     | \$ (1,030,004) |
| Stock issued for -                |                                    |                |
| Cash                              | --                                 | 1,386,922      |
| Services                          | --                                 | 7,600          |
| Converted shareholder debt        | --                                 | 627,530        |
| Net loss                          | (344,330)                          | (344,330)      |
|                                   | -----                              | -----          |
| Balance at December 31, 2003      | (1,671,334)                        | 647,718        |
| Stock issued for -                |                                    |                |
| Cash                              | --                                 | 350,443        |
| Oil and gas activity and services | --                                 | 150,500        |
| Purchase of treasury stock        | --                                 | (85,834)       |
| Net income                        | 115,283                            | 115,283        |
|                                   | -----                              | -----          |
| Balance at December 31, 2004      | \$ (1,556,051)                     | \$ 1,178,110   |
|                                   | =====                              | =====          |

The accompanying notes are an integral part of these financial statements.

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HOUSTON AMERICAN ENERGY CORP.  
STATEMENT OF CASH FLOWS  
For The Years Ended December 31, 2004 and 2003

|   | 2004       | 2003         |
|---|------------|--------------|
|   | -----      | -----        |
| CASH FLOW FROM OPERATING ACTIVITIES                                       |            |              |
| Income (loss) from operations   | \$ 115,283 | \$ (344,330) |
| Adjustments to reconcile net income (loss)<br>to net cash from operations |            |              |
| Depreciation and depletion  | 211,759    | 56,434       |
| Non-cash expenses   | 17,166     | 13,641       |
| (Increase) in accounts receivable   | (174,138)  | (58,863)     |
| (Increase) decrease in prepaid expense                                    | (84,009)   | 1,088        |
| (Increase) decrease in other assets                                       | 36,864     | (35,285)     |
| Increase in accounts payable<br>and accrued expenses                      | 175,070    | 213,616      |
|   | -----      | -----        |
| Net cash provided by (used in) operations                                 | 297,995    | (153,699)    |
|   | -----      | -----        |

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|  |            |            |
|--|------------|------------|
| CASH FLOW FROM INVESTING ACTIVITIES  |            |            |
| Acquisition of properties and assets   | (611,897)  | (764,940)  |
| Funds in excess of prospect costs  | 21,650     | --         |
|  | -----      | -----      |
| Net cash used in investing activities  | (590,247)  | (764,940)  |
|  | -----      | -----      |
| CASH FLOW FROM FINANCING ACTIVITIES  |            |            |
| Sale of common stock - net of costs  | 350,443    | 1,386,922  |
| Loans from principal shareholders  | --         | 194,200    |
|  | -----      | -----      |
| Net cash provided by financing   | 350,443    | 1,581,122  |
|  | -----      | -----      |
| INCREASE IN CASH   |            |            |
| Cash, beginning of period  | 58,191     | 662,483    |
|  | 663,422    | 939        |
|  | -----      | -----      |
| Cash, end of period  | \$ 721,613 | \$ 663,422 |
|  | =====      | =====      |
| SUPPLEMENTAL CASH FLOW INFORMATION:  |            |            |
| Interest paid  | \$ 67,600  | \$ --      |
| SUPPLEMENTAL SCHEDULE OF NON-CASH INVESTING<br>AND FINANCING ACTIVITIES                              |            |            |
| Shareholder notes payable converted to common stock  | \$ --      | \$ 627,530 |
| Stock issued for oil and gas activity  | 47,500     | --         |
| Acquisition of treasury stock  | 85,834     | --         |
| Shareholder note payable given for oil and gas<br>properties and general and administrative expenses | --         | 17,152     |
| Stock issued for services  | 103,000    | --         |

The accompanying notes are an integral part of these financial statements.

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HOUSTON AMERICAN ENERGY CORP.  
NOTES TO THE FINANCIAL STATEMENTS  
DECEMBER 31, 2004  
=====

NOTE 1. - NATURE OF COMPANY AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

General - Houston American Energy Corp. (a Delaware Corporation) ("the Company" or "HUSA") was incorporated on April 2, 2001. The Company is engaged, as a non-operating joint owner, in the exploration, development, and production of natural gas, crude oil, and condensate from properties located principally in the Gulf Coast area of the United States and international locations with proven production, which to date has focused on Columbia, South America.

