UNITED STATES OF AMERICA
Before the
SECURITIES AND EXCHANGE COMMISSION

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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.

THE DIVISION OF ENFORCEMENT'S OPPOSITION TO THE MOTION FOR LEAVE AND MOTION FOR SUMMARY DISPOSITION BY RESPONDENTS HOUSTON AMERICAN ENERGY CORP. AND JOHN F. TERWILLIGER

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I. INTRODUCTION

It is telling that in their Motion for Summary Disposition (the "Motion"), Respondents Houston American Energy Corp. and John F. Terwilliger ("Respondents") do not acknowledge the high standard governing such motions. They cannot meet it. This case is based on an extensive factual record and can be resolved only by weighing the evidence and assessing the credibility of key witnesses on key issues, so it is no surprise that the Motion is mostly an exercise in factual cherry picking and legal misdirection. For example, Respondents contend that their fraudulent, multi-billion barrel estimate had an *undisputedly* reasonable basis because their business partner *may have* seen it and did not object. That contention would transform a partner's putative passivity into an absolute defense. But that is not the law, particularly where, as here, the weight of evidence will demonstrate that the multi-billion barrel estimate was arbitrary, grossly unrealistic, defied common sense, and fundamentally misled investors. Because the Motion falls woefully short of the high standard for summary disposition, it should be denied.

II. STATEMENT OF FACTS

As alleged in the OIP,[1] beginning in late 2009, Respondents made a series of interrelated, misleading statements and omissions about the CPO-4 block in Colombia's Llanos basin. Among other things, their November 2009 Investor Presentation (the "Investor Presentation") fraudulently asserted that the CPO-4 block contained "over 100 leads or prospects with estimated recoverable reserves of 1 to 4 billion barrels." (PX-043 at 12.) Their other misrepresentations and omissions at issue build on, relate to, or are variations of the misstatements in the Investor Presentation.

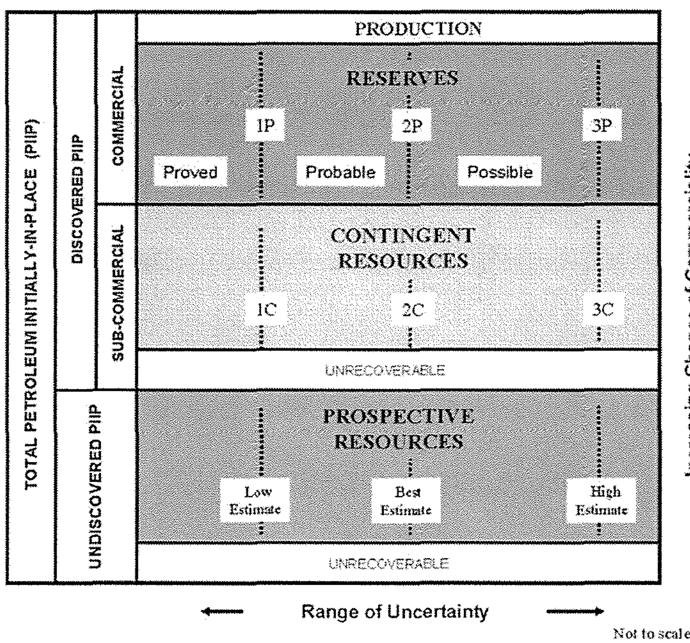
[1] Pursuant to Rule 250(a) of the Commission's Rules of Practice, the Division incorporates herein all facts and allegations set forth in its OIP and in the appendices to the Division's Response to the Motion for a More Definite Statement by Respondents.

A. Standard Industry Terminology and Commission Disclosure Rules

In the oil and gas industry, standard terminology conveys the risks and uncertainties associated with the discovery and production of a given volume of petroleum. These standard terms provide a "universal language of clear terms and definitions that result in reliable and easily comparable reserve estimations for investors, regulators, government agencies and consumers." (Expert Report of DeZoeten, R., PX-159, at ¶¶ 21-24.) By deviating from this universal language, Respondents sowed confusion about their estimates, understated the risks associated with the CPO-4 block, and greatly exaggerated its potential. (OIP at ¶¶ 41-42.)

The standard terminology used to describe volumes of petroleum is based on a simple hierarchy of "resources," which is the catch-all term used in reference to *any* volume of petroleum. (PX-159 at ¶ 26.) "Prospective resources" describe the most speculative volumes because they have been neither discovered nor deemed commercial. (*Id.* at ¶¶ 28-29.) "Contingent resources" describe a volume of petroleum that has been *discovered* but that is not yet mature enough for commercial development due to one or more contingencies. (*Id.* at ¶ 30.) Finally, "reserves" describe a volume that has been *discovered* and *deemed commercial*. (*Id.* at ¶¶ 32-33.) Although a "reserve" must be *discovered*, reserve estimates can be made "pre-drill" where, for example, data indicate with reasonable certainty that the objective formation is continuous with proved locations. (*See* PX-159 at ¶¶ 51-53; Rebuttal Expert Report of Harrell, D.R. ("Harrell Rebuttal"), at 5-6.) Each of these three broad categories can be can further sub-classified. (PX-159 at ¶¶ 29, 30, 34, 35.) For example, "reserves" can be sub-classified into "*proved* reserves," which can be estimated "with reasonable certainty" to be recoverable, "*probable* reserves," which are "as likely as not" to be recovered, and "*possible* reserves," less certain to be recovered than a probable reserve. (*Id.*) Improper use of standard terminology (*e.g.*, categorizing a "resource" as a "reserve" or a "possible reserve" as a "proved reserve") mischaracterizes the risks and uncertainties associated with the recovery of a given volume. (*See*, *e.g.*, OIP at ¶¶ 5, 9-14, 41; PX-159 at ¶ 36.)

Although they have a long history, these standard industry definitions were memorialized in 2007 in the Petroleum Resource Management System ("PRMS"), which, as Respondents told investors, is "a widely accepted standard that was developed by several industry organizations," including the Society of Petroleum Engineers, the World Petroleum Council, and the Society of Petroleum Evaluation Engineers. (*See*, *e.g.*, Houston American Form 10-Q for QE Sep. 30, 2009, PX-037, at 7.) The table below illustrates the relationship between the categories and sub-categories of potentially recoverable resources:



During the relevant time period, the U.S. Securities and Exchange Commission (the "Commission") permitted oil and gas issuers to disclose in their public *filings* only their estimates of *proved* reserves (but not *probable* or *possible* reserves, or other resource categories). (*See* PX-159 at ¶ 98; "Concept Release," PX-192, at 4.) The Commission's reporting rules did not address the categories of resources that could be described in *non-filed* documents, such as investor presentations or company websites. (*Id.*) Oil and gas issuers could therefore estimate, among other things, *probable* or *possible* reserves, contingent resources, and prospective resources in those documents. When they did so, the Commission's Division of Corporate Finance requested that issuers include a standard disclaimer to clarify that the estimates were of a petroleum volume other than *proved* reserves and so might have a higher degree of risk or uncertainty than the quantity of *proved* reserves disclosed in the issuer's filings. (*See, e.g.*, "Current Issues and Rulemaking Projects," PX-183; Comment Letters at PX-184, PX-185, PX-186, PX-189, PX-190.) Consequently, an issuer could disclose one volume of proved reserves in its Forms 10-K and 10-Q and simultaneously disclose a larger volume of total reserves (*i.e.*, *proved* plus *probable* plus *possible* reserves) or resources in a non-filed document, without misusing standard industry terminology or running afoul of the Commission's filing rules.

B. Resource and Reserve Estimates

Resource and reserve estimates are not a matter for pseudoscience or guesswork. (*See* PX-159 at ¶¶ 29, 39-51.) They both draw on and are constrained by the geological and other physical characteristics of the target reservoir and analog wells, including the approximate depth, pressure, temperature, reservoir drive mechanism, original fluid content, reservoir fluid gravity, reservoir size, gross thickness, pay thickness, net-to-gross ratio, lithology, heterogeneity, porosity, and permeability. (*Id.*) Consistent with standard scientific methods, volumetric estimates use *observable* reservoir rock and fluid properties from the target reservoir itself or, where such data is sparse, from well control data from wells on adjacent or nearby properties, to estimate the total amount of petroleum in place and the percentage of the total petroleum that can be recovered. (*Id.*) Respondents are well aware that resource and reserve estimates are grounded in tested scientific methodologies that look to observable data about the subsurface properties of the target reservoir because that is how Houston American estimated its reserves at the time. As Houston American explained in its annual reports:

> The process of estimating oil and natural gas reserves is complex. It requires interpretations of *available technical data* and many assumptions, including assumptions relating to economic factors. . . . In order to prepare our estimates, we must project production rates and timing of development expenditures. We must also *analyze available geological, geophysical, production and engineering data.*

(Houston American Form 10-K for FYE Dec. 31, 2008, PX-006 at 13 (emphasis added).)

C. SK Energy Evaluates the CPO-4 Block

In 2008, SK Energy conducted a preliminary review of numerous exploration blocks, including the CPO-4 block, put up for bid by the Colombian government. It used the preliminary review to "high grade" blocks and to direct its bidding priorities. SK Energy employee James Fluker assisted in the preliminary review before moving on to other projects. (Fluker Dep. Tr. (November 10, 2014), 8:8-15; Fluker Test. Tr. (July 17, 2012), 16:14-21, 19:1-22.) In December, 2008, SK Energy finalized an agreement with the government, which gave it development rights on the CPO-4 block. (Decl. of D.S. Choi, PX-157 at ¶5; Joint Operating Agreement, PX-181 at 2.)

SK Energy then began to refine its preliminary assessment. Among other things, it:

- acquired and reviewed well log data from a well on the block (Negritos-1) and approximately 14 other wells drilled on blocks adjacent to the CPO-4 block;
- analyzed approximately 1,200 miles of seismic data shot over the block;
- used the well log and seismic data to create a series of detailed cross-sections ("stratigraphies") of the geological features of the Llanos basin; and
- identified traps and faults delineating possible reservoirs and calculated their potential size and depth.

(PX-157 at ¶¶ 6-18.)

By April 2009, SK Energy had identified a total of 22 "structures" comprising 56 leads with an area of 84,500 acres and a volume of 6.495 million "acre feet" on the CPO-4 block.[2] (*See* "Farm-in Opportunity" (Apr. 13, 2009), PX-011 at 28-29.) This total volume is an estimate of the block's "gross rock volume" or "GRV." (*See* PX-159 at 42-43.) Using a combination of analog and volumetric methodologies, SK Energy estimated that the CPO-4 block could produce up to 150 barrels of oil from each acre foot, *i.e.*, that it had a "recovery rate" of 150 barrels per acre foot, or "BAF." (PX-011 at 29.) SK Energy's estimate of the block's total potential (GRV * BAF) was approximately 974 million barrels. (*Id.*) SK Energy further estimated that the block's "risked reserve potential" was 300 million barrels and that the "high potential" was 639 million barrels. (*Id.*; "Farm-in Opportunity," (Apr. 17, 2009), PX-013 at 2-3.)

Though based on a valid (if preliminary) volumetric analysis, SK Energy's non-public, "total potential" estimate was aggressive when compared to production trends in the Llanos basin. (PX-159 at ¶¶ 61; PX-021 at 2.) The basin is mature and well-explored, with over 250 discovery wells drilled since the late 1940s. By the end of 2007, only 2.9 billion barrels of oil had been produced from the entire basin in over 50 years. (PX-159 at ¶ 18; PX-043 at 8, 12.) Two of the basin's largest fields—the Apiay and Castillia—offset the CPO-4 block, but their ultimate recoverable reserves were estimated to be 274 and 265 million barrels respectively. (*Id.* at ¶ 19; *see also*, PX-042 at 14.) To the northeast of the block, the recently discovered Corcel field is estimated to contain approximately 20 million barrels of reserves. (PX-159 at 19.) Given the basin's history, SK Energy's "total potential" estimate of 974 million barrels—for a block that comprised just 0.7% of the entire Llanos basin[3]—was clearly an extreme high-case estimate.

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[2] As used here, structures are potential wells, while leads are potential reservoirs. A single structure could reach multiple stacked leads existing at different depths. An "acre foot" is a volume one acre in area and one foot thick.

[3] (PX-159 at ¶ 19.)

