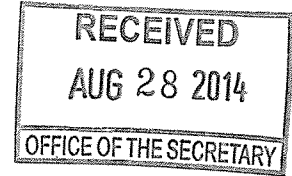


UNITED STATES OF AMERICA
Before the
SECURITIES AND EXCHANGE COMMISSION



ADMINISTRATIVE PROCEEDING
File No. 3-16000

In the Matter of

HOUSTON AMERICAN ENERGY CORP.,
JOHN F. TERWILLIGER, JR.,
UNDISCOVERED EQUITIES INC., and
KEVIN T. McKNIGHT

Respondents.

ANSWER OF RESPONDENTS HOUSTON AMERICAN
ENERGY CORP. AND JOHN F. TERWILLIGER

Respondents Houston American Energy Corp. and John F. Terwilliger (collectively "Respondents"), by and through their counsel, hereby answer the allegations of the Division of Enforcement in its Order Instituting Cease-and-Desist Proceedings Pursuant to Section 8A of the Securities Act of 1933 and 21C of the Securities Exchange Act of 1934 (the "Order"). Respondents deny all allegations in the Order to the extent they assert or suggest that Respondents acted fraudulently or negligently or to the extent they assert or suggest that any of Respondents' actions constitute violations of the United States securities law. Respondents further respond to the allegations in the Order as follows:

I.

To the extent that Section I of the Order contains legal conclusions, no response is required. To the extent that a response is required, Respondents deny the allegations contained in Section I.

II.

A. RESPONDENTS¹

1. Respondents admit that Houston American Energy Corp. is a Delaware corporation headquartered in Houston, Texas. Respondents admit that Houston American Energy Corp. was incorporated in 2001 and that its common stock is registered pursuant to Section 12(b) of the Exchange Act. Respondents deny that between July 2007 and July 2010, Houston American's stock was listed on the Nasdaq Capital Market under the symbol "HUSA" because the common stock was listed on the Nasdaq Global Market for part of this time period. Respondents admit that the common stock of Houston American Energy Corp. is currently listed on the NYSE MKT.

2. Respondents admit that John F. Terwilliger resides in Houston, Texas. Respondents deny that John F. Terwilliger resides in both Houston, Texas and Palm Beach, Florida. Respondents admit that Mr. Terwilliger has been Houston American's President and Chief Executive Officer since the company was formed in 2001. Respondents admit that Mr. Terwilliger is Houston American's largest individual shareholder. Respondents deny that Mr. Terwilliger's shares were pledged as collateral on a margin trading account "at all relevant times."

3. The first two sentences of Paragraph 3 contains factual allegations regarding individuals and entities other than Respondents and no response is required by Respondents to such allegations. To the extent a response is required to such allegations, Respondents deny the allegations. Respondents deny the allegations in the third and final sentence of Paragraph 3,

¹ Respondents deny any factual allegations contained in any headings and/or subheadings in the Order.

except admit that Houston American retained Undiscovered Equities in November 2009 to provide certain services.

4. Paragraph 4 contains no factual allegations regarding Respondents so no response is required. To the extent a response is required, Respondents deny the allegations.

B. OTHER RELEVANT ENTITIES

1. The first sentence of Paragraph 1 contains no factual allegations regarding Respondents so no response is required. To the extent a response is required, Respondents deny the allegations. Respondents deny the allegations in the second and final sentence of Paragraph 1, except admit that Houston American retained entities to provide certain services in connection with its December 2009 registered offering.

2. Paragraph 2 contains no factual allegations regarding Respondents so no response is required. To the extent a response is required, Respondents deny the allegations.

3. Paragraph 3 contains no factual allegations regarding Respondents so no response is required. To the extent a response is required, Respondents deny the allegations.

C. FALSE AND MISLEADING STATEMENTS CONCERNING THE CPO-4 BLOCK

1. Respondents admit the allegations in Paragraph 1.

2. Respondents deny the allegations in Paragraph 2.

3. Respondents deny the allegations in Paragraph 3.

4. Respondents deny the allegations in Paragraph 4.

5. Respondents deny the allegations in Paragraph 5.

6. Respondents deny the allegations in Paragraph 6.

7. Respondents deny the allegations in Paragraph 7, except admit that in 2013 Houston American terminated its interest in CPO-4.