General Principles And Use Of Estimates - The financial statements have been prepared in conformity with accounting principles generally accepted in the United States of America. In preparing financial statements, Management makes informed judgments and estimates that affect the reported amounts of assets and liabilities as of the date of the financial statements and affect the reported amounts of revenues and expenses during the reporting period. On an ongoing

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basis, Management reviews its estimates, including those related to such potential matters as litigation, environmental liabilities, income taxes and determination of proved reserves. Changes in facts and circumstances may result in revised estimates and actual results may differ from these estimates.

Certain amounts for prior periods have been reclassified to conform to the current presentation.

Oil and Gas Revenues - The Company recognizes sales revenues based on the amount of gas, oil and condensate sold to purchasers when delivery to the purchaser has occurred and title has transferred. This occurs when production has been delivered to a pipeline. Currently, the Company does not anticipate that the oil and gas sold will be significantly different from the Company's production entitlement.

Oil and Gas Properties and Equipment - The Company uses the full cost method of accounting for exploration and development activities as defined by the SEC. Under this method of accounting, the costs for unsuccessful, as well as successful, exploration and development activities are capitalized as oil and gas properties. Capitalized costs include lease acquisition, geological and geophysical work, delay rentals, costs of drilling, completing and equipping the wells and any internal costs that are directly related to acquisition, exploration and development activities but does not include any costs related to production, general corporate overhead or similar activities. Gain or loss on the sale or other disposition of oil and gas properties is not recognized, unless the gain or loss would significantly alter the relationship between capitalized costs and proved reserves of oil and natural gas attributable to a country.

The Company categorizes its full costs pools as costs subject to amortization and costs not being amortization. The sum of net capitalized costs subject to amortization, including estimated future development and abandonment costs, are amortized using the unit-of-production method.

Office equipment is stated at original cost and is depreciated on the straight-line basis over the useful life of the assets, which ranges from three to five years. Oil and gas properties and office equipment carrying values do not purport to represent replacement or market values.

Depreciation expense for office equipment was \$2,175 and \$1,119 at December 31, 2004 and 2003, respectively and accumulated reserve for depreciation was \$5,458 at December 31, 2004. Depletion and amortization for oil and gas properties was \$206,584 and \$54,831 at December 31, 2004 and 2003, respectively and accumulated reserve for depletion and amortization was \$1,005,397 at December 31, 2004. Repairs and maintenance are expensed as incurred.

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HOUSTON AMERICAN ENERGY CORP.  
NOTES TO THE FINANCIAL STATEMENTS  
DECEMBER 31, 2004

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NOTE 1. - NATURE OF COMPANY AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES  
(continued)

Costs Excluded - Oil and gas properties include costs that are excluded from capitalized costs being amortized. These amounts represent costs of investments in unproved properties. The Company excludes these costs on a country-by-country basis until proved reserves are found or until it is determined that the costs

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are impaired. All costs excluded are reviewed quarterly to determine if impairment has occurred. The amount of any impairment is transferred to the costs subject to amortization.

Ceiling Test - Under the full cost method of accounting, a ceiling test is performed each quarter. The full cost ceiling test is an impairment test prescribed by Securities and Exchange Commission (SEC) Regulation S-X. The ceiling test determines a limit, on a country-by-country basis, on the book value of oil and gas properties. The capitalized costs of proved oil and gas properties, net of accumulated depreciation, depletion and amortization ("DD&A") and the related deferred income taxes, may not exceed the estimated future net cash flows from proved oil and gas reserves, using prices in effect at the end of the period with consideration of price change only to the extent provided by contractual arrangement, discounted at 10%, net of related tax effects. If capitalized costs exceed this limit, the excess is charged to expense and reflected as additional accumulated DD&A.

Proved oil and gas reserves, as defined by SEC Regulation S-X, are the estimated quantities of crude oil, natural gas, and condensate which geological and engineering data demonstrate with reasonable certainty to be recoverable in future years from known reservoirs under existing economic and operating conditions, i.e., prices and costs as of the date the estimate is made. Prices include consideration of changes in existing prices provided only by contractual arrangements, but not on escalations based upon future conditions.

Proved developed oil and gas reserves are reserves that can be expected to be recovered through existing wells with existing equipment and operating methods. Additional oil and gas expected to be obtained through the application of fluid injection or other improved recovery techniques for supplementing the natural forces and mechanisms of primary recovery are included as proved developed reserves only after testing by a pilot project or after the operation of an installed program has confirmed through production response that increased recovery will be achieved.