D. Houston American Farms-In to the CPO-4 Block

In April 2009, SK Energy sought a non-operating farm-in partner on the CPO-4 block in order to offset development costs. (OIP ¶ 23.) SK Energy created a brief summary document that described the block and depicted SK Energy's assessment to date. (*Id.*) The document stated that the block had "Total 1 Billion [Barrels of Oil] Potential : 300 [Million Barrels of Oil] Risked Reserve Potential." (*Id.*; PX-013 at 2-3.) Respondents received a copy of the document in April 2009, and a few days later, Terwilliger met with SK Energy to discuss the farm-in opportunity. (OIP at ¶ 23; PX-013 at HA 279.) SK Energy also prepared a comprehensive slide deck that included a detailed description of its assessment and of the basis for its estimates. The slide deck included an overview of SK Energy's "total potential" estimate of 974 million barrels and of its "high potential" estimate of 639 million barrels. (OIP at ¶¶ 26-27; PX-11 at 29, 42.)

The information in the slide deck showed that SK Energy had arrived at its initial estimates for the CPO-4 block by using a standard methodology that incorporated extensive geological and seismic data for the block. (OIP ¶ at 26-32; PX-159 at ¶¶ 52-60; PX-011 at 1-42.) Among other things, the slide deck showed the inputs that it used when calculating the BAF recovery rate and left no doubt that SK Energy's estimates, though preliminary, were based on a detailed, technical analysis of the data. (*Id.*) Respondents understood that SK Energy's estimates were based on "a lot of good work" that was "very, very reasonable" and that conformed to "traditional industry practices." (OIP at ¶ 32.) Yet Terwilliger disavowed any meaningful, technical understanding of the estimates, claiming that was "not sure of all these designations [used by SK Energy in its BAF calculation]," and stated that because he was "not a petroleum engineer, [he'd] have to refer to one." (Terwilliger Tr. (Mar. 14, 2012) at 89:13-18.) Houston American did not independently evaluate pertinent geological or seismic data on or around the CPO-4 block. (OIP at ¶¶ 33-34.)

After reviewing SK Energy's slide deck, Respondents submitted an offer to acquire a 25%, non-operating farm-in interest on the block. SK Energy and Houston American entered a farm-in agreement in May, 2009, and the government approved the agreement in October 2009. (PX-181, 2.)

E. SK Energy Refines Its Assessment of the CPO-4 Block

In the months after April 2009, SK Energy continued to evaluate the CPO-4 block and to refine its estimates. ("Minutes from the Block CPO-4 Technical Committee Meeting" (Sep. 11, 2009), PX-018, 2-5; PX-159 ¶¶ 69-80.) Among other things, SK Energy reprocessed the available seismic data, allowing it to more precisely define—and thus *reduce* the total acreage of—the leads. (*Id.*; Rava Tr. at 126:2-129:8) After reprocessing the seismic data, SK Energy identified 110 leads covering just 57,000 acres, *a 30% reduction* from the 84,500 acres it had identified in April. (*See, e.g.*, Rava Tr. at 126:2-129:8; "CPO-4 Final Report," PX-034, at 2-8; "Technical Committee Meeting" (Oct. 14, 2009), PX-025, at 28, 30, 32; "CPO-4 Llanos Basin" (Oct. 21, 2009), PX-028, at 46.) SK Energy also incorporated newly available information from the nearby Corcel block and raised its recovery rate from 150 BAF to 300 BAF. (*See* PX-018 at 3; "1st Technical Committee Meeting," PX-019, at 32-45; "CPO-4 Llanos Basin" (Oct. 21, 2009), PX-028, at 46.) On the basis of its refined assessment, SK Energy *reduced* its "high potential" resource estimate for the CPO-4 block from 639 million barrels to 445 million. (PX-028 at 46; PX-157 at ¶30.)[4]

SK Energy presented the results of the reprocessing at a Technical Committee Meeting ("TCM") on September 11, 2009, where it discussed the new areas of interest, including their respective sizes. (PX-018 at 3.) Terwilliger attended the September TCM and another TCM in

[4] Respondents do not dispute that the total aerial acreage for the leads had declined. (*See, e.g.*, Wiggins Rebuttal, ¶ 31 & n.32.)

October where the reduced estimates were presented and discussed. (*See, e.g.*, PX-024; PX-025 at 28-32.) He also admits that SK Energy *never* used an estimate greater than approximately one billion barrels for the CPO-4 block, a fact confirmed by SK Energy's general manager on the CPO-4 project. (PX-157 at ¶ 31; Terwilliger Tr. (March 14, 2012) at 85:6:8.)

F. Respondents Release an Investor Presentation With a Multi-Billion Barrel Reserve Estimate for the CPO-4 Block

On October 29, 2009, SK Energy sent Respondents the 2010 development budget for the CPO-4 block, which included $31 million of expenses heavily concentrated in early 2010. (*See* "2010 Work Program and Budget," PX-032 at 1, 8.) Houston American's obligations for the first quarter alone were approximately $5 million. (*Id.*) At the time, according to its public filings, Houston American had less than $5 million in cash on hand, and only $6.8 million in total current assets. (PX-037 at 3.) After receiving the budget, Respondents began to actively promote their interest in the CPO-4 block. They released to the general public an Investor Presentation that included 16 slides about the CPO-4 block and SK Energy. (*See* OIP at ¶ 38; PX-43.) According to Terwilliger, Respondents created the Investor Presentation because the "acquisition of the interest in CPO-4 Block . . . was a transitional moment for Houston American. So we took that moment to put a brochure together and go out and try to tell the story." (OIP at ¶ 38.) The Investor Presentation included a detailed description of the CPO-4 block and stated that the 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." (OIP at ¶ 39; PX-43 at 12.) A number of slides highlighted SK Energy's size and expertise and the extent of its evaluation of the CPO-4 block. Among other things, those slides:

- stated that SK Energy was the "undisputed leader" in the petrochemical business in South Korea;
- depicted the wells SK Energy had evaluated in its study of the CPO-4 block;

- depicted the Negritos-1 well as having been drilled on the CPO-4 block; and
- summarized SK Energy's assessment of seismic and well log data on the block but not its estimates.

(PX-43 at 12-24.)

The Investor Presentation did not disclose that:

- contrary to representations in Houston American's most recent annual report, the multi-billion barrel reserve estimate did not describe "reserves" and was not based on "available geological, geophysical, production and engineering data," but instead dramatically inflated estimates derived from such data;
- the "1 to 4 billion barrel" range did not reflect the actual range of estimates for the block, but instead used SK Energy's low probability, "total potential" estimate as a *floor*; or
- the Negritos-1 was dry (*i.e.*, it produced no oil) even though the Investor Presentation showed the location of the well on at least four separate slides (*compare* PX-11 at 27 ("Dry Well Analysis") *and* PX-43 at 15, 18.)

Upon the release of the Investor Presentation, Houston American's stock price increased by $0.40 per share, representing an increased market capitalization of approximately $11.4 million. (*See* Expert Report of Jovanovic, B., Ph.D., PX-158, at ¶ 63.) Then in early December, 2009, Houston American raised $13 million in a public offering, which covered its share of exploration and production expenses for 2010. (OIP at ¶ 56; Ex. 99.1 to Houston American Form 8-K (Dec. 4, 2009), PX-202, at 1.)

G. Respondents Embellish the Multi-Billion Barrel Estimate at Roadshow Meetings

In November 2009, Respondents featured the Investor Presentation in a series of meetings with potential investors. During those meetings, Respondents repeated their false claims about the CPO-4 block and provided additional false and misleading details. For example, at a meeting with Columbia Wanger Asset Management ("Columbia Wanger"), which ultimately purchased a large block of shares in the December offering, Terwilliger said that:

- the CPO-4 block was "Mr. Big for [Houston American]";

- *SK Energy* believed the block had between *three and four billion* barrels of recoverable oil; and
- Houston American believed that the block had between one and five billion barrels.

(OIP at ¶53; Desk File of Doyle, W., PX-55, at 29, 31.) Terwilliger also met with Nokomis Capital, which also purchased shares in the December offering, and claimed that SK Energy's estimate for the block was 3.5 billion barrels and that Houston American "used a range" of one to five billion barrels. (OIP at ¶ 54; Aff. of Brett Hendrickson, PX-149, at ¶¶ 24-29.)

H. Respondents Uses Their Investment Bank to Spread Misinformation

In advance of December 2009 public offering, Terwilliger met with the Sales & Trading group at Global Hunter Securities Inc., the placement agent for the offering, to review the Investor Presentation. One member of the group recalled hearing the "eye-popping" reserve estimates during the meeting. (OIP at ¶¶ 57-64.) He and other group members subsequently sent multiple e-mail messages—some bearing the subject "HUSA-some crazy math"—to Global Hunter's clients, both in connection with and after the December, 2009 offering, that incorporated at least three of Respondents' misrepresentations: that *SK Energy*—not Houston American—was the source of the multi-billion-barrel estimate; that a one-billion-barrel recovery was at the low-end of the recoverable range rather than a "total potential" estimate; and that the oil in the ground was worth more than $20 per barrel. (*Id.*)

I. Respondents' Paid Stock Promoter Spreads Misinformation

In November 2009, Houston American retained Undiscovered Equities, a marketing firm operated by Kevin McKnight, to assist in "the implementation and maintenance of an ongoing program to increase the investment community's awareness of [Houston American]." (OIP at ¶¶ 46-51.) On November 29, Undiscovered Equities posted its list of "Top Picks for 2010," which included Houston American, and stated that "SK Energy believes the CPO 4 Block has over 100 viable drilling locations with estimated recoverable reserves of 1-4 billion barrels." (*Id.*) Undiscovered Equities repeated identical claims over the course of the next three months. (*Id.*)

J. Respondents Feed Misstatements to Industry Analysts

A Global Hunter research analyst, Philip McPherson, received the Investor Presentation from Terwilliger and attended his meeting with the Sales & Trading group. On January 8, 2010, Terwilliger sent McPherson "some internal SK work on the reserves." (Desk Files of McPherson, P., PX-081, at 1.) Terwilliger told Mr. McPherson that SK Energy used "150 BO per acre foot," but that "everyone in the Llanos uses 500 BO per acre foot." He explained that using the higher recovery rate would increase SK Energy's "total potential" estimate from 974 million to 3.24 billion, and stated that the analysis was "only from the attached 22 leads," falsely implying that there were other leads SK Energy had ignored in its analysis. (*Id.*)

On January 19, 2010, McPherson issued a research report on Houston American that adopted Terwilliger's claims wholesale. ("Houston American Energy" (Jan. 19, 2010), PX-086.) The report published a modified version of the "total potential" slide from the April 2009 deck and stated that SK had found over 100 prospects but had "high graded 22 of those prospects which contain an estimate 1 billion barrels of unrisked oil potential." (*Id.* at 6.) Because SK's 974 million barrel estimate incorporated a recovery rate of 150 BAF, the report described it as "conservative." McPherson then incorporated that "conservative" estimate into his valuation of Houston American's stock, reporting that the stock was worth $16.21 per share, of which $11.71 per share was attributable to the value of oil on the CPO-4 block. (*Id.* at 7-9.)

On February 15, 2010, Energy Equities Inc. research analyst David G. Snow published an independent research report on Houston American that repeated the multi-billion-barrel estimate and that assigned a price target of $168 per share to Houston American's common stock. A section of the report titled "CPO-4: 'Mind-Boggling'" stated that the CPO-4 block was worth between $67 and $269 per share to Houston American. (OIP at ¶¶ 65-66; "Houston American Energy Corp.: Another Triton Energy!," PX-094, at 2-4.) The valuation was premised on two assumptions: that the CPO-4 block held between one and four billion barrels of oil and that the oil was worth between $20 and $25 per barrel in the ground, a value typically associated with *reserves*. (*Id.*; *see, e.g.,* Harrell Rebuttal, pp. 6-7; Wiggins Report, ¶¶ 65-68.) The report expressly attributed the latter assumption to Houston American, stating that "HUSA believes CPO 4 oil in the ground is worth $20/25/bbl." (*Id.*)

As with the misleading claims repeated in the Global Hunter report, the content of the Energy Equities report is directly attributable to Respondents. In the days before the report was published, Terwilliger spoke with Snow by phone and said:

- the CPO-4 block was "mind boggling" and contained between one and four billion barrels of oil;
- SK Energy believed the CPO-4 block contained up to 3.5 billion barrels of "recoverable" oil; and
- oil on the CPO-4 block was worth between $20 and $25 per barrel in the ground and had a value of at least $100 per share to Houston American.