8. Respondents deny the allegations in Paragraph 8.

9. Respondents deny the allegations in Paragraph 9, except admit that there is a classification system referred to as the "Petroleum Resources Management System," which speaks for itself. Respondents further deny any allegation or suggestion contained anywhere in the Order that any statements not filed with the SEC are required to use Petroleum Resources Management System definitions (they are not), or that any statements made by Respondents were false or misleading (they were not).

10. Respondents deny the allegations in Paragraph 10, except admit that there is a classification system referred to as the "Petroleum Resources Management System," which speaks for itself. Respondents further deny any allegation or suggestion contained anywhere in the Order that any statements not filed with the SEC are required to use Petroleum Resources Management System definitions (they are not) or that any statements made by Respondents were false or misleading (they were not).

11. Respondents deny the allegations in Paragraph 11, except admit that there is a classification system referred to as the "Petroleum Resources Management System," which speaks for itself. Respondents further deny any allegation or suggestion contained anywhere in the Order that any statements not filed with the SEC are required to use Petroleum Resources Management System definitions (they are not) or that any statements made by Respondents were false or misleading (they were not).

12. Respondents deny the allegations in Paragraph 12, except admit that there is a classification system referred to as the "Petroleum Resources Management System," which speaks for itself. Respondents further deny any allegation or suggestion contained anywhere in the Order that any statements not filed with the SEC are required to use Petroleum Resources

Management System definitions (they are not) or that any statements made by Respondents were false or misleading (they were not).

13. Respondents deny the allegations in Paragraph 13, except admit that there is a classification system referred to as the “Petroleum Resources Management System,” which speaks for itself. Respondents further deny any allegation or suggestion contained anywhere in the Order that any statements not filed with the SEC are required to use Petroleum Resources Management System definitions (they are not) or that any statements made by Respondents were false or misleading (they were not).

14. Respondents deny the allegations in Paragraph 14, except admit that there are varying procedures used to estimate recoverable quantities of hydrocarbons in exploration-stage projects and that Paragraph 14 lists some of the characteristics that may be considered in making such estimates.

15. Respondents admit the allegations in Paragraph 15.

16. Respondents deny the allegations in Paragraph 16, except admit that the Operator evaluated the CPO-4 block and that as part of the process the Operator reviewed well logs, seismic data, and other information.

17. Respondents admit the allegations in Paragraph 17.

18. Respondents admit the allegations in Paragraph 18.

19. Respondents deny the allegations in Paragraph 19, except admit that the Operator used seismic and well log data in connection with estimating recoverable reserves.

20. Respondents deny the allegations in Paragraph 20, except admit that the Operator assumed 150 barrels of oil from each “acre foot” in arriving at its April 2009 estimate of recoverable reserves.

21. Respondents deny the allegations in Paragraph 21, except admit that in April 2009 the Operator estimated 974 million barrels of recoverable reserves (approximately 1 billion barrels of recoverable reserves) from three specific sands in 22 structures on CPO-4.

22. Respondents deny the allegations in Paragraph 22, except admit that the Operator shared certain estimates, including its estimate of approximately one billion barrels of recoverable reserves from three specific sands in 22 structures on CPO-4, with Houston American.

23. Respondents deny the allegations in Paragraph 23, except admit that the Operator sought a non-operating farm-in partner, and that the Operator created a document which states, among other things, "Total 1 Billion BO Potential: 300 MMBO Risked Reserve Potential."

24. Respondents deny the allegations in Paragraph 24, except admit that Respondents received and reviewed from the Operator, among other materials, a document that included the statement "Total 1 Billion BO Potential: 300 MMBO Risked Reserve Potential."

25. Respondents deny the allegations in Paragraph 25, except admit that Mr. Terwilliger met with the Operator's representatives to discuss the potential CPO-4 farm-in opportunity.

26. Respondents admit the allegations in Paragraph 26, except deny that the slide deck was 55 pages.

27. Respondents deny the allegations in Paragraph 27, except admit that the slide deck contains information concerning the Operator's April 2009 estimate of approximately one billion barrels of recoverable reserves on CPO-4.