Proved undeveloped oil and gas reserves are reserves that are expected to be recovered from new wells on undrilled acreage, or from existing wells where a relatively major expenditure is required for recompletion. Reserves on undrilled acreage are limited to those drilling units offsetting productive units that are reasonably certain of production when drilled. Proved reserves for other undrilled units are claimed only where it can be demonstrated with certainty that there is continuity of production from the existing productive formation.

The Company emphasizes that the volumes of reserves are estimates, which, by their nature, are subject to revision. The estimates are made using all available geological and reservoir data, as well as production performance data.

These estimates, made by an independent reservoir engineer (approximately 79% of reserves) and a reservoir engineer that is a shareholder, are reviewed and revised, either upward or downward, as warranted by additional data. Revisions are necessary due to changes in assumptions based on, among other things, reservoir performance, prices, economic conditions and governmental restrictions. Decreases in prices, for example, may cause a reduction in some proved reserves due to uneconomical conditions.

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HOUSTON AMERICAN ENERGY CORP.  
NOTES TO THE FINANCIAL STATEMENTS  
DECEMBER 31, 2004

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NOTE 1. - NATURE OF COMPANY AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES  
(continued)

Ceiling Test (continued)

Unevaluated oil and gas properties not subject to amortization at December 31, 2004 include the following:

|   |  |           |
|---|--|-----------|
| Acquisition costs                           |  | \$ 48,636 |
| Geological, geophysical and screening costs |  | 12,159    |
|   |  | -----     |
| Total                                       |  | \$ 60,795 |
|   |  | =====     |

All but \$12,519 of this cost was incurred on U.S. properties.

Asset Retirement Obligations - On January 1, 2003, we adopted SFAS 143, "Accounting for Asset Retirement Obligations," which addresses accounting and reporting for obligations associated with the retirement of tangible long-lived assets and the associated asset retirement costs. For us, asset retirement obligations ("ARO") represent the systematic, monthly accretion and depreciation of future abandonment costs of tangible assets such as platforms, wells, service assets, pipelines, and other facilities. SFAS 143 requires that the fair value of a liability for an asset's retirement obligation be recorded in the period in which it is incurred if a reasonable estimate of fair value can be made, and that the corresponding cost is capitalized as part of the carrying amount of the related long-lived asset. The liability is accreted to its then present value each period, and the capitalized cost is depreciated over the useful life of the related asset. If the liability is settled for an amount other than the recorded amount, an adjustment is made to the full cost pool, with no gain or loss recognized, unless the adjustment would significantly alter the relationship between capitalized costs and proved reserves. Under our previous accounting method, we included estimated future costs of abandonment and dismantlement in our full cost amortization base and amortized these costs as a component of our depletion expense. Subsequent to our adoption of SFAS 143, the ARO assets, which are carried on the balance sheet as part of the full cost pool, have been included in our amortization base for the purposes of calculating depreciation, depletion and amortization expense. The future cash outflows associated with settling the ARO liability have been adjusted so they are included in the ceiling test.

The following table describes changes in our asset retirement liability during each of the years ended December 31, 2004 and 2003. The ARO liability in the table below includes amounts classified as both current and long-term at December 31, 2004 and 2003.

|                                    | 2004      | 2003      |
|------------------------------------|-----------|-----------|
|                                    | -----     | -----     |
| ARO liability at January 1,        | \$ 15,625 | \$ 12,750 |
| Accretion expense                  | 3,000     | --        |
| Liabilities incurred from drilling | 21,327    | 2,875     |
|                                    | -----     | -----     |
| ARO liability at December 31       | \$ 39,952 | \$ 15,625 |
|                                    | =====     | =====     |

Joint Venture Expense - Joint venture expense reflects the indirect field operating and regional administrative expenses billed by the operator of the Columbian CaraCara and Tambaqui concessions.



HOUSTON AMERICAN ENERGY CORP.  
NOTES TO THE FINANCIAL STATEMENTS  
DECEMBER 31, 2004  
=====

Income Taxes - Deferred income taxes are provided on a liability method whereby deferred tax assets and liabilities are established for the difference between the financial reporting and income tax basis of assets and liabilities as well as operating loss and tax credit carry forwards. Deferred tax assets are reduced by a valuation allowance when, in the opinion of management, it is more likely than not that some portion or all of the deferred tax assets will not be realized. Deferred tax assets and liabilities are adjusted for the effects of changes in tax laws and rates on the date of enactment.

Preferred Stock - The Company has authorized 10,000,000 shares of preferred stock with a par value of \$.001. The Board of Directors shall determine the designations, rights, preferences, privileges and voting rights of the preferred stock as well as any restrictions and qualifications thereon. No shares of preferred stock have been issued.

Statement of Cash Flows - Cash equivalents consists of demand deposits and cash investments with initial maturity dates of less than three months.

Net Loss Per Share - Basic loss per share is computed by dividing the net loss available to common shareholders by the weighted average of common shares outstanding during the period. Diluted per share amounts assume the conversion, exercise, or issuance of all potential common stock instruments unless the effect is anti-dilutive, thereby reducing the loss or increasing the income per share.

Concentration of Risk - The Company is dependent upon the industry skills and contacts of John F. Terwilliger, the sole director and chief executive officer, to identify potential acquisition targets in the onshore coastal Gulf of Mexico region of Texas and Louisiana. Further, as a non-operator oil and gas exploration and production company and through its interest in a limited liability company and four concessions in the South American country of Colombia, the Company is dependent on the personnel, management and resources of those entities to operate efficiently and effectively.

As a non-operating joint interest owner, the Company has a right of investment refusal on specific projects and the right to examine and contest its division of costs and revenues determined by the company operator.

The Company currently has interests in four concessions in Colombia and expects to be active in Colombia for the foreseeable future. The political climate in Colombia is unstable and could be subject to radical change over a very short period of time. In the event of a significant negative change in political and economic stability in the vicinity of the Company's Colombian operations, the Company may be forced to abandon or suspend their efforts. Either of such events could be harmful to the Company expected business prospects.

The Company maintains cash balances in several banks in Houston, Texas. Accounts at banks are insured by the Federal Deposit Insurance Corporation up to \$100,000. At December 31, 2004, the Company's uninsured cash balance was approximately \$501,000.

Major Customers - The majority of production for 2004 from the Company's mineral interests were sold to an international integrated oil company (58%) and to a

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U.S. natural gas marketing company (17%). There were no other product sales of more than 10% to a single buyer.

At December 31, 2004, 71% of the Company's net oil and gas property investment and 68% of its revenue was with or derived from the company managing the Columbian properties.

Recent Accounting Developments - On September 28, 2004, the SEC released Staff Accounting Bulletin ("SAB") 106 regarding the application of SFAS 143, "Accounting for Asset Retirement Obligations ("AROs")," by oil and gas producing companies following the full cost accounting method. Pursuant to SAB 106, oil and gas producing companies that have adopted SFAS 143 should exclude the future cash outflows associated with settling AROs (ARO liabilities) from the computation of the present value of estimated future net revenues for the purposes of the full cost ceiling calculation. In addition, estimated dismantlement and abandonment costs, net of estimated

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HOUSTON AMERICAN ENERGY CORP.  
NOTES TO THE FINANCIAL STATEMENTS  
DECEMBER 31, 2004  
=====

NOTE 1. - NATURE OF COMPANY AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES  
(continued)

Recent Accounting Developments (continued)

salvage values, which have been capitalized (ARO assets) should be included in the amortization base for computing depreciation, depletion and amortization expense. Disclosures are required to include discussion of how a company's ceiling test and depreciation, depletion and amortization calculations are impacted by the adoption of SFAS 143. SAB 106 is effective prospectively as of the beginning of the first fiscal quarter beginning after October 4, 2004. Since the Company's adoption of SFAS 143 on January 1, 2003, they have calculated the ceiling test and depreciation, depletion and amortization expense in accordance with the interpretations set forth in SAB 106; therefore, the adoption of SAB 106 had no effect on the financial statements.

On December 16, 2004, the FASB revised Statement 123 (revised 2004), "Share-Based Payment" that will require compensation costs related to share-based payment transactions (e.g., issuance of stock options and restricted stock) to be recognized in the financial statements. With limited exceptions, the amount of compensation cost will be measured based on the grant-date fair value of the equity or liability instruments issued. In addition, liability awards will be remeasured each reporting period. Compensation cost will be recognized over the period that an employee provides service in exchange for the award. Statement 123(R) replaces SFAS 123, "Accounting for Stock- Based Compensation," and supersedes Accounting Principles Board ("APB") Opinion No. 25, "Accounting for Stock Issued to Employees." For the Company, SFAS 123(R) is effective for the first quarterly reporting period after December 15, 2005. Entities that use the fair-value-based method for either recognition or disclosure under SFAS 123 are required to apply SFAS 123(R) using a modified version of prospective application. Under this method, an entity records compensation expense for all awards it grants after the date of adoption. In addition, the entity is required to record compensation expense for the unvested portion of previously granted awards that remain outstanding at the date of adoption. In addition, entities may elect to adopt SFAS 123(R) using a modified retrospective method where by previously issued financial statements are

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restated based on the expense previously calculated and reported in the pro forma footnote disclosures. The Company does not expect the adoption of SFAS 123(R) to have a material impact on the financial statements.

On December 16, 2004, the FASB issued Statement 153, "Exchanges of Nonmonetary Assets", an amendment of APB Opinion No. 29, to clarify the accounting for nonmonetary exchanges of similar productive assets. SFAS 153 eliminates the exception from the fair value measurement for nonmonetary exchanges of similar productive assets and replaces it with a general exception for exchanges of nonmonetary assets that do not have commercial substance. A nonmonetary exchange has commercial substance if the future cash flows of the entity are expected to change significantly as a result of the exchange. The Statement will be applied prospectively and is effective for nonmonetary asset exchanges occurring in fiscal periods beginning after June 15, 2005. The Company does not have any nonmonetary transactions for any period presented that this Statement would apply. The Company does not expect the adoption of SFAS 153 to have a material impact on the financials statements.

### NOTE 2. - NOTES PAYABLE

Notes payable at December 31, 2004, in the amount of \$1,000,000, is owed to John Terwilliger, Chief Executive Officer, who is also a significant shareholder. The notes are not secured, bear interest at 7.2% and are due on January 1, 2007 with interest paid monthly, based on cash flow.

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HOUSTON AMERICAN ENERGY CORP.  
NOTES TO THE FINANCIAL STATEMENTS  
DECEMBER 31, 2004

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### NOTE 2. - NOTES PAYABLE (continued)

On December 9, 2003, two principal shareholders, including the Chief Executive Officer mentioned above, exchanged notes payable and unpaid interest aggregating \$339,875 and \$287,655, respectively, for 1,568,825 shares of the Company's common stock.

### NOTE 3. - RELATED PARTIES

The Company's original oil and gas properties in Lavaca County Texas were purchased from John F. Terwilliger, Chief Executive Officer, and a principal shareholder, at their cost.

John F. Terwilliger has not received any direct or indirect compensation or other salary related benefits from the Company before October 1, 2004. Effective that date he started receiving a salary. He was paid \$45,000 in 2004.

In conjunction with the Company's efforts to secure oil and gas prospects, financing and services, it has, from time to time, granted overriding royalty interests in the Company's various mineral properties to John F. Terwilliger, Chief Executive Officer, and Orrie L. Tawes, a significant shareholder. During 2004, approximately \$36,000 was paid to John Terwilliger and Orrie L. Tawes from these royalty interests.

### NOTE 4 - INCOME TAXES

The following table sets forth a reconciliation of the statutory federal income tax for the year ended December 31, 2004 and 2003.

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|   | 2004       | 2003         |
|---|------------|--------------|
|   | -----      | -----        |
| Income (loss) before income taxes               | \$ 115,238 | \$ (344,330) |
|   | =====      | =====        |
| Income tax computed at statutory rates          | \$ 39,196  | \$ (117,073) |
| Net increase in net operating loss carryforward | 7,827      | --           |
| Permanent differences, nondeductible expenses   | 7,168      | (47,752)     |
| Increase (decrease) in valuation allowance      | (58,264)   | 164,825      |
| Other   | 4,073      | --           |
|   | -----      | -----        |
| Tax provision                                   | \$ --      | \$ --        |
|   | =====      | =====        |

No federal income taxes have been paid since the inception of the Company. The Company has a net operating loss carry forward of approximately \$1,351,000 which will expire in 2016 through 2019. The Company's net operating loss carryforwards may be subject to annual limitations, which could reduce or defer the utilization of the loss as a result of or ownership change as defined in section 382 of the Internal Revenue Code.

The tax effects of the temporary differences between financial statement income and taxable income are recognized as a deferred tax asset and liability. Significant components of the deferred tax asset and liability as of December 31, 2004 are set out below.

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HOUSTON AMERICAN ENERGY CORP.  
NOTES TO THE FINANCIAL STATEMENTS  
DECEMBER 31, 2004  
=====

NOTE 4 - INCOME TAXES (continued)

|  | 2004       |
|--|------------|
|  | -----      |
| Deferred tax asset:  |            |
| Net operating loss carry forwards  | \$ 459,550 |
| Valuation allowance  | (323,675)  |
| Book over tax depreciation, depletion<br>and capitalization methods on oil<br>and gas properties | (137,371)  |
| Book over tax accrued interest payments  | 1,496      |
|  | -----      |
| Net deferred tax asset   | \$ --      |
|  | =====      |

NOTE 5. - COMMON STOCK

During the year ended December 31, 2004, the Company (1) issued 532,983 shares of its common stock for cash consideration of \$350,443, (2) in conjunction with an agreement with an individual to assist the Company in locating viable oil and gas prospects, issued 50,000 shares of its common stock, valued at \$47,500, and granted an interest equal to 10% of the Company's interest in any prospects generated by the individual's contacts, and (3) issued 100,000 shares of its

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common stock, valued at \$103,000, for financial public relations services over a six month period. The value of the shares issued for financial public relations services was recorded as prepaid expense and charged to shareholders relations expense ratably over the life of the contract. During September 2004, the Company entered into negotiations to terminate the financial public relations contract as a result of disputes relating to performance under the contract. The financial public relations contract was terminated, the 100,000 shares originally issued under the contract were returned to the Company and the Company paid \$5,000 in full settlement of the contract. As a result of the termination and settlement of the public relations contract, during the quarter ended September 30, 2004, the Company recorded shareholder relations expense of \$5,000, credited \$85,834 against prepaid expenses and recorded treasury stock in the amount of \$85,834.

### NOTE 6. - COMMITMENTS AND CONTINGENCIES

Lease Commitment - The Company leases office facilities under an operating lease agreement which expires November 30, 2006. The lease agreement requires payments of \$39,631 in 2005 and \$33,026 in 2006. Total rental expense in 2004 was \$39,772 and \$41,219 in 2003. The Company does not have any capital leases or other operating lease commitments.

Legal Contingencies - The Company is subject to legal proceedings, claims and liabilities that arise in the ordinary course of its business. The Company accrues for losses associated with legal claims when such losses are probable and can be reasonably estimated. These accruals are adjusted as further information develops or circumstances change. During the twelve months ended December 31, 2004, the Company was named as defendant in a suit filed in the United States Bankruptcy Court for the Southern District of Texas. The plaintiff alleges that expenses relating to the formation and operation of the Company were paid by Moose Oil and Gas or Moose Operating Company, that interests in certain oil and gas properties were transferred to the Company from Moose Oil and Gas or Moose Operating Company and that the alleged payments and transfers constituted fraudulent transfers and avoidable preferences. The plaintiff seeks to recover all properties alleged to have been wrongfully transferred as well as costs of suit and other relief. The Company believes that the action is without merit and intends to vigorously contest the same.

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HOUSTON AMERICAN ENERGY CORP.  
NOTES TO THE FINANCIAL STATEMENTS  
DECEMBER 31, 2004  
=====

### NOTE 6. - COMMITMENTS AND CONTINGENCIES (continued)

Development Commitments - During the ordinary course of oil and gas prospect development, the Company commits to a proportionate share for the cost of acquiring mineral interest, drilling exploratory or development wells and acquiring seismic and geological information. At January 1, 2005, our acquisition and drilling budget for 2005 was estimated at \$886,000.

Post Retirement Benefits - At December 31, 2004, the Company does not have any pension plans, other postretirement benefits or employee savings plans.

### NOTE 7. - SUPPLEMENTAL INFORMATION ON OIL AND GAS EXPLORATION, DEVELOPMENT AND PRODUCTION ACTIVITIES (UNAUDITED)

This footnote provides unaudited information required by Statement of Financial

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Accounting Standards No. 69, "Disclosures about Oil and gas Producing Activities".

Geographical Data - The following table shows the Company's oil and gas revenues and lease operating expenses, which includes the joint venture expenses incurred in South America, by geographic area:

|                     | 2004         | 2003       |  |
|---------------------|--------------|------------|--|
|                     | -----        | -----      |  |
| Revenues            |              |            |  |
| North America       | \$ 373,591   | \$ 92,080  |  |
| South America       | 808,472      | 128,520    |  |
|                     | -----        | -----      |  |
|                     | \$ 1,182,063 | \$ 220,600 |  |
|                     | =====        | =====      |  |
| <br>Production Cost |              |            |  |
| North America       | \$ 59,275    | \$ 37,566  |  |
| South America       | 354,448      | 146,288    |  |
|                     | -----        | -----      |  |
|                     | \$ 413,723   | \$ 183,854 |  |
|                     | =====        | =====      |  |

Capital Costs - Capitalized costs and accumulated depletion relating to the Company's oil and gas producing activities as of December 31, 2004, all of which are onshore properties located in the United States and Columbia, South America are summarized below:

|   | NORTH<br>AMERICA | SOUTH<br>AMERICA | TOTAL        |
|---|------------------|------------------|--------------|
|   | -----            | -----            | -----        |
| Unproved properties not<br>being amortized              | \$ 48,636        | \$ 12,159        | \$ 60,795    |
| Properties being amortized                              | 1,225,771        | 1,116,962        | 2,342,733    |
| Accumulated depreciation,<br>depletion and amortization | (866,080)        | (139,317)        | (1,005,397)  |
|   | -----            | -----            | -----        |
| Total capitalized costs                                 | \$ 408,327       | \$ 989,804       | \$ 1,398,131 |
|   | =====            | =====            | =====        |

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HOUSTON AMERICAN ENERGY CORP.  
NOTES TO THE FINANCIAL STATEMENTS  
DECEMBER 31, 2004  
=====

NOTE 7. - SUPPLEMENTAL INFORMATION ON OIL AND GAS EXPLORATION, DEVELOPMENT AND PRODUCTION ACTIVITIES (UNAUDITED) (continued)

Amortization Rate

The amortization rate per unit base on barrel equivalents was \$8.13 for North America and \$4.69 for South America.



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Cash Flows - (continued)

Proved reserves are those estimated reserves of crude oil (including condensate and natural gas liquids) and natural gas that geological and engineering data demonstrate with reasonable certainty to be recoverable in future years from known reservoirs under existing economic and operating conditions. Proved developed reserves are those expected to be recovered through existing wells, equipment, and operating methods.

Independent petroleum engineers estimated proved reserves for the Company's properties which represented approximately 79% of total estimated future net revenues at December 31, 2004. The remaining reserves were estimated by a petroleum engineer who is also a shareholder of the company. Reserve definitions and pricing requirements prescribed by the Securities and Exchange Commission were used. Total estimated proved developed and undeveloped reserves by product type and the changes therein are set forth below for the years indicated.

|                                | North America |            | South America |            |
|--------------------------------|---------------|------------|---------------|------------|
|                                | Gas (mcf)     | Oil (bbls) | Gas (mcf)     | Oil (bbls) |
| Total proved reserves          |               |            |               |            |
| Balance December 31, 2002      | 18,872        | --         | --            | --         |
| Extensions and discoveries     | 181,227       | 4,557      | --            | 275,587    |
| Revision of previous estimates | (7,506)       | 89         | --            | --         |
| Production                     | (15,993)      | (246)      | --            | (5,880)    |
|                                | -----         | -----      | -----         | -----      |
| Balance December 31, 2003      | 176,600       | 4,400      | --            | 269,707    |
| Extensions and discoveries     | 54,458        | 11,274     | --            | 264,981    |
| Revisions of prior estimates   | 32,881        | (3,198)    | --            | (214,948)  |
| Production                     | (61,519)      | (886)      | --            | (24,040)   |
|                                | -----         | -----      | -----         | -----      |
| Balance December 31, 2004      | 202,420       | 11,590     | --            | 295,700    |
|                                | =====         | =====      | =====         | =====      |
| Proved developed reserves      |               |            |               |            |
| at December 31, 2004           | 141,000       | 2,500      | --            | 97,610     |
|                                | =====         | =====      | =====         | =====      |

The standardized measure of discounted future net cash flows relating to proved oil and gas reserves is computed by applying year-end prices of oil and gas (with consideration of price changes only to the extent provided by contractual arrangements) to the estimated future production of proved oil and gas reserves, less estimated future expenditures (based on year-end costs) to be incurred in developing and producing the proved reserves, less estimated related future income tax expenses (based on year-end statutory tax rates, with consideration of future tax rates already legislated), and assuming continuation of existing economic conditions. Future income tax expenses give effect to permanent differences and tax credits but do not reflect the impact of continuing operations including property acquisitions and exploration. The estimated future cash flows are then discounted using a rate of ten percent a year to reflect the estimated timing of the future cash flows.



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NOTE 7. - SUPPLEMENTAL INFORMATION ON OIL AND GAS EXPLORATION, DEVELOPMENT AND PRODUCTION ACTIVITIES (UNAUDITED) (continued)

Reserve Information and Related Standardized Measure of Discounted Future Net Cash Flows - (continued)

Standard measure of discounted future net cash flows at December 31, 2004:

|   | North<br>America | South<br>America | Total         |
|---|------------------|------------------|---------------|
|   | -----            |                  |               |
| Future net cash flows   | \$ 1,693,780     | \$ 10,018,312    | \$ 11,712,092 |
| Future production cost  | 267,550          | 4,709,171        | 4,976,721     |
| Future income tax expense   | 271,884          | 1,219,685        | 1,491,569     |
|   | -----            |                  |               |
| Future net cash flow  | 1,154,346        | 4,089,456        | 5,243,802     |
| 10% annual discount for timing of cash flows  | 310,053          | 928,125          | 1,238,178     |
|   | -----            |                  |               |
| Standardized measure of discounted future net cash flow relating to proved oil and gas reserves | \$ 844,293       | \$ 3,161,331     | \$ 4,005,624  |
|   | =====            |                  |               |

Changes in standardized measure:

|   |  |  |              |
|---|--|--|--------------|
| Change due to current year operations               |  |  |              |
| Sales, net of production costs                      |  |  | \$ (726,396) |
| Changes due to revisions in standardized variables: |  |  |              |
| Income taxes  |  |  | (516,350)    |
| Accretion of discount                               |  |  | 389,559      |
| Revision and others                                 |  |  | (2,329,947)  |
| Discoveries   |  |  | 4,016,119    |
|   |  |  | -----        |
| Net   |  |  | 832,985      |
| Beginning of year                                   |  |  | 3,172,639    |
|   |  |  | -----        |
| End of year   |  |  | \$ 4,005,624 |
|   |  |  | =====        |

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NOTE 7. - SUPPLEMENTAL INFORMATION ON OIL AND GAS EXPLORATION, DEVELOPMENT AND PRODUCTION ACTIVITIES (UNAUDITED) (continued)

Reserve Information and Related Standardized Measure of Discounted Future Net

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Cash Flows - (continued)

Standard measure of discounted future net cash flows at December 31, 2003:

|  | North<br>America | South<br>America | Total        |
|--|------------------|------------------|--------------|
|  | -----            | -----            | -----        |
| Future net cash flows  | \$ 938,550       | \$ 5,942,380     | \$ 6,880,930 |
| Future production cost   | 175,300          | 1,450,645        | 1,625,945    |
| Future income tax expense  | 141,640          | 833,549          | 975,189      |
|  | -----            | -----            | -----        |
| Future net cash flow   | 621,610          | 3,658,186        | 4,279,796    |
| 10% annual discount for timing of cash flows   | 160,807          | 946,350          | 1,107,157    |
|  | -----            | -----            | -----        |
| Standardized measure of discounted future net<br>cash flow relating to proved oil and gas reserves | \$ 460,803       | \$ 2,711,836     | \$ 3,172,639 |
|  | =====            | =====            | =====        |
| Changes in standardized measure:   |                  |                  |              |
| Change due to current year operations  |                  |                  |              |
| Sales, net of production costs   |                  |                  | \$ (36,746)  |
| Changes due to revisions in standardized variables:  |                  |                  |              |
| Income taxes   |                  |                  | (722,915)    |
| Accretion of discount  |                  |                  | 4,128        |
| Revision and others  |                  |                  | (8,708)      |
| Discoveries  |                  |                  | 3,895,591    |
|  |                  |                  | -----        |
| Net  |                  |                  | 3,131,350    |
| Beginning of year  |                  |                  | 41,289       |
|  |                  |                  | -----        |
| End of year  |                  |                  | \$ 3,172,639 |
|  |                  |                  | =====        |