(OIP at ¶ 67; Aff. of Snow, D., PX-136, at ¶¶ 16-20, 25-38.) In addition, Terwilliger walked Snow through the calculations that purported to demonstrate that the CPO-4 block was worth more than $100 per share to Houston American's investors. *Id.* Snow incorporated Terwilliger's statements directly into his research report, which Terwilliger reviewed and edited prior to publication. (*See* E-mail from Terwilliger, J. to Snow, D. (Feb. 12, 2010), PX-091.) Terwilliger made no changes to the report's statement that "HUSA believes CPO 4 oil in the ground is worth $20/25/bbl," (*id.*), but when later asked about the claim, Terwilliger testified that it was "a totally incorrect statement." (Terwilliger Tr. (Mar. 15, 2012), at 257:1-13.)

K. The Multi-Billion-Barrel Estimate Is a Back-of-the-Envelope Calculation with No Basis in Data or Common Sense

The sum of Respondents' contemporaneous support for their multi-billion barrel reserve estimate is a single page excerpted from SK Energy's slide deck, on which Terwilliger scribbled a few shorthand notes stating that the BAF used by SK Energy *should be* ("S/B") 500 rather than 150, and thus that its "total potential" estimate of 974 million barrels *should be* ("S/B") 3.246 billion barrels. (*See* Terwilliger Files, PX-120.) To arrive at four billion barrels, Respondents then rounded up from 3.246 billion—a 700 million barrel increase that appears to have come out of thin air. During his investigative testimony, Terwilliger defended his decision to more than triple SK Energy's estimates as follows:

- "[SK Energy] just stuck 150 barrels. They just applied some very conservative worldwide assumptions" (Terwilliger Tr. (Mar. 14, 2012), at 129:12-19);
- "[I]f you look at all the engineering data that I've ever seen in Colombia, I've never seen a recovery below about 300 [BAF], and I've seen a lot of them as high as 750" (*id.* at 73:23-74:2); and
- "I'm only saying that in ten years in Colombia being involved in over 130 wells and looking at assets all over the basin, I've never seen 150 barrels per acre-foot. Even in the worst wells . . . 300 is probably . . . the lowest I can ever remember seeing. So I discounted [SK's] assumptions and said, you know, *I'm not going to go through all the engineering models to get there.* It's just very unrealistic." (*Id.* 83:17-84:13.)

Terwilliger's sworn statements cannot be reconciled with Respondents' documented experience, which is entirely consistent with BAFs of less than 200. When presented with evidence of Respondents' actual experience, Terwilliger plead ignorance or disappointment:

- *"I didn't really pay attention"* to the 103,000 acre Las Garzas concession, where prospective resources were estimated to be as low as 177 BAF. (Terwilliter Tr. (Jan. 29, 2013), at 67:7-68:23 (emphasis added).)
- *"I really wasn't paying attention to"* the 47,950 acre La Cuerva concession, where prospective resources were estimated to be as low as 183 BAF. (*Id.* at 70:6-70:19 (emphasis added).)
- "We had high hopes for the [70,343 acre] Leona Block. *It didn't work out.* And as a result, we got a well with recoveries a little over 200 barrels per acre foot. *We would*

> *have liked 500. . . .* " Prospective resources on the Leona Block were estimated to be as low as 117 BAF. (*Id.* at 159:12-24 (emphasis added.))

So while Respondents claim that their experience in the Llanos basin justified their decision to triple SK Energy's estimate without bothering to "go through all the engineering models," Terwilliger admits that he did not even pay attention to estimates from the very concessions from which he derived his experience. Moreover, in 2009, the five Colombian exploration blocks in which Respondents held an interest were estimated to contain a *combined* 8.4 million barrels of "proved reserves" and 35 million barrels of "prospective resources." (*See* PX-21 at 2.) So regardless of the BAF, multi-billion barrel finds were flatly inconsistent with the Respondents' experience and, more broadly, with the basin's 50-year production history.

Respondents have also claimed in multiple contexts that their multi-billion barrel estimate was justified because SK Energy's estimates were derived from an original set of 22 leads that had grown to 100 leads by November 2009. When asked to explain the basis for the billion-barrel range, Terwilliger testified:

> Well, there's a number of ways you can get there. First of all, SK is only looking at twenty percent of the prospects. So do you multiply their number by five? I wouldn't. But you multiply it by something, three, four.

(Terwilliger Tr. (Mar. 14, 2012), at 73:23-74:16.)

Respondents appear to have abandoned this explanation for their inflated estimate, even though they used it repeatedly in communications with research analysts, investors, and the Division to justify their multi-billion barrel estimate. (*See* Wiggins Report, ¶¶ 29, 33.) And they are right to have abandoned it; the rationale is wrongheaded for multiple reasons. First, the number of leads identified by SK Energy had increased from 56 to over 100, not from 22. Second and more importantly, the total number of leads is a red herring. SK Energy calculated its estimates based on the block's gross prospective acreage, and discussed above, the acreage number *declined* by 30% as SK Energy continued its evaluation of the block. The total number of leads has no bearing on the "total potential" estimate. Relying on the number of leads, Respondents recklessly or intentionally ignored the inconvenient fact that, as SK Energy continued to evaluate the CPO-4 block, the number of prospective acres it identified fell by over 30%.

L. Respondents' Are the Source of the $20 Per-Barrel Valuation

Respondents routinely asserted that oil in the ground at the CPO-4 block was worth between $20 and $25 per barrel, which, according to Terwilliger's own calculations, meant that the one-billion-barrel reserve estimate translated to a value of $100 per share to Houston American. As shown above, Terwilliger's claims and calculations were incorporated into Energy Equities' research report and into Global Hunters' correspondence with potential investors. Terwilliger testified that the per-barrel valuation was based on a recent asset sale in the Llanos basin, in which *proved reserves* sold for approximately $25 per barrel in the ground. (Terwilliger Tr. (Mar. 14, 2012), at 182:18-183:18.) Despite his routine reference to the valuation in the context of the CPO-4 block, Terwilliger denied during the Division's investigation that the $20 to $25 valuation was relevant to the valuation of the CPO-4 block, testifying that it was only relevant "to the extent that we ever . . . have proven reserves, which *we hope to one day, we have none now.*" (*Id.*) Respondents now admit that "little value is attributed to possible or prospective resources on a per barrel basis." (Wiggins Report, ¶ 65.)

M. Subsequent History

While Respondents were fraudulently promoting Houston American, its common stock ran from close to $4 per share to more than $20. During that time, Terwilliger pledged his shares to a margin account, from which he subsequently withdrew over $6 million and through which he invested in more than $3 million of municipal bonds. He eventually sold more than 10% of his holdings (approximately 984,000 shares) due to a margin call on the account. (*See* Account Statement (Dec. 2010), PX-125; Account Statement (Aug. 2011), PX-134; Form 4 for. Terwilliger, J. (Apr. 24, 2012), PX-147.) Between 2010 and 2012, Terwilliger received cash bonuses of $914,287, stock awards of $247,800, and options valued at $177,049, in addition to a total salary of $1,043,083. (OIP at ¶¶ 92-93.)

On April 7, 2010, a blog post questioned the integrity of Houston American's management and the validity of its estimates. The next day, the company's stock fell from $20 to $14 per share. (OIP at ¶ 88.) Houston American and SK Energy drilled three non-productive wells on the block, and on March 28, 2013, Houston American withdrew from its farm-in agreement and transferred its interest in the CPO-4 block back to SK Energy. (*Id.* at ¶ 90.)

Over the life of the project, Houston American raised and spent more than $20 million to fund its share of expenses on the CPO-4 block, *without producing a single barrel of oil.* Houston American's stock price now trades at less than $0.20 per share, which represents a loss of $600 million of market capitalization. (*Id.* at 91-93.)

III. LEGAL STANDARD

Under Rule 250 of the Commission's Rules of Practice, "the facts of the pleadings of the party against whom [a motion for summary disposition] is made shall be taken as true," and the motion for summary disposition shall be granted only if there is "no genuine issue with regard to any material fact." As the Commission explained in its Revision Comment to Rule 250, summary disposition is disfavored: "Typically commission proceedings that reach litigation involve basic disagreement as to material facts . . . . [T]he circumstances when summary disposition prior to hearing could be appropriately sought or granted will be comparatively rare." Rule 250, Revision Comment, 60 F3d. Reg. 32738, 32767-68 (June 23, 1995). Respondents' Motion does not refer to or meet this standard.

IV. ARGUMENT

A. Facts Relating to the Falsity of Respondents' Multi-Billion Barrel Are Disputed

Respondents assert that their estimates were not false because (i) Houston American obtained approval from SK Energy to publish the investor presentation; and (ii) a former SK Energy employee, James Fluker, agreed during a deposition that SK Energy's estimates "could be between 1 billion and even 5 billion" if expressed as a range[5] due to the presence of other prospective sands on the block and to success on the nearby Corcel block. (*See* Motion at 24.) These facts—if counsel's own improper deposition question can be counted as a "fact"—are disputed, and in any event, have no real bearing on the ultimate question of falsity.

1. Respondents Had No Reasonable Basis for Their Multi-Billion Barrel Reserve Estimate

As an initial matter, the Motion cites the wrong legal standard. The Division is not required to establish that Respondents "did not subjectively believe their statements." An issuer's failure to disclose facts that would "affect the validity or plausibility" of its oil and gas estimates is actionable under the federal securities laws. *See Rubinstein v. Collins*, 20 F.3d 160, 166 (5th Cir. 1994). Any given estimate implies three independent factual assertions: (i) that the speaker *genuinely believes* the estimate; (ii) that the speaker has a *reasonable basis* for the estimate; and (iii) that the speaker is unaware of any *undisclosed facts* that would tend seriously to undermine its accuracy. *Id.* at 166. Any of the three implied factual assertions can form an independent basis of liability under the federal securities laws. *Id. See also In re Apple Computer Sec. Litig.*, 886 F.2d 1109, 1113 (9th Cir. 1989), *cert. denied*, 496 U.S. 943 (1990).[6]

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[5] The phrase quoted in the Motion is not Fluker's but is instead a carefully excised portion of Respondents' counsel's leading, compound question that called for speculation

[6] Respondents have already admitted that the standard set out in *Rubinstein* is correct, stating in their Wells submission "[i]f an action challenges estimates . . . the issue is whether there was a reasonable basis for the statement at the time it was made." (Wells Submission, p. 11, citing *Eisenberg v. Gagnon, 166* F.2d 770, 776 (3rd Cir. 1985) ("[a]n opinion or projection ... will be untrue if it has no valid basis").)

The Division alleges that all three factual assertions embedded in Respondents' multi-billion barrel estimate are false and misleading. First, Respondents admit that the block had no reserves. Second, their 1 to 4 billion barrel estimate was baseless. Without understanding the technical basis for SK Energy's April 2009 "total potential" estimate, Terwilliger decided that the recovery rate "should be" 500 BAF, more than tripled SK Energy's estimate to 3.25 billion, and topped it up to four billion. Terwilliger's personal say-so is not a reasonable basis for a multi-billion barrel estimate, particularly where it was based on outdated acreage estimates, was inconsistent with SK Energy's data-driven assessment of the block, was made without any additional technical analysis of the block, and was completely at odds both with Respondents' own experience in the Llanos basin and the basin's long production history. Third, Respondents publicized their estimate without disclosing that it was at odds with SK Energy's estimate that, unlike Respondents', was grounded in a meaningful assessment of observable data for the block. As set forth above, the facts in the record make each of these assertions a matter of clear dispute.

2. The "Facts" Cited in the Motion Are Neither Undisputed Nor Probative

Respondents' Motion relies heavily on the recent deposition testimony of James Fluker, a former SK Energy employee who was involved in the bid-round estimates for the CPO-4 block but then moved on to other projects. According to Respondents, Fluker has now endorsed the reasonableness of their multi-billion barrel estimate, and for that reason, it had a reasonable basis, as a matter of law. (*See* Motion at 24.) But Fluker's opinion is not the law, and in this case, his opinion is undeniably disputed by facts alleged in the OIP and with the extensive factual record.