28. Respondents admit the allegations in Paragraph 28.

29. Respondents deny the allegations in Paragraph 29.

30. Respondents admit the allegations in Paragraph 30.

31. Respondents admit that Mr. Terwilliger provided testimony to the SEC, and that this testimony speaks for itself. Respondents deny that Paragraph 31 contains accurate or complete quotes from such testimony or that Paragraph 31 provides the proper context for such quotes.

32. Respondents admit that Mr. Terwilliger provided testimony to the SEC, and that this testimony speaks for itself. Respondents deny that Paragraph 32 contains accurate or complete quotes from such testimony or that Paragraph 32 provides the proper context for such quotes.

33. Respondents admit that Mr. Terwilliger provided testimony to the SEC, and that this testimony speaks for itself. Respondents deny that Paragraph 32 contains accurate or complete quotes from such testimony or that Paragraph 32 provides the proper context for such quotes.

34. Respondents deny the allegations in Paragraph 34.

35. Respondents admit the allegations in Paragraph 35.

36. Respondents deny the allegations in Paragraph 36, except admit that Houston American issued a press release on October 16, 2009, and that press release speaks for itself.

37. Respondents deny the allegations in Paragraph 37, except admit that in October 2009 the Operator delivered a proposed Work Program and Budget.

38. Respondents deny the allegations in Paragraph 38, except admit that in November 2009 it furnished a 38 slide presentation that includes, among other things, information concerning CPO-4, and admit that Mr. Terwilliger provided testimony to the SEC, and that this

testimony speaks for itself. Respondents deny that Paragraph 38 contains accurate or complete quotes from such testimony or that Paragraph 38 provides the proper context for such quotes.

39. Respondents admit the allegations in Paragraph 39.

40. Respondents deny the allegations in Paragraph 40.

41. Respondents deny the allegations in Paragraph 41.

42. Respondents admit that Mr. Terwilliger provided testimony to the SEC, and that this testimony speaks for itself. Respondents deny that Paragraph 42 contains accurate or complete quotes from such testimony or that Paragraph 42 provides the proper context for such quotes.

43. Respondents deny the allegations in Paragraph 43, except admit that the investor presentation states that the estimate is based on “leads and prospects.”

44. Respondents deny the allegations in Paragraph 44, except admit that it furnished an investor presentation, which speaks for itself.

45. Respondents deny the allegations in Paragraph 45, except admit that it furnished an investor presentation, which speaks for itself.

46. Respondents deny the allegations in Paragraph 46, except admit that Houston American retained Undiscovered Equities, and admit that Mr. Terwilliger provided testimony to the SEC, and that this testimony speaks for itself.

47. Respondents admit the allegations in Paragraph 47.

48. Paragraph 48 contains no factual allegations regarding purported actions by Respondents so no response is required. To the extent a response is required, Respondents deny the allegations.

49. Respondents deny the allegations in Paragraph 49.

50. Paragraph 50 contains no factual allegations regarding purported actions by Respondents so no response is required. To the extent a response is required, Respondents deny the allegations.

51. Paragraph 51 contains no factual allegations regarding purported actions by Respondents so no response is required. To the extent a response is required, Respondents do not have sufficient information to admit or deny the allegations.

52. Respondents deny the allegations in Paragraph 52, except admit that Respondents participated in meetings with institutional investors in Dallas, Chicago, and the Detroit area, and that Respondents on occasion used the November 2009 presentation in meetings.

53. Respondents deny the allegations in Paragraph 53.

54. Respondents deny the allegations in Paragraph 54.

55. Respondents deny the allegations in Paragraph 55.

56. Respondents deny the allegations in Paragraph 56, except admit that Houston American raised net proceeds of approximately \$12.8 million in a registered direct offering in early December 2009, and that more than one entity acted as placement agent for the offering.

57. Respondents deny the allegations in Paragraph 57, except admit that Mr. Terwilliger met with certain individuals with the lead placement agent in connection with the offering.

58. Paragraph 58 contains no factual allegations regarding purported actions by Respondents so no response is required. To the extent a response is required, Respondents deny the allegations and specifically deny that Respondents provided any false or misleading information to any member of any group and specifically deny that Respondents authorized any individuals or group to disseminate any false or misleading information.

59. Paragraph 59 contains no factual allegations regarding purported actions by Respondents so no response is required. To the extent a response is required, Respondents deny the allegations and specifically deny that Respondents provided any false or misleading information to any member of any group and specifically deny that Respondents authorized any individuals or group to disseminate any false or misleading information.

60. Paragraph 60 contains no factual allegations regarding purported actions by Respondents so no response is required. To the extent a response is required, Respondents deny the allegations and specifically deny that Respondents provided any false or misleading information to any member of any group and specifically deny that Respondents authorized any individuals or group to disseminate any false or misleading information.

61. Paragraph 61 contains no factual allegations regarding purported actions by Respondents so no response is required. To the extent a response is required, Respondents deny the allegations.

62. Respondents deny the allegations in Paragraph 62.

63. Paragraph 63 contains no factual allegations regarding purported actions by Respondents so no response is required. To the extent a response is required, Respondents deny the allegations and specifically deny that Respondents provided any false or misleading information to any member of any group and specifically deny that Respondents authorized any individuals or group to disseminate any false or misleading information.

64. Respondents deny the allegations in Paragraph 64.

65. Paragraph 65 contains no factual allegations regarding purported actions by Respondents so no response is required. To the extent a response is required, Respondents deny the allegations and specifically deny that Respondents provided any false or misleading

information to any member of any group and specifically deny that Respondents authorized any individuals or group to disseminate any false or misleading information.

66. Paragraph 66 contains no factual allegations regarding purported actions by Respondents so no response is required. To the extent a response is required, Respondents deny the allegations and specifically deny that Respondents provided any false or misleading information to any member of any group and specifically deny that Respondents authorized any individuals or group to disseminate any false or misleading information.

67. Respondents deny the allegations in Paragraph 67, except admit that Houston American stated in its November 2009 investor presentation that “§CPO 4 Block consists of 345,452 net acres and contains over 100 identified leads or prospects with estimated recoverable reserves of 1 to 4 billion barrels.”

68. Respondents deny the allegations in Paragraph 68.

69. Paragraph 69 contains no factual allegations regarding purported actions by Respondents so no response is required. To the extent a response is required, Respondents deny the allegations.

70. Paragraph 69 contains no factual allegations regarding purported actions by Respondents so no response is required. To the extent a response is required, Respondents deny the allegations.

71. Respondents deny the allegations in Paragraph 71.

72. Respondents admit the allegations in Paragraph 72, except state that Respondents do not have sufficient information to admit or deny whether the handwritten notes were made in November 2009 or some other month in 2009.

73. Respondents deny the allegations in Paragraph 73.

74. Respondents deny the allegations in Paragraph 74.

75. Respondents deny the allegations in Paragraph 75.

76. Respondents admit that Mr. Terwilliger provided testimony to the SEC, and that this testimony speaks for itself. Respondents deny that Paragraph 76 contains accurate or complete quotes from such testimony or that Paragraph 76 provides the proper context for such quotes.

77. Respondents deny the allegations in Paragraph 77.

78. Respondents deny the allegations in Paragraph 78.

79. Respondents deny the allegations in Paragraph 79.

80. Respondents deny the allegations in Paragraph 80.

81. Respondents deny the allegations in Paragraph 81.

82. Respondents deny the allegations in Paragraph 82.

83. Respondents admit that Mr. Terwilliger provided testimony to the SEC, and that this testimony speaks for itself. Respondents deny that Paragraph 83 contains accurate or complete quotes from such testimony or that Paragraph 83 provides the proper context for such quotes.

84. Respondents deny the allegations in Paragraph 84.

85. Respondents deny the allegations in Paragraph 85.

86. Respondents deny the allegations in Paragraph 86.

87. Respondents deny the allegations in Paragraph 87, except admit that Houston American provided a report prepared by an oil and gas expert, and that report speaks for itself.

88. Respondents deny the allegations in Paragraph 88.

89. Respondents deny the allegations in Paragraph 89, except admit that the Operator drilled three wells on the CPO-4 block that did not result in the production of commercially viable hydrocarbons.

90. Respondents admit that Houston American issued a press release on March 28, 2013, which speaks for itself.

91. Respondents deny the allegations in Paragraph 91.

92. Respondents deny the allegations in Paragraph 92, except admit that for the time period 2010 through 2012, Mr. Terwilliger received bonuses totaling the amount stated for cash bonuses.

93. Respondents deny the allegations in Paragraph 93, except admit that in April 2012 Mr. Terwilliger sold 985,519 shares that were pledged as collateral to cover margin calls.

D. VIOLATIONS

1. To the extent that Paragraph 1 contains a legal conclusion, no response is required. To the extent that a response is required, Respondents deny the allegations contained in Paragraph 1.

2. To the extent that Paragraph 2 contains a legal conclusion, no response is required. To the extent that a response is required, Respondents deny the allegations contained in Paragraph 2.

3. To the extent that Paragraph 3 contains a legal conclusion, no response is required. To the extent that a response is required, Respondents deny the allegations contained in Paragraph 3.

4. To the extent that Paragraph 4 contains a legal conclusion, no response is required. To the extent that a response is required, Respondents deny the allegations contained in Paragraph 4.

5. Paragraph 5 contains allegations regarding individuals and entities other than Respondents and no response is required by Respondents to such allegations. To the extent that a response is required, Respondents deny the allegations contained in Paragraph 5.

III.

To the extent that Section III of the Order contains legal conclusions, no response is required. To the extent that a response is required, Respondents deny the allegations contained in Section III.

IV.

To the extent that Section IV of the Order contains legal conclusions, no response is required. To the extent that a response is required, Respondents deny the allegations contained in Section IV.

ADDITIONAL DEFENSES

Respondents hereby give notice that they may assert the following defenses. In so doing, Respondents do not assume any burden of proof that would otherwise rest with the Commission. Respondents expressly reserve their right to assert additional defenses.

1. The Order fails to state a claim upon which relief can may be granted.
2. The claims against Respondents fail, in whole or part, because Respondents acted at all relevant times in good faith upon, and in conformity with, the advice of informed and knowledgeable counsel.

3. The administrative proceeding deprives Respondents of their right to a jury trial under the Seventh Amendment.²

4. The Order and these proceedings contravene Respondents' rights to due process as provided by the Fifth Amendment to the United States Constitution because the proceedings do not afford an adequate opportunity to defend the charges, deprive Respondents of access to information and evidence relevant to their defense, and seek penalties not available in an administrative forum at the time the conduct alleged in the Order was alleged to have been committed.

5. The Order and these proceedings violate Respondents' right to equal protection of the laws as provided by the Fifth Amendment to the United States Constitution because the Commission has decided to pursue proceedings against similarly situated individuals in federal court without a rational basis for its disparate treatment of Respondents.

6. The demand in the Order for purported "disgorgement" is not disgorgement at all, but rather a punitive attempt to "claw back" legitimately earned compensation as a form of monetary damages.

² Respondents raise constitutional defenses to preserve them with the understanding that the administrative law judges and the Commission have taken the position that constitutional claims are not within the scope of these proceedings. *See, e.g., In re David F. Bandimere and John O. Young*, Exchange Act Release No. 507, 2013 WL 5553898, at *72 (ALJ Oct. 8, 2013) ("I have grave doubts about whether [an equal protection claim] is justiciable in this forum."); ECF No. 16, *Chau v. United States Secs. Exch. Comm'n*, Civil Action No. 1:14-cv-1903 LAK, at 20-21 (S.D.N.Y.) ("At the conclusion of the administrative proceedings before the SEC, Harding and Chau can, if they are dissatisfied with the outcome, challenge the result in a court of appeals, where all of their claims, including "statutory and constitutional claims . . . can be meaningfully addressed."). Furthermore, the Supreme Court has noted that "that '[a]djudication of the constitutionality of congressional enactments has generally been thought beyond the jurisdiction of administrative agencies.'" *Thunder Basin Coal Co. v. Reich*, 510 U.S. 200, 216 (1994); *see also id.* (noting that even if the mine safety commission does not address constitutional claims in an enforcement proceeding "petitioner's statutory and constitutional claims can be meaningfully addressed in the Court of Appeals.").

August 27, 2014

Respectfully submitted,

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