

HOUSTON AMERICAN ENERGY CORP
Form 10-K
March 18, 2015

SECURITIES AND EXCHANGE COMMISSION
Washington, D.C. 20549

FORM 10-K

(Mark One)

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

For the Fiscal Year Ended December 31, 2014

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

For the transition period from _____ to _____

Commission File No. 1-32955

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

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

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

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

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

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

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

None
(Title of Class)

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

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

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

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

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

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

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

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

The aggregate market value of the voting and non-voting common equity held by non-affiliates of the registrant on June 30, 2014, based on the closing sales price of the registrant's common stock on that date, was approximately \$18.7 million. Shares of common stock held by each current executive officer and director and by each person known by the registrant to own 5% or more of the outstanding common stock have been excluded from this computation in that such persons may be deemed to be affiliates.

The number of shares of the registrant's common stock, \$0.001 par value, outstanding as of March 9, 2015 was 52,169,945.

DOCUMENTS INCORPORATED BY REFERENCE

Portions of the Company's Proxy Statement for its 2015 Annual Meeting are incorporated by reference into Part III of this Report.

TABLE OF CONTENTS

	<u>Page</u>
PART I	
Item 1. <u>Business</u>	3
Item 1A. <u>Risk Factors</u>	13
Item 1B. <u>Unresolved Staff Comments</u>	23
Item 2. <u>Properties</u>	23
Item 3. <u>Legal Proceedings</u>	24
Item 4. <u>Mine Safety Disclosures</u>	24
PART II	
Item 5. <u>Market for Registrant’s Common Equity, Related Stockholder Matters, and Issuer Purchases of Equity Securities</u>	25
Item 6. <u>Selected Financial Data</u>	25
Item 7. <u>Management’s Discussion and Analysis of Financial Condition and Results of Operations</u>	26
Item 7A. <u>Quantitative and Qualitative Disclosures About Market Risk</u>	33
Item 8. <u>Financial Statements and Supplementary Data</u>	33
Item 9. <u>Changes in and Disagreements with Accountants on Accounting and Financial Disclosure</u>	33
Item 9A. <u>Controls and Procedures</u>	33
Item 9B. <u>Other Information</u>	33
PART III	
Item 10. <u>Directors, Executive Officers, and Corporate Governance</u>	34
Item 11. <u>Executive Compensation</u>	34
Item 12. <u>Security Ownership of Certain Beneficial Owners and Management and Related Stockholder Matters</u>	34
Item 13. <u>Certain Relationships and Related Transactions, and Director Independence</u>	34
Item 14. <u>Principal Accountant Fees and Services</u>	34
PART IV	
Item 15. <u>Exhibits and Financial Statement Schedules</u>	35
<u>SIGNATURES</u>	36

Table of Contents

FORWARD-LOOKING STATEMENTS

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

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

PART I

Item 1. Business

General

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

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

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

Properties

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

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

Table of Contents

The following table sets forth information relating to our principal properties as of December 31, 2014:

					2014 Net Production		
	Net acreage	Average working interest %	Gross producing wells	Net proved reserves (boe)	Oil (bbls)	Natural Gas (mcf)	
Oklahoma	4	2.4	% 1	1,123	5	673	
Louisiana	58	5.2	% 8	30,742	3,065	10,619	
Texas	159	13.9	% 2	14,402	83	1,425	
Total U.S.	221	11.4	% 11	42,267	3,153	12,717	
Colombia	49,025	12.5	% —	—	—	—	
Total	49,246	12.5	% 11	42,267	3,153	12,717	

- United States Properties:

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

Louisiana Properties

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

East Baton Rouge Parish — we hold (i) a 4.557% royalty interest in 2,485 royalty acres, as well as a 3.547% royalty interest in the Crown Paper #01 well, and (ii) a 5% working interest in a 1,300+ net acre lease block on which a 11,000 foot test of the Bol Mex and Nonioin Struma 1, 2, 3, 4 and 5 sands was drilled and completed in 2014.

Plaquemines Parish — we hold a 1.8% working interest in the SL 180771 well and prospect which covers 300 gross acres.

Vermilion Parish — we hold a 1.5% working interest in a 450+ net acre lease block on which a 15,000 foot test of the Discorbis 1, 2, 3, 4 and 5 sands was drilled and on production during 2014.

Iberville Parish — we hold (i) a 3% working interest in a 618 acre lease block, (ii) a 4% working interest before casing point in a test well and a 3% working interest after the casing point, and in future wells, on a 1,129 acre lease block, and (iii) a 10.67% working interest before the casing point and 8% working interest after the casing point in a 102 acre lease block. A 13,500 foot test of the Cib Haz Sands was successfully drilled and completed, during 2013, as a producer on the 618 acre lease block and was tested and commenced production in 2014. A 12,700 foot test of the BolMex Sand on the 1,129 acre lease block is planned during the second quarter of 2015. A 12,000 foot test of the Marv Vag is planned on the 102 acre lease block during early 2015.

Assumption Parish — we hold a 5% working interest before payout and 4% working interest after payout in a 238 acre lease block. A 15,200 foot test of the Rob L formation was drilled during 2014 and the well came on production in February 2015.

Calcasieu Parish — we hold an 8.755% working interest before payout and 7% working interest after payout in a 614 acre lease block. A 12,000 foot test of the Marg Tex sand was drilled as a dry hole in 2014.

Jefferson Davis Parish — we hold (i) a 10.9% working interest before payout and a 9.375% working interest after payout in a 7,000 foot well drilled, and brought on production, in 2014 testing the Cris H stringer and Cris H sand, and (ii) a 3.375% working interest after the casing point in the initial and subsequent wells on a 289 acre lease block in Jefferson Davis and LaFourche Parishes. A 15,800 foot test of the Cris I-2 formation was temporarily abandoned, as a result of a stuck pipe, in January 2015.

Texas Properties

Our principal exploration properties in Texas consist of the following:

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

Table of Contents

Live Oak County — we hold a 33.3% working interest before the casing point and 25% working interest after the casing point in a 146 acre lease block. A 3,500 foot test of the Hockley and Pettus formation was drilled in 2014. At December 31, 2014, the well was awaiting hook up. Production of the well commenced in January 2015.

Jasper County — we hold a 13.33% working interest before the casing point and a 10% working interest after the casing point in a 320 acre lease block in Jasper County, Texas. A 11,950 foot test of the Wilcox 3 and 4 Sands was drilled during 2014. At December 31, 2014, the well was shut in pending resolution of water disposal issues.

- Colombian Properties:

At December 31, 2014, we held interests in multiple prospects in Colombia covering 392,205 gross acres. We identify our Colombian prospects by the concessions operated.

The following table sets forth information relating to our interests in prospects in Colombia at December 31, 2014:

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

At December 31, 2014, we held interests in three concessions operated by Hupecol Operating Co. in Colombia. The Loc Picachos, Macaya and Serrania concessions are located in the Caguan Putumayo Basin of Colombia. The concessions cover an aggregate area of 392,205 acres. Our interest in each of the concessions is subject to an escalating royalty ranging from 8% to 20% depending upon production volumes and pricing and an additional 6% to 10% per concession when 5,000,000 barrels of oil have been produced on a field in a concession.

As of December 31, 2014, no production had taken place on any of the fields in our then existing concessions in Colombia. During 2014, we, through Hupecol, were provided access to each of the Colombian blocks and work relating to our Colombian concessions was focused on securing key approvals and local support for commencement of operations on the Serrania block.

For 2015, Hupecol has advised us that they plan to conduct pre-drilling operations on the Serrania concession, including road work, environmental work and work in preparation for drilling, with a first exploratory well expected to be drilled before the end of 2015. Subject to prevailing conditions, drilling of a second well on the Serrania concession is planned during 2016. Hupecol has also advised that it plans to begin seismic work on the Los Picachos and Macaya concessions during 2016. Hupecol had previously advised that those same planned operations would take place during prior years. Hupecol's plans for 2015 may change based on field conditions and other factors beyond our control or the control of Hupecol. Our estimated net cost associated with planned operations during 2015 is approximately \$984,000.

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

Table of Contents

Serrania Block

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

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

Los Picachos and Macaya Prospects

Our Los Picachos and Macaya prospects adjoin our Serrania concession. Hupecol has advised us that they plan to begin seismic preparation on the Los Picachos and Macaya concessions during 2015, subject to conditions in the area allowing operations. The ANH has granted extensions of required development commitments, including seismic acquisition, until conditions in the area allow operations.

Drilling Activity

During 2014, we participated in the drilling of a total of 13 gross wells, all in the United States. Of those wells, 12 were classified as exploratory wells and one was classified as a development well. Our 2014 drilling program achieved a 62% success rate. The following table summarizes the number of wells drilled during 2014, 2013, and 2012, excluding any wells drilled under farmout agreements, royalty interest ownership, or any other wells in which we do not have a working interest.

	Year Ended December 31,					
	2014		2013		2012	
	Gross	Net	Gross	Net	Gross	Net
Development wells, completed as:						
Productive	1	0.1094	—	—	2 ⁽¹⁾	0.032
Non-productive	—	—	—	—	—	—
Total development wells	1	0.1094				