First, Respondents do not accurately describe Fluker's testimony.[7] The Motion twice quotes Fluker for the proposition that estimates for the CPO-4 block "could have been between 1 billion and even 5 billion." But Fluker never used those words. As demonstrated by the full exchange in the deposition transcript, Fluker merely affirmed a truism: one *could* increase SK Energy's estimate by adding to it. (Fluker Dep. Tr. (November 10, 2014), 134:24-136:9.) Affirming that truism is not evidence that the multi-billion barrel estimate was reasonable. Second, Fluker's opinion (as distorted by Respondents' carefully-edited rendering) is not probative. Respondents do not claim that Fluker ever communicated his opinion to the Respondents, and Terwilliger admitted in testimony that he had never heard SK Energy estimate more than one billion barrels for the block. A third-party's uncommunicated opinion—which it is not clear from the record Fluker even held in November 2009—did not provide a reasonable basis for Respondents' multi-billion barrel estimate. Third, Fluker's assertions (or more aptly, the assertions of Respondents' counsel in improper leading questions) are disputed, and have no reasonable basis in fact. Fluker testified that, while he was involved in the early bid-phase of the CPO-4 project, he shifted away from the project in early 2009, and that someone else did the "actual mapping" of potential reservoirs on the block. (Fluker Dep. Tr. (November 10, 2014), 19:16-20:23.) He admits that SK Energy's project manager, D.S. Choi, had experience just

[7] Respondents' Motion is replete with references to depositions taken by Respondents' attorneys in *Spitzberg v. Houston American Energy Corp., et al, 13-cv-20519 (5th Cir. 2014).*, which involves some of the same claims that are at issue in this matter. Houston American reached but did not disclose a settlement in principal in that matter in October 2014. It thereafter used the auspices of "confirmatory discovery" to take a series of depositions of individuals identified in the Division's Response to the Motion for a More Definite Statement in this matter. When the Division inquired about the depositions (before it learned of the settlement), Respondents' counsel accused the Division's staff of interfering with discovery in the class action and represented to the staff that the class action was active and that the depositions related to issues pertinent to it. The Division Staff has since learned, however, that Respondents' counsel freely admitted that the purpose of the depositions was merely to undermine the Division's claims *this* action. (*See* Hendrickson Dep. Tr. 73:21-74:10.) The Division does not take a position on whether the conduct of Respondents' counsel was consistent with the duties of an officer of the court under Rule 45 of the Federal Rules of Civil Procedure, or whether they circumvented this tribunal's authority. But because the deposition transcripts consist almost entirely of leading and otherwise improper questions posed by Respondents' counsel, and because the Division was not given notice of the depositions and was not present to object or cross-examine the witnesses, the deposition transcripts should be afforded little weight in this proceeding.

across the border in Ecuador, and "the geology runs, you know, very similar" and identifies no actual shortcoming in SK Energy's work. (*Id.* at 21:16-18.) Fourth, Fluker's credibility is at issue. He is the vice-president of Gulf United Energy Corp., a publicly traded company that itself acquired a fractional interest in the CPO-4 block during his tenure there. Gulf United made representations to its own investors about the block's prospects based on a 500 BAF assumption, and Fluker has every interest in defending the validity of those representations, lest he expose his company to accusations that they too have inflated their estimates. (Fluker Test. Tr. (July 17, 2012), 81:1-17, 88:8-89:21.)

Ultimately, the Motion is little more than Respondents' attempt to use a series of leading and improper questions to convert Fluker into a mouthpiece for their after-the-fact attempt to justify their grossly inflated and fraudulent estimates. But as set out in the following section, the facts alleged by the Division put each of those issues squarely in dispute, whether they are advanced by Respondents directly or indirectly through Fluker; the arguments are no less flawed merely because they are adopted by an interested third party who was not responsible for calculating SK Energy's estimates.

The Motion's reliance on the fact that Respondents purportedly shared their Investor Presentation with an SK Energy employee fares no better than their reliance on Fluker's deposition transcript. That this lone SK Energy employee did not object to Respondents' estimate is probative of nothing: Respondents do not claim that SK Energy was aware of the estimate, only that it was in a document that SK Energy reviewed; they do not establish whether this employee had sufficient information to assess the estimate; and in any event, a foreign business partner's silence in the face of a fraudulent misrepresentation does not make the misrepresentation reasonable as a matter of law.

3. The Division Disputes that the Corcel Block and Additional Sands Form a Basis for Calculating Reserve Estimates

In their Statement of Facts (though not in their Argument), Respondents contend—through more selectively-excised portions of Fluker's deposition testimony—that a September 2009 discovery on the Corcel block and the presence of potentially productive depositional sands justifies increasing the estimate of the acreage. The arguments do not withstand scrutiny and relate to facts that are unquestionably disputed by the Division. The Division contends that "the Corcel analogy is fundamentally at odds with [a] reserves estimate of 1 to 4 billion barrels" and that the mere presence of other depositional sand is not a reasonable basis for a reserve or resource estimate. (DeZoeten Rebuttal, ¶¶ 15, 19, 23.) Under the guise of an "analogy" to the Corcel, Respondents defend estimates that would dwarf the reserves of the Corcel; under the guise of merely adding additional depositional sands onto SK Energy's estimates, Respondents ignore that "[a] majority of the producing fields in the Llanos Basin have only a single, primary producing reservoir formation, even if multiple formations are otherwise present." (*Id.*)

Even if the Corcel analogy and the presence of additional sands *did* constitute favorable information that was not included in SK Energy's estimates (a fact the Division disputes), Respondents still do not explain how they would have *quantified* that favorable information in support of a four-billon barrel estimate. Instead, they seize on vague

good news" in service of a results-driven analysis that belies common sense and is not reasonably based in fact. (*See* DeZoeten Rebuttal, ¶¶ 12-16.)

4. Respondents Had No Reasonable Basis to Use 500 BAF

Respondents present two related arguments about the use of 500 BAF. First, they argue that Houston American's experience in Colombia supported the use of 500 BAF; second, they claim that in the course of their defense, they have gathered from around the Llanos basin to show that 500 BAF is a reasonable recovery rate. Setting aside that the best data about the CPO-4 block, which occupies less than 0.7% of the total area of the Llanos basin, is the data SK Energy used to compute its recovery rate, Respondents' arguments do not withstand scrutiny, and the Division disputes them.

As shown above, Respondents' experience in Colombia supports neither a 500 BAF recovery rate nor a multi-*billion* barrel estimate for the CPO-4 block. To the contrary, Respondents' direct experience was with blocks that contained a few *million* barrels, not *billions*. Terwilliger admitted in testimony that he either *paid no attention* to many of Respondents' projects or that he had "hoped" for higher recoveries from them. At a minimum, there is a factual dispute as to whether Respondents' experience in the basin supports their estimates or merely underscores their penchant for cherry picking and reckless attitude toward unfavorable information they would rather not acknowledge, to themselves or to their investors.

Data from around the Llanos basin is equally unsupportive of Houston American's use of 500 BAF. Even assuming Respondents' data sources were reliable (a fact that is itself in dispute), simply using an "average" recovery rates is "likely meaningless and not the product expected of competent reservoir engineering." (Harrell Rebuttal at 3.) Information about a recovery rate from another well somewhere else in the Llanos basin is only helpful if you also know that the two blocks are geologically similar. (*Id.*) Moreover, by looking to regional trends and averages in an attempt to back-fill their estimate, Respondents walk into a dilemma. The (disputed) data they now use to suggest that an "average" of 500 BAF is reasonable also shows that producing fields in the Llanos basin have an average of *38 million barrels*, ranging from 438 million to .4 million. (*See* HRX-945.) Thus, Respondents' recently-assembled data cannot be said to support their multi-billion barrel estimate, and is yet more evidence that their estimates were derived through half-truths and selective observation and were not reasonably based in fact. In any event, the data cited in Houston American's expert reports and in its Motion were not known to Respondents in November 2009. The information available was SK Energy's assessment of the block, which did not support the use of 500 BAF. *See, e.g.*, *Stransky v. Cummins Engine Co., Inc.*, 51 F.3d 1329, 1332 (7th Cir. 1995) ("the securities laws typically do not act as a Monday Morning Quarterback").

5. Houston American's Statement that the CPO-4 Block Had "Reserves" and "Prospects" Was False

The terms "reserves" and "prospects" have specific, generally accepted definitions in the oil and gas industry. (*See* PX-159 at ¶¶ 32-37.) "Reserves" are "discovered, commercially recoverable quantities of petroleum," and "prospects" are potential accumulations "sufficiently well-defined to represent a viable drilling target." (*Id.* at ¶¶ 32, 37.) Respondents do not dispute that the CPO-4 block did not have reserves or prospects under these standard definitions. Indeed, Terwilliger admitted in testimony that "there are no reserves on the block." (Terwilliger Tr. (March 14, 2012), 150:14.) That admission alone is sufficient to create a fact issue whether the statement to investors that the block had "estimated recoverable reserves of 1 to 4 billion barrels" was false, particularly when presented in the context of a multi-slide presentation detailing SK Energy's technical work on the block. Respondents instead focus their arguments on reasons why their statements to investors did not have to conform to industry standards. None of the arguments has any merit.

a. Respondents Endorsed the PRMS in Public Filings

In its 10-Q for the third quarter of 2009, filed on November 5, 2009, which Terwilliger signed, Houston American described the PRMS as a "widely accepted standard for the management of petroleum resources that was developed by several industry organizations."

(PX-037 at 7). Four days later, the company filed the 8-K in which it announced that the block contained "over 100 identified leads or prospects with estimated recoverable reserves of 1 to 4 billion barrels." (PX-043.) Houston American cannot endorse the PRMS as reflecting industry standards on Thursday and then misuse terms defined by the PRMS the following Monday.

b. The Disclaimer in the November 2009 Presentation Did Not Give Houston American License to Misuse the Term "Reserves"

Respondents spend considerable space in their factual recitation arguing that a disclaimer appearing at the beginning of the Investor Presentation warned investors that the term "estimated recoverable reserves" would not conform to the PRMS definition of reserves, as it would have to if included in an SEC filing. Although Respondents do not raise the disclaimer in their argument, and it therefore cannot serve as the basis for a summary disposition, the disclaimer does not do the work Respondents wish. As discussed above, the disclaimer had a simple and direct function: to inform investors that terms used in the Investor Presentation were something other than "proved reserves," the sole resource sub-category that could be reported in Commission filings.

Respondents have already advanced their more sweeping interpretation of the disclaimer in the shareholder class action, and the Fifth Circuit squarely rejected it, holding that "the slide presentation's disclaimer does not make it 'abundantly clear' that the slide presentation's reference to '1 to 4 billion barrels' of 'estimated recoverable reserves' actually should have been understood as 'falling into PRMS's 'resource' category, not reserves.'" *See Spitzberg v. Houston American Energy Corp.*, 758 F.3d 676, 690 (5th Cir. 2014). Just as significantly, the disclaimer did not "suggest that any terms . . . would be used in a manner that diverged from the common understanding in the industry." (*Id.*)

c. ***The Misuse of Standard Industry Terms Constitutes a False Statement***

Respondents argue that there is no precedent for enforcement actions against companies for using non-industry standard terminology. But ample precedent exists. In *In the Matter of Gold Properties Restoration Co., Inc.*, Release No. 6953, 1992 WL 211480 (Aug. 27, 1992), the respondents misrepresented to investors the "quality, quantity, and value of gold reserves" in the Philippines by claiming that their property in question had over $60 million in gold reserves. The Commission found that these misstatements were materially false and misleading because the respondents had no reasonable basis for making them. Specifically, the Commission found the use of the term "reserves" was misleading because the term "implies under industry standards that the company has determined that it can economically and profitably mine the gold," whereas the respondents had performed "no economic analysis as to the feasibility or profitability of the proposed extraction operation." 1992 WL 211480, at *4.[8]

Ultimately, this case is not about how the PRMS or the Commission defines a particular term. It is about the use of generally accepted industry definitions. The PRMS happens to reflect those definitions the way a dictionary reflects the generally accepted meanings of words. When Houston American used terms like "reserves" and "prospects" to characterize the CPO-4 block, it deviated from the generally accepted definitions of those terms and implied that the block was a more mature and more valuable project than it actually was. That mischaracterization gives rise to liability under the securities laws.

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[8] *See also, In the Matter of National Lithium Corp.*, Release No. 4378, 1961 WL 61069 (July 6, 1961) (finding that an estimate of lithium ore reserves was materially false and misleading because the company had no reasonable basis for characterizing its deposits as "ore" within the generally accepted definition); *In the Matter of Woodland Oil & Gas Co., Inc.*, Release No. 3942, 1958 WL 55553 (July 11, 1958) (finding the use of the term "proven recoverable oil reserves" to be materially false and misleading because estimates failed adequately to account for the company's operating costs or how many barrels of oil had to be produced to cover those costs).

B. Respondents Have Not Conclusively Shown That Their Misstatements Were Not Material

Information is material if "there is a substantial likelihood that a reasonable shareholder would consider it important" in making an investment decision. *See TSC Industries, Inc. v. Northway, Inc.*, 426 U.S. 438, 449 (1976); *Basic v. Levinson,* 485 U.S. 224, 231 (1988). By that standard, there is little question that Respondents' misstatements and omissions concerning the CPO-4 block were material. As Terwilliger testified, the CPO-4 block represented a "transitional" moment, or more colorfully, "Mr. Big," for Houston American. Given the significance of the CPO-4 block to Houston American, misstatements that downplayed its risks and inflated its potential would be significant to a reasonable shareholder. *See Lormand v. US Unwired, Inc.*, 565 F.3d 228, 248 (5th Cir. 2009) ("The omission of a known risk, its probability of materialization, and its anticipated magnitude are usually material to any disclosure discussing the prospective result from a future course of action."). Moreover, Terwilliger admits that the Investor Presentation and the related misstatements were designed to increase investor awareness and encourage people to invest in Houston American, which is "the very essence of materiality." *SEC v. Alternate Energy Holdings, Inc.*, No. 10-CV-00621, 2013 WL 1000329, at *7 (D. Idaho March 13, 2013), *aff'd in relevant part*, 2014 WL 2515710 (May 13, 2014).

Respondents now claim that their misrepresentations were not material because, per their econometric expert, Houston American's stock price did not materially increase after the release of the November 2009 presentation or decline after Houston American released new estimates in October 2010. Respondents' defense is based on a misunderstanding of the law. Their misrepresentations and omissions are material even if they did not they move the stock price. *See, e.g., In re SLM Corp. Sec. Litig.*, Master File No. 08-cv-1029(WHP), 2012 WL 209095, at *5-6 (S.D.N.Y. Jan. 24, 2012) ("A legal assessment of materiality is . . . not determined by a single factor such as price impact, but must take into account all the relevant circumstances in a particular case.") Regardless, the issue of price impact is plainly in dispute. *See EP Medsystems, Inc. v. EchoCath, Inc.*, 235 F.3d 865, 875 (3d Cir. 2000) ("[m]ateriality is a mixed question of law and fact, and the delicate assessments of the inferences a reasonable shareholder would draw from a given set of facts are peculiarly for the trier of fact.") The Division alleges and will prove that Houston American's misrepresentations and omission had a statistically significant effect on its stock price. (*See* OIP, ¶ 88; PX-158, Figs. 9, 11.)

C. Respondents' Liability for Oral Misstatements and Misstatements by Third Parties Is In Dispute

Respondents' arguments that they are not liable for oral misstatements by Terwilliger to investors or for statements by third parties repeating Terwilliger's or Houston American's misstatements all fail. Respondents' are liable for Terwilliger's oral misstatements because they were made either directly to investors or to an industry analyst who incorporated them, in whole or in part, into his report, which he then distributed to investors. While the Division disputes Respondents' conclusion that the statements were not material to those to whom they were made, that conclusion is irrelevant in any event because materiality is an objective standard, not one that can shifts from investor to investor. *See In the Matter of John P. Flannery*, Release No. 9689, 2014 WL 7145625, at *13 (Dec. 15, 2014) (rejecting respondent's argument that no Section 10(b) liability could attach if misstatements or omissions were not material to the fund's relatively sophisticated investors). And courts generally recognize that "the 'in connection with' requirement is generally met by proof of the means of dissemination and the materiality of the misrepresentation or omission." *See SEC v. Rana Research, Inc.*, 8 F.3d 1358, 1362 (9th Cir. 1993); *see also Rowinski v. Salomon Smith Barney Inc.*, 398 F.3d 294, 302 (3d Cir. 2005) (dissemination of material false statements in investor research reports satisfies the "in connection with" requirement).

Respondents' arguments regarding liability for statements of third parties fare no better. Their argument that *Janus Capital Grp. Inc. v. First Derivative Traders*, 131 S. Ct. 2296 (2011), forecloses liability for statements by third parties fails because, as the Commission recently clarified, *Janus* only applies to claims brought under Rule 10b-5(b), not claims under the other subsections of Rule 10b-5 or under Section 17(a). *See Flannery*, 2014 WL 7145625, at *10-13. In any event, the Supreme Court's opinion in *Janus* specifically left open the possibility of liability under Section 20(b) in cases where the defendant uses intermediaries to disseminate its misstatements. *Janus*, 131 S. Ct. at 2304 n. 10. That footnote cannot be squared with Respondents' argument. Finally, Respondents argue that liability under Section 20(b) requires control over third parties, but the statutory text cannot be fairly read to contain this requirement.[9]

Respondents' argument on the entanglement theory does not even hold upon a review of the single authority they cite. *In re Navaree Corp. Sec. Litig.*, 299 F.3d 735, 743 (8th Cir. 2002), explains that the entanglement theory applies where "the defendants used the analysts as a conduit, making false and misleading statements to securities analysts with the intent that the analysts communicate those statements to the market," precisely what Respondents did in this case by feeding false information to McPherson and Snow.

D. Respondents' Scienter Is In Dispute

Scienter is a "mental state consisting of an intent to deceive, manipulate, or defraud, and includes recklessness, commonly defined as 'an extreme departure from the standards of ordinary care . . . to the extent that the danger was either known to the [respondent] or so obvious

[9] By contrast, Section 20(a), the immediately preceding subsection, specifically refers to liability for one who "controls any person liable" under the Exchange Act. *See* 15 U.S.C. 78t(a).

that the [respondent] must have been aware of it.'" *In the Matter of Johnny Clifton*, Release No. 69982, 2013 WL 3487076, *10 n.67 (July 12, 2013) (concerning failure to disclose a dry hole); *see also Mercury Air Group, Inc. v. Mansour*, 237 F.3d 542, 546, n.3 (5th Cir. 2001) (severe recklessness constitutes scienter). A finding of scienter is based on the examination of all allegations in aggregate, rather than single allegations in isolation. *See Phillips v. Scientific-Atlanta, Inc.*, 374 F.3d 1015, 1016-17 (11th Cir. 2004). Whether a respondent acted with the requisite scienter is a fact-intensive inquiry generally unsuitable for summary judgment or disposition. *See, e.g., Int'l Shortstop, Inc. v. Rally's, Inc.*, 939 F.2d 1257, 1265 (5th Cir. 1991).

1. Evidence of Terwilliger's Scienter is Extensive

Terwilliger's scienter is evidenced by, among other things, the facts that:

- Terwilliger *knew* that there were no reserves on the CPO-4 block and that it held, if anything, only highly-speculative quantities of petroleum.[10]
- Terwilliger *knew* but failed to disclose SK Energy's much lower estimates.
- Terwilliger failed to disclose the basis of its own estimates.[11]
- Terwilliger's had 30 years of experience in the oil and gas industry, and understood the significance of his misrepresentations. Moreover, as the CEO of Houston American, Terwilliger had greater access to information about SK Energy's lower estimates for CPO-4 block than did potential investors.
- Terwilliger knew that the per-barrel valuation he assigned to the resources on the CPO-4 block was, in his own words, "totally incorrect."
- Terwilliger admitted that he did not even "pay attention" to Houston American's actual recovery rates.[12]

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[10] *See, e.g., Gebhart v. SEC*, 595 F.3d 1034, 1040 (9th Cir. 2010) ("Scienter may be established . . .by showing that the defendants knew their statements were false, or by showing that defendants were reckless as to the truth or falsity of their statements."); *SEC v. StratoComm Corp.*, No. 11-cv-1188, 2014 WL 689116, at *12 (N.D.N.Y. Feb. 19, 2014) (finding scienter where the issuer's statements gave rise to an "indelibly false and misleading impression that the company had a developed, tested, and presently available product when, in fact, it did not."); *SEC v. Empire Development Group, LLC*, No. 07-cv-3896, 2008 WL 2276629, at *12 (S.D.N.Y. May 30, 2008) (finding scienter where disclosure failed to disclose that projections were "fully dependent upon something that had not occurred").

[11] *See SEC v. Richie*, No. EDCV 06-63-CAP SGLX, 2008 WL 2938678 (C.D. Cal. May 9, 2008).

[12] *See, e.g., Dolphin and Bradbury, Inc. v. SEC*, 512 F.3d 634, 640-41 (D.C. Cir. 2008) (holding that the use of projections in circumstances where the speaker "could not have had a genuine belief in the projections' completeness and accuracy" supports a finding of scienter).

- Terwilliger used the illusion of a low-risk investment in order to generate interest in Houston American and to secure investors' money.[13]
- Terwilliger gave inconsistent and evasive testimony about Houston American's experience and success in the Llanos basin.[14]

2. Respondents Cite Inapposite Law

Against the weight of the law, Respondents contend that scienter must be evaluated in light of a single fact: that the "absence of suspicious stock sales weighs heavily against any inference of scienter." (Motion at 25.) But even by that narrow light, the facts surrounding Terwilliger's scienter are clearly in dispute. The Division alleges and will prove that Terwilliger directly and personally benefitted from the fraud. (OIP, ¶¶ 92-93.) In early 2010, Terwilliger pledged his Houston American stock to a margin account and subsequently withdrew *$6 million*. He later liquidated more than 10% of his holdings to cover a margin call. Respondents now argue that Terwilliger lacked scienter because, in effect, he was a captain who went down with his ship. But by pledging his stock to a margin account and then drawing millions of dollars from it, Terwilliger actually stowed away on the first lifeboat. But as set out above, even in the absence of a direct, personal benefit, Terwilliger's scienter is plainly a matter of dispute. *See, e.g., In re Fitten*, Release No. 34-29173, 1991 WL 292516, at *5, n. 16 (May 8, 1991) (respondent's "willingness to gamble with his own funds" in speculative oil and gas venture does not detract from finding of intent to deceive others or that defendants acted with reckless disregard of others' interest).

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[13] *See SEC v. Alternate Energy Holdings*, No. 10-CV-621, 2013 WL 1000329, at *8 (D. Idaho, Mar. 13, 2013) (finding that the issuer's chief executive officer had acted in reckless disregard of the truth by "creat[ing] the illusion [that the issuer had secured funding] . . . to mislead investors and secure their money."), *aff'd in relevant part*, 2014 WL 2515710 (May 13, 2014).

[14] *See, e.g., SEC v. Euro Security Fund*, No. 98-Civ-7347, 2000 WL 1376246 (S.D.N.Y. Sep. 25, 2000) (evidence of evasiveness and inconsistent statements support an inference of guilty knowledge).

E. The Division May Seek Disgorgement

The Division is entitled to seek disgorgement of Respondents' ill-gotten gains. *SEC v. Contorinis*, 743 F.3d 296, 301 (2d Cir. 2014) ("Disgorgement serves to remedy securities law violations by depriving violators of the fruits of their illegal conduct." (citations omitted)). In offering fraud cases, the entire proceeds raised in the fraudulent offering must be disgorged. *SEC v. Manor Nursing Ctrs., Inc.*, 458 F.2d 1082, 1104 (2d Cir. 1972) ("it was appropriate for the district court to order [defendants] to disgorge the proceeds received in connection with the [securities] offering").[15] "[O]nce the Commission shows the existence of a fraudulent scheme . . . the burden shifts to the defendant to 'demonstrat[e] that he received less than the full amount allegedly misappropriated and sought to be disgorged.'" *SEC v. Rosenfeld*, No. 97-Civ-1467, 2001 WL 118612, at *2 (S.D.N.Y. Jan. 9, 2001). If the Division prevails on the merits, disgorgement of the entire offering proceeds is presumptively proper subject to a showing *by Respondents* that some lesser amount is appropriate. *SEC v. Wyly*, No. 10-cv-5760, 2014 WL 3739415, at *2 (S.D.N.Y. July 29, 2014) (noting that "the 'risk of uncertainty in calculating disgorgement should fall upon the wrongdoer'" (citation and quotation omitted)).

Respondents nevertheless argue that disgorgement is unavailable as a matter of law. This argument is premature, and any ruling with respect to the availability or amount of disgorgement should be deferred until after the hearing in this matter. *See, e.g., In the Matter of David J. Montanino*, Release No. 1961 (October 30, 2014) (denying motion directed to disgorgement claim as premature). *See also SEC v. Wyly*, No. 11-cv-1188, 2013 WL 2450545, at *5 (S.D.N.Y. June 6, 2013) ("[I]t would be premature to find that injunctive relief is not warranted prior to

[15] *See also SEC v. Interlink Data Network of Los Angeles, Inc.*, No. 93-Civ-3073, 1993 WL 603274, at *12-*13 (C.D. Cal. Nov. 15, 1993) (ordering disgorgement of gross amount received from fraudulent securities offering); *SEC v. Robinson*, No. 00-Civ-7452, 2002 WL 1552049, at *9 (S.D.N.Y. Jul. 16, 2002) ("[I]t is appropriate to order disgorgement of the entire (gross) proceeds received in connection with the offering."); *SEC v. Sahley*, No. 92-Civ-8842, 1994 WL 9682, at *1 (S.D.N.Y. Jan. 10, 1994) (granting the SEC's motion for summary judgment and ordering disgorgement of entire $950,000 raised in the offering fraud).

determining the merits of the SEC's claims.").[16] But Respondents' arguments also fail on the merits.

1. Respondents' "Reliance" Argument Should Be Rejected

Respondents claim that certain investors did not rely on Respondents' misrepresentations. Respondents cite no authority for the proposition that proof of investor reliance is a predicate to disgorgement, and the Division is aware of none. *Cf. Flannery*, 2014 WL 7145625, at *13 (the Division need not prove reliance or demonstrate investor harm to establish liability) (footnote omitted). To the contrary, as set forth above, there is ample authority for disgorgement of the entire proceeds of a fraudulent offering.

Respondents nevertheless cite the deposition testimony of two Houston American investor—William Doyle (Columbia Wanger) and Brett Hendrickson (Nokomis Capital)—for the proposition that these two investors did not subjectively rely on Respondents' misrepresentations and omissions. (Motion at 28-30.) As discussed above, the Division need not demonstrate investor reliance; it is sufficient that the misstatements and omissions at issue in this case were *objectively* material. *See* Part III.C, *supra*. The fact that sophisticated investors may have seen through the fraud—even if true—is irrelevant. *Flannery*, 2014 WL 7145625, at *20-*22. Respondents also claim that neither investor sought to "undo" their investment or sue Houston American. (Motion at 28, 29.) The Commission has specifically rejected Respondents' argument. The Division need not come forward with "proof 'that disclosure . . . would have caused the reasonable investor' to change his behavior." *Flannery*, 2014 WL 7145625, at *20.

Finally, Respondents are wrong on the facts. To the extent investor reliance is relevant to any issue in this case (and the Division respectfully submits it is not), there exists a genuine

[16] At the pre-hearing conference in this matter, Judge Foelak noted that arguments about remedies are best left for post-hearing briefing. (Oakes Decl., Ex. 8 at 16:14-16.)

factual dispute as to whether Doyle and Hendrickson relied on Respondents' fraudulent statements and omissions. Hendrickson testified unequivocally that Respondents' estimate was "part of the reason we made the investment." (*See* Hendrickson Dep. at 91:6-18.) Doyle likewise testified that Houston American's estimate influenced his investment decision because it suggested there was enough oil under the CPO-4 block to justify the risk expense of drilling in Colombia. (Doyle Trans. 75:18-20; 80:20-81:10 ("I don't want to go to Colombia for ten million barrels.") Respondents' position that these investors did not rely on Respondents' fraudulent statements and omissions is both irrelevant and disputed.

2. Disgorgement of Salary and Bonuses is Appropriate.

The Commission has the authority to order disgorgement of salary and bonuses. *Rita J. McConville,* 85 S.E.C. 3127, 3151 n.64, 2005 WL 1560276 (June 30, 2005).[17] Respondent Terwilliger argues that his compensation was unaffected by his fraud. (Motion at 30.) But disgorgement of salary and bonuses is appropriate when, as here, a fraudulent offering funded a company's operations. *SEC v. First Pacific Bancorp*, 142 F.3d 1186, 1191 (9th Cir. 1998).[18]

F. The Division's Penalty Claim Does Not Require an Improper Retroactive Application of the Exchange Act's Penalty Provisions

Respondents argue that imposing penalties in this case would amount to an improper retroactive application of Section 929P of the 2010 Dodd-Frank Wall Street Reform and

---

[17] *See also SEC v. Koenig*, 532 F. Supp. 2d 987, 992-95 (N.D. Ill. 2007) (CFO ordered to disgorge bonuses plus prejudgment interest for years in which company engaged in accounting fraud); *SEC v. Church Extension of the Church of God*, 429 F. Supp. 2d 1045, 1050 (S.D. Ind. 2005) (ordering disgorgement of one-half of defendants' salaries for last year of entity's operations when entity would have collapsed earlier but for securities violations).

[18] With respect to disgorgement, Respondents make two other arguments in passing without citations to authority or any meaningful explanation. (Motion at 28.) First, Respondents say that Houston American's stock price was allegedly unaffected by "corrective information." Respondents do not explain why this matters for a disgorgement analysis and, in any event, the point is disputed by the Division's econometric expert. (Jovanovic Rebuttal, ¶¶ 46-48.) Second, Respondents claim that disgorgement of both Terwilliger's ill-gotten compensation and Houston American's ill-gotten offering proceeds would somehow constitute a "double recovery." Respondents' cite no authority for this proposition, and in any event it is premature to consider the total amount of appropriate disgorgement.

Consumer Protection Act because their conduct occurred before the statute was enacted. (Mot. at 30-32.) The Commission recently disposed of this argument:

> We read the Supreme Court's decisions in [*Landgraf*] and [*Hallowell*] to indicate that Section 929P(a) is precisely the sort of forum-shifting legislation that *may* be applied to pre-enactment conduct notwithstanding the presumption against retroactive legislation. Section 929P(a)'s amendments to the Securities Act and the Exchange Act merely establish a new forum in which the Division may bring certain claims for monetary relief—but such relief was already available to the Division in actions brought in federal court.

Flannery, 2014 WL 7145625, at *40 n.201. Respondents' argument is thus foreclosed by binding Commission precedent.

G. It Is Premature To Address an Officer and Director Bar

Just as it is premature to address disgorgement, it is premature to address the propriety of an officer and director bar. Whether to bar a respondent depends on a fact-intensive balancing of numerous factors. As the Commission recently explained:

> When determining whether remedial action is in the public interest, we consider: the egregiousness of the respondent's actions, the isolated or recurrent nature of the infraction, the degree of scienter involved, the sincerity of the respondent's assurances against future violations, the respondent's recognition of the wrongful nature of his or her conduct, and the likelihood that the respondent's occupation will present opportunities for future violations. *Our inquiry is flexible, and no one factor is dispositive.*

Flannery, 2014 WL 7145625, at *37 (footnotes omitted). Respondents' conclusory arguments at best go to the weight of various factors that are very much in dispute and can only be assessed upon a review of the full factual record.[19]

V. CONCLUSION

For the foregoing reasons, the Division respectfully requests that the Motion be denied.

[19] The cases cited by Respondents further demonstrate this point. (Motion at 33 n.12.) The majority of the cases reflect a fact-intensive analysis performed at the remedies phase ***after*** a finding of liability (or other peculiar circumstances not present in this case). ***None*** stands for the proposition that summary disposition is available in administrative proceedings on the issue of whether to impose an officer and director bar.

Dated: December 23, 2014

Respectfully submitted,

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Alfred A. Day (202) 551-4702
U.S. Securities and Exchange Commission
100 F. St., N.E.
Washington, D.C. 20549
Counsel for Division of Enforcement

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SECURITIES AND EXCHANGE COMMISSION
WASHINGTON, D.C. 20549

FORM 10-K

(MARK ONE)
[X] ANNUAL REPORT UNDER SECTION 13 OR 15(D) OF THE SECURITIES EXCHANGE ACT OF 1934

For the Fiscal Year Ended December 31, 2007

[ ] 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	[redacted]
(State or other jurisdiction of incorporation or organization)	(I.R.S. Employer Identification No.)

[redacted]
(Address of principal executive offices) (Zip code)

Issuer's telephone number, including area code: [redacted]

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	The Nasdaq Stock Market LLC

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 [X] No

Indicate by check mark if the registrant is not required to file reports pursuant to Section 13 or 15(d) of the Exchange Act.
[ ] Yes [X] 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.
[X] 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.
[X]

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 [X]

PLAINTIFF'S EXHIBIT
PX-002

Indicate by check mark whether the registrant is a shell company (as defined in Rule 12b-2 of the Exchange Act).

[ ] Yes [X] No

The aggregate market value of the voting and non-voting common equity held by non-affiliates of the registrant on June 29, 2007, based on the closing sales price of the registrant's common stock on that date, was approximately $59,142,658. 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 February 29, 2008 was 27,920,172.

DOCUMENTS INCORPORATED BY REFERENCE

Portions of the Company's Proxy Statement for its 2008 Annual Meeting are incorporated by reference into Part III of this Report.

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FORWARD-LOOKING STATEMENTS

This annual report on Form 10-K contains forward-looking statements within the meaning of the federal securities laws. These 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-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 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 Louisiana, and development of concessions in the South American country of Colombia. We seek to utilize the contacts and experience of our executive officers, particularly John F. Terwilliger and James Jacobs, 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

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, 2007 consisted on the following:

- DOMESTIC EXPLORATION PROPERTIES:

WEBSTER PARISH, LOUISIANA. In Webster Parish, Louisiana, we hold a 7.5% working interest at an 8.3% net revenue interest carried to point of sales for the first well in over 4,000 acres known as the South Sibley Prospect. Drilling of a 10,600-foot well on the South Sibley Prospect, was completed in May 2005 with multiple pay sands identified. Sales from the well commenced June 28, 2005.

We also hold a 7.5% working interest at a 6.055% net revenue interest in the Holley #1 well and associated 640-acre unit, acquired in December 2005, in Webster Parish, Louisiana.

<PAGE>

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. Between 2004 and 2005, the Hoffpauer #1 (formerly the Baronet #1) and the Baronet #2 wells were drilled and commenced production. The Baronet #2 was reworked in 2006 and in 2007; both the Hoffpauer #1 and the Baronet #2 were plugged and abandoned. The Baronet #3, a replacement well for the Baronet #2, was drilled in the second quarter of 2007 and commercial production began in July 2007. We own a 17.5% working interest and 13.125% net revenue interest in the Baronet #3 well.

CADDO PARISH, LOUISIANA. In Caddo Parish, Louisiana, we hold a 33.5% working interest, subject to payment of 35% of the costs of the initial well, and a 25.125% net revenue interest in the 640-acre Caddo Lake Prospect with options to additional leases covering 4,400 acres. After payout, we will own a 27.25% working interest and 20.4375% net revenue interest in the initial well and any additional wells. In November 2007, we drilled a 10,000-foot test well on the Caddo Lake Prospect. At December 31, 2007, the well was awaiting a pipeline connection prior to testing.

VERMILION PARISH, LOUISIANA. In Vermilion Parish, Louisiana, we hold an 8.25% working interest with a 6.1875% net revenue interest, subject to a 25% working interest back in at payout, in the 425 acre Sugarland Prospect. The Broussard #1 well, a 12,900-foot test well, was drilled on the Sugarland Prospect in December 2005, with indications of multiple pay sands, and was completed in January 2006. Sales from the Broussard #1 began in March 2006. The Broussard #1 was re-completed in February 2007 and, as a result, was plugged and abandoned.

JIM HOGG COUNTY, TEXAS. In Jim Hogg County, Texas, we hold a 4.375% working interest, subject to payment of 5.8334% of costs to the casing point in the first well, in the 500 acre Hog Heaven Prospect. The Weil #1 well, a 6,200-foot test well, was drilled on the Hog Heaven Prospect in November 2005. Electric log and sidewall core analysis indicated multiple pay sands in the Weil #1 well. The well was completed in January 2006 and production and sales commenced in March 2006. The Weil #2 was drilled as a dry hole during 2007.

HARDEMAN COUNTY, TEXAS. In Hardeman County, Texas, we hold a 10% working interest with a 7.5% net revenue interest in the 91.375 acre West Turkey Prospect. The DDD-Evans #1, an 8,500-foot test well, was drilled on the West Turkey Prospect in April 2006 and production began in May 2006. At December 31, 2007, the DDD-Evans #1 was producing, but at non-commercial levels.

- COLOMBIAN EXPLORATION PROPERTIES:

LLANOS BASIN, COLOMBIA. In the Llanos Basin, Colombia, at December 31, 2007, we held interests in (1) a 232,050 acre tract known as the Cara Cara concession, (2) the Tambaqui Association Contract covering 4,400 acres in the State of Casanare, Colombia, (3) two concessions, the Dorotea Contract and the Cabiona Contract, totaling over 137,000 acres, (4) the Surimena concession covering approximately 69,000 acres, (5) the Las Garzas concession covering approximately 103,000 acres, (6) the Leona concession covering approximately 70,343 acres, and (7) the Camarita concession covering approximately 166,000 acres. See "-Possible Sale of Cara Cara Concession."

Our interest in each of the described concessions and contracts in Colombia is held through an interest in Hupecol, LLC and affiliated entities. We hold a 12.5% working interest in each of the prospects of Hupecol other than the Cara Cara concession, the Surimena concession and the Tambaqui Association Contract. We hold a 1.116% working interest in the Cara Cara concession, a 6.25% working interest in the Surimena concession and a 12.6% working interest, with an 11.31% net revenue interest, in the Tambaqui Association Contract.

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 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, increasing 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 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 that concession.

<PAGE>
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 Cabiona and Dorotea concessions acquired in the fourth quarter of 2004, the Surimena concession acquired in the second quarter of 2005, the Las Garzas concession acquired in November 2005, the Jagueyes TEA acquired in May 2005 and the Simon TEA acquired in June 2005. During 2006 we acquired 3D seismic data on the Las

Garzas contract, the Jagueyes TEA and the Simon TEA. As a result of seismic evaluation, the Jagueyes TEA was converted to the Leona concession and the Simon TEA was converted to the Camarita concession during 2006.

During 2007, Hupecol drilled (1) 18 wells on the Cara Cara concession with production commencing on 13 wells and 5 of the wells being dry holes, (2) 5 wells on the Dorotea and Cabiona concessions with production commencing on 2 wells and 3 of the wells being dry holes, (3) 1 dry hole on the Las Garzas concession, (4) 1 producing well on the Leona concession, and (5) 1 dry hole on the Camarita concession.

2008 DRILLING PLANS

As of January 1, 2008, we plan to drill a total of 15 wells during 2008, of which 1 well is planned to be drilled on our domestic exploration projects and 14 wells are planned to be drilled on our Colombian exploration projects. The following table reflects planned drilling activities during 2008:

<TABLE>
<CAPTION>

Location	Prospect Name	# of Planned Wells
<S>	<C>	<C>
Caddo Parish, LA	Caddo Lake Prospect	1
Llanos Basin, Colombia	Cara Cara Concession	1
Llanos Basin, Colombia	Dorotea Concession	7
Llanos Basin, Colombia	Cabiona Concession	3
Llanos Basin, Colombia	Las Garzas Concession	1
Llanos Basin, Colombia	Leona Concession	1
Llanos Basin, Colombia	Camarita Concession	1

</TABLE>

Our planned drilling activity is subject to change from time to time without notice. Additional wells are expected to be drilled at locations to be determined based on the results of the planned drilling projects. See "-Possible Sale of Cara Cara Concession."

OTHER HOLDINGS

In addition to our principal exploration projects, we hold various interests in producing wells in Vermilion Parish, Louisiana, Plaquemines Parish, Louisiana, Matagorda County, Texas, and Ellis County, Oklahoma. We have no present plans to conduct additional drilling activities on those prospects.

<PAGE>
The following table sets forth certain information about our oil and gas holdings at December 31, 2007:

<TABLE>
<CAPTION>

	Acres Leased or Under Option at December 31, 2007(1)			
Project Area	Project Gross	Project Net	Company Net	Project Interest
TEXAS:				
<S>	<C>	<C>	<C>	<C>
Jim Hogg County	340.00	340.0	14.89	4.38%
Wilbarger County				
West Fargo Prospect	900.00	900.00	135.00	15.00%
Obenhaus Prospect	1,340.00	1,340.00	201.00	15.00%
Hardeman County	91.38	91.38	9.14	10.00%
Matagorda County				
S.W. Pheasant Prospect	779.00	779.00	27.27	3.50%
Nacogdoches County	80.94	80.94	80.94	100.00%
Texas Sub-Total	3,531.32	3,531.32	468.24	
LOUISIANA:				
Webster Parish	6,244.00	4,457.00	334.28	7.50%
Caddo Parish	5,040.00	5,040.00	1,373.40	27.25%
Vermilion Parish				
LaFurs F-16 Well	830.00	830.00	18.68	2.25%
Acadia Parish	620.00	620.00	18.60	3.00%
Plaquemines Parish	300.00	300.00	5.40	1.80%
Louisiana Sub-Total	13,034.00	11,247.00	1,750.36	
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	2,594.70	1.116%
Tambaqui Assoc. Contract (2)	4,403.00	4,403.00	555.00	12.6%
Dorotea Concession	51,321.00	51,321.00	6,415.00	12.5%
Cabiona Concession	86,066.00	86,066.00	10,758.00	12.5%
Surimena Concession	69,189.00	69,189.00	4,324.00	6.25%
Las Garzas Concession	103,784.00	103,784.00	12,973.00	12.5%
Leona Concession	70,343.00	70,343.00	8,793.00	12.5%
Camarita Concession	166,301.00	166,301.00	20,788.00	12.5%
Colombia Sub-Total	783,457.00	783,457.00	67,200.70	
Total	800,182.32	798,395.32	69,423.08	

</TABLE>

(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 by our working interest therein.

(2) The project interest is the working interest in the concession and not necessarily the working interest in the well.

<PAGE>

DRILLING ACTIVITIES

In 2007, we drilled 3 domestic wells and 26 wells in Colombia, consisting of 11 exploratory and 18 developmental wells of which 18 were completed and 11 were dry holes.

The following table sets forth certain information regarding the actual drilling results for each of the years 2007 and 2006 as to wells drilled in each such individual year:

<TABLE>
<CAPTION>

<S>	Exploratory Wells (1) Gross <C>	Exploratory Wells (1) Net <C>	Developmental Wells (1) Gross <C>	Developmental Wells (1) Net <C>
2007				
Productive	4	0.53366	14	0.43392
Dry	7	0.56607	4	0.15848
2006				
Productive	3	0.350	7	0.111
Dry	7	0.816	0	0

</TABLE>

(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.

At December 31, 2007, one well was being drilled in Colombia.

SEISMIC ACTIVITY

During 2007, we conducted no seismic operations.

PRODUCTIVE WELL SUMMARY

The following table sets forth certain information regarding our ownership as of December 31, 2007 of productive gas and oil wells in the areas indicated:

<TABLE>
<CAPTION>

<S>	Gas Gross <C>	Gas Net <C>	Oil Gross <C>	Oil Net <C>
Texas	2	0.07875	1	0.10
Louisiana	5	0.56300	0	0
Oklahoma	1	0.02360	0	0
Colombia	0	0	39	1.00444

Total	8	0.66535	40	1.10444

</TABLE>

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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:

<TABLE>
<CAPTION>

	Year Ended December 31, 2007	2006
Net Production:		
Gas (Mcf):		
North America	44,250	78,096
South America	0	0
Oil (Bbls):		
North America	2,078	1,687
South America	69,127	48,058
Average sales price:		
Gas ($per Mcf)	6.90	6.75
Oil ($per Bbl)	65.61	55.55
Average production expense and Taxes ($per Bbls):		
North America	13.80	9.52
South America	24.75	17.04

</TABLE>

NATURAL GAS AND OIL RESERVES

The following table summarizes the estimates of our historical net proved reserves as of December 31, 2007 and 2006, and the present value attributable to these reserves at these dates. The reserve data and present values were prepared by Aluko & Associates, Inc., independent petroleum engineering consultants:

<TABLE>
<CAPTION>

	At December 31, 2007	2006
Net proved reserves (1):		
Natural gas (Mcf)	135,649	425,750
Oil (Bbls)	1,285,239	392,356
Standardized measure of discounted future net cash flows (2)	$70,107,827	$8,082,337

</TABLE>

(1) At December 31, 2007, net proved reserves, by region, consisted of 1,281,227 barrels of oil in South America and 4,012 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.

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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 report 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 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, 2007, 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:

<TABLE>
<CAPTION>

	Proved Developed		Proved Undeveloped		Unproven	
	Gross	Net	Gross	Net	Gross	Net
<S>	<C>	<C>	<C>	<C>	<C>	<C>
Texas	1,210.38	51.30	0	0	2,320.94	416.94
Louisiana	3,670.00	313.08	0	0	9,364.00	1437.28
Oklahoma	160.00	3.78	0	0	0	0
Colombia	12,160.00	281.42	2,240.00	134.28	769,057.00	66,785.00
Total	17,200.38	649.58	2,240.00	134.28	780,741.94	68,639.22

</TABLE>

During 2007, we acquired interests in the 640 acre Caddo Lake Prospect in Caddo Parish, Louisiana with an option to acquire additional leases covering 4,400 acres. During 2007, we relinquished interests in various leases in Texas covering approximately 664 gross acres and 80 net acres and leases in Louisiana covering approximately 425 gross acres and 35 net acres. Also during 2007, a 30% interest in our Cara Cara Concession reverted to Ecopetrol pursuant to the terms of the concession, reducing our interest in the concession from approximately 1.59% to 1.116% and resulting in an approximately 1,094 acre reduction in our net acreage in Colombia.

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 is made before commencement of drilling operations.

MARKETING

At January 1, 2008, we had no contractual agreements to sell our gas and oil production and all production was sold on spot markets.

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POSSIBLE SALE OF CARA CARA CONCESSION

On July 17, 2007, our management was advised that Hupecol LLC had retained an investment bank for purposes of evaluating a possible transaction involving the monetization of Hupecol assets. Pursuant to that engagement, in March 2008, Hupecol Caracara LLC, as owner/operator under the Caracara Association Contract, entered into a Purchase and Sale Agreement to sell all of its interest in the Caracara Association Contract and related assets for a sale price of $920 million, subject to certain closing adjustments based on oil price fluctuations and operations between the effective date of the sale, January 1, 2008, and the closing date. Pursuant to our investment in Hupecol Caracara LLC, we hold a

1.594674% interest in the Caracara assets being sold and will receive our proportionate interest in the net sale proceeds after deduction of commissions and transaction expenses.

Completion of the sale of the Caracara assets is subject to satisfaction of various conditions set out in the Purchase and Sale Agreement, including the granting of all consents and approvals of the Colombian governmental authorities required for the transfer of the assets to the purchaser.

EMPLOYEES

As of March 1, 2008, we had 2 full-time employees and no part time employees. The employees are not covered by a collective bargaining agreement, and we do not anticipate that any of our future employees will be covered by such agreements.

ITEM 1A. RISK FACTORS

Our business activities and the value of our securities are subject to significant hazards and risks, including those described below. If any of such events should occur, our business, financial condition, liquidity and/or results of operations could be materially harmed, and holders and purchasers of our securities could lose part or all of their investments.

A SUBSTANTIAL OR EXTENDED DECLINE IN OIL AND NATURAL GAS PRICES MAY ADVERSELY AFFECT OUR BUSINESS, FINANCIAL CONDITION OR RESULTS OF OPERATIONS AND OUR ABILITY TO MEET OUR CAPITAL EXPENDITURE OBLIGATIONS AND FINANCIAL COMMITMENTS.

The price we receive for our oil and natural gas production heavily influences our revenue, profitability, access to capital and future rate of growth. Oil and natural gas are commodities and, therefore, their prices are subject to wide fluctuations in response to relatively minor changes in supply and demand. Historically, the markets for oil and natural gas have been volatile. These markets will likely continue to be volatile in the future. The prices we receive for our production, and the levels of our production, depend on numerous factors beyond our control. These factors include, but are not limited to, the following:

- changes in global supply and demand for oil and natural gas;
- the actions of the Organization of Petroleum Exporting Countries, or OPEC;
- the price and quantity of imports of foreign oil and natural gas;
- political conditions, including embargoes, in or affecting other oil-producing activity;
- the level of global oil and natural gas exploration and production activity;
- the level of global oil and natural gas inventories;
- weather conditions;
- technological advances affecting energy consumption; and
- the price and availability of alternative fuels.

Lower oil and natural gas prices may not only decrease our revenues on a per unit basis but also may reduce the amount of oil and natural gas that we can produce economically. Lower prices will also negatively impact the value of our proved reserves. A substantial or extended decline in oil or natural gas prices may materially and adversely affect our future business, financial condition, results of operations, liquidity or ability to finance planned capital expenditures.

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A SUBSTANTIAL PERCENTAGE OF OUR PROPERTIES ARE UNDEVELOPED; THEREFORE THE RISK ASSOCIATED WITH OUR SUCCESS IS GREATER THAN WOULD BE THE CASE IF THE MAJORITY OF OUR PROPERTIES WERE CATEGORIZED AS PROVED DEVELOPED PRODUCING.

Because a substantial percentage of our properties are unproven or proved undeveloped, we will require significant additional capital to prove and develop such properties before they may become productive. Further, because of the inherent uncertainties associated with drilling for oil and gas, some of these properties may never be developed to the extent that they result in positive cash flow. Even if we are successful in our development efforts, it could take several years for a significant portion of our undeveloped properties to be converted to positive cash flow.

While our current business plan is to fund the development costs with funds on hand and cash flow from our other producing properties, if such funds are not sufficient we may be forced to seek alternative sources for cash, through the issuance of additional equity or debt securities, increased borrowings or other means.

DRILLING FOR AND PRODUCING OIL AND NATURAL GAS ARE HIGH RISK ACTIVITIES WITH

MANY UNCERTAINTIES THAT COULD ADVERSELY AFFECT OUR BUSINESS, FINANCIAL CONDITION OR RESULTS OF OPERATIONS.

Our future success will depend on the success of our exploitation, exploration, development and production activities. Our oil and natural gas exploration and production activities are subject to numerous risks beyond our control, including the risk that drilling will not result in commercially viable oil or natural gas production. Our decisions to purchase, explore, develop or otherwise exploit prospects or properties will depend in part on the evaluation of data obtained through geophysical and geological analyses, production data and engineering studies, the results of which are often inconclusive or subject to varying interpretations. Please read "-Reserve estimates depend on many assumptions that may turn out to be inaccurate" (below) for a discussion of the uncertainty involved in these processes. Our cost of drilling, completing and operating wells is often uncertain before drilling commences. Overruns in budgeted expenditures are common risks that can make a particular project uneconomical. Further, many factors may curtail, delay or cancel drilling, including the following:

- delays imposed by or resulting from compliance with regulatory requirements;
- pressure or irregularities in geological formations;
- shortages of or delays in obtaining equipment and qualified personnel;
- equipment failures or accidents;
- adverse weather conditions;
- reductions in oil and natural gas prices;
- title problems; and
- limitations in the market for oil and natural gas.

IF OIL AND NATURAL GAS PRICES DECREASE, WE MAY BE REQUIRED TO TAKE WRITE-DOWNS OF THE CARRYING VALUES OF OUR OIL AND NATURAL GAS PROPERTIES, POTENTIALLY NEGATIVELY IMPACTING THE TRADING VALUE OF OUR SECURITIES.

Accounting rules require that we review periodically the carrying value of our oil and natural gas properties for possible impairment. Based on specific market factors and circumstances at the time of prospective impairment reviews, and the continuing evaluation of development plans, production data, economics and other factors, we may be required to write down the carrying value of our oil and natural gas properties. A write-down could constitute a non-cash charge to earnings. It is likely the cumulative effect of a write-down could also negatively impact the trading price of our securities.

RESERVE ESTIMATES DEPEND ON MANY ASSUMPTIONS THAT MAY TURN OUT TO BE INACCURATE. ANY MATERIAL INACCURACIES IN THESE RESERVE ESTIMATES OR UNDERLYING ASSUMPTIONS WILL MATERIALLY AFFECT THE QUANTITIES AND PRESENT VALUE OF OUR RESERVES.

The process of estimating oil and natural gas reserves is complex. It requires interpretations of available technical data and many assumptions, including assumptions relating to economic factors. Any significant inaccuracies in these interpretations or assumptions could materially affect the estimated quantities and present value of reserves shown in this report.

In order to prepare our estimates, we must project production rates and timing of development expenditures. We must also analyze available geological, geophysical, production and engineering data. The extent, quality and reliability of this data can vary. The process also requires economic assumptions about matters such as

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oil and natural gas prices, drilling and operating expenses, capital expenditures, taxes and availability of funds. Therefore, estimates of oil and natural gas reserves are inherently imprecise.

Actual future production, oil and natural gas prices, revenues, taxes, development expenditures, operating expenses and quantities of recoverable oil and natural gas reserves most likely will vary from our estimates. Any significant variance could materially affect the estimated quantities and present value of our reserves. In addition, we may adjust estimates of proved reserves to reflect production history, results of exploration and development, prevailing oil and natural gas prices and other factors, many of which are beyond our control.

You should not assume that the present value of future net revenues from our proved reserves, as reported from time to time, is the current market value of our estimated oil and natural gas reserves. In accordance with SEC requirements, we generally base the estimated discounted future net cash flows from our proved reserves on prices and costs on the date of the estimate. Actual future prices and costs may differ materially from those used in the present value estimate. If future values decline or costs increase it could negatively impact our ability to finance operations, and individual properties could cease being commercially viable, affecting our decision to continue operations on producing properties or to attempt to develop properties. All of these factors would have a negative impact on earnings and net income, and most likely the trading price of our securities.

WE ARE DEPENDENT UPON THIRD PARTY OPERATORS OF OUR OIL AND GAS PROPERTIES.

Under the terms of the Operating Agreements related to our oil and gas properties, third parties act as the operator of our oil and gas wells and control the drilling activities to be conducted on our properties. Therefore, we have limited control over certain decisions related to activities on our properties, which could affect our results of operations. Decisions over which we have limited control include:

- the timing and amount of capital expenditures;
- the timing of initiating the drilling and recompleting of wells;
- the extent of operating costs; and
- the level of ongoing production.

PROSPECTS THAT WE DECIDE TO DRILL MAY NOT YIELD OIL OR NATURAL GAS IN COMMERCIALLY VIABLE QUANTITIES.

Our prospects are properties on which we have identified what we believe, based on available seismic and geological information, to be indications of oil or natural gas. Our prospects are in various stages of evaluation, ranging from a prospect that is ready to drill to a prospect that will require substantial additional seismic data processing and interpretation. There is no way to predict in advance of drilling and testing whether any particular prospect will yield oil or natural gas in sufficient quantities to recover drilling or completion costs or to be economically viable. This risk may be enhanced in our situation, due to the fact that a significant percentage of our reserves are currently unproved reserves. The use of seismic data and other technologies and the study of producing fields in the same area will not enable us to know conclusively prior to drilling whether oil or natural gas will be present or, if present, whether oil or natural gas will be present in commercial quantities. We cannot assure you that the analogies we draw from available data from other wells, more fully explored prospects or producing fields will be applicable to our drilling prospects.

WE MAY INCUR SUBSTANTIAL LOSSES AND BE SUBJECT TO SUBSTANTIAL LIABILITY CLAIMS AS A RESULT OF OUR OIL AND NATURAL GAS OPERATIONS.

We are not insured against all risks. Losses and liabilities arising from uninsured and underinsured events could materially and adversely affect our business, financial condition or results of operations. Our oil and natural gas exploration and production activities are subject to all of the operating risks associated with drilling for and producing oil and natural gas, including the possibility of:

- environmental hazards, such as uncontrollable flows of oil, natural gas, brine, well fluids, toxic gas or other pollution into the environment, including groundwater and shoreline contamination;
- abnormally pressured formations;
- mechanical difficulties, such as stuck oil field drilling and service tools and casing collapse;
- fires and explosions;
- personal injuries and death; and
- natural disasters.

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Any of these risks could adversely affect our ability to conduct operations or result in substantial losses to our company. We may elect not to obtain insurance if we believe that the cost of available insurance is excessive relative to the risks presented. In addition, pollution and environmental risks generally are not fully insurable. If a significant accident or other event occurs and is not fully covered by insurance, then it could adversely affect us.

WE ARE SUBJECT TO COMPLEX LAWS THAT CAN AFFECT THE COST, MANNER OR FEASIBILITY OF DOING BUSINESS.

Exploration, development, production and sale of oil and natural gas are subject to extensive federal, state, local and international regulation. We may be required to make large expenditures to comply with governmental regulations. Matters subject to regulation include:

- discharge permits for drilling operations;
- drilling bonds;
- reports concerning operations;
- the spacing of wells;
- unitization and pooling of properties; and

- taxation.

Under these laws, we could be liable for personal injuries, property damage and other damages. Failure to comply with these laws also may result in the suspension or termination of our operations and subject us to administrative, civil and criminal penalties. Moreover, these laws could change in ways that substantially increase our costs. Any such liabilities, penalties, suspensions, terminations or regulatory changes could materially adversely affect our financial condition and results of operations.

OUR OPERATIONS MAY INCUR SUBSTANTIAL LIABILITIES TO COMPLY WITH THE ENVIRONMENTAL LAWS AND REGULATIONS.

Our oil and natural gas operations are subject to stringent federal, state and local laws and regulations relating to the release or disposal of materials into the environment or otherwise relating to environmental protection. These laws and regulations may require the acquisition of a permit before drilling commences, restrict the types, quantities and concentration of substances that can be released into the environment in connection with drilling and production activities, limit or prohibit drilling activities on certain lands lying within wilderness, wetlands and other protected areas, and impose substantial liabilities for pollution resulting from our operations. Failure to comply with these laws and regulations may result in the assessment of administrative, civil and criminal penalties, incurrence of investigatory or remedial obligations or the imposition of injunctive relief. Changes in environmental laws and regulations occur frequently, and any changes that result in more stringent or costly waste handling, storage, transport, disposal or cleanup requirements could require us to make significant expenditures to maintain compliance, and may otherwise have a material adverse effect on our results of operations, competitive position or financial condition as well as the industry in general. Under these environmental laws and regulations, we could be held strictly liable for the removal or remediation of previously released materials or property contamination regardless of whether we were responsible for the release or if our operations were standard in the industry at the time they were performed.

OUR OPERATIONS IN COLOMBIA ARE SUBJECT TO RISKS RELATING TO POLITICAL AND ECONOMIC INSTABILITY.

We currently have interests in multiple oil and gas concessions in Colombia and anticipate that operations in Colombia will constitute a substantial element of our strategy going forward. 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 the political or economic climate in Colombia, we may be forced to abandon or suspend our operations in Colombia.

OUR OPERATIONS IN COLOMBIA ARE CONTROLLED BY HUPECOL WHICH MAY CARRY OUT TRANSACTIONS AFFECTING OUR COLOMBIAN ASSETS AND OPERATIONS WITHOUT OUR CONSENT.

We are an investor in Hupecol and our interest in the assets and operations of Hupecol represent all of our assets and operations in Colombia and are our principal assets and operations. On July 17, 2007, Hupecol advised us that it had retained an investment bank for purposes of evaluating a possible transaction involving monetization of Hupecol's assets. In March 2008, Hupecol Caracara LLC, as owner/operator of the Caracara Association Contract, entered into a Purchase and Sale Agreement to sell all of its interest in the Caracara prospect. If that transaction is completed, we will receive our proportionate interest in the net sale proceeds and will relinquish

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all of our interest in the Caracara prospect. There is no assurance as to when, or if, the planned sale of the Caracara prospect will be completed. If the planned sale is completed there is no assurance that we will be able to reinvest the proceeds received in a manner that will adequately replace the revenues generated by, and the reserves attributable to, the Caracara prospect. Further, it is possible that Hupecol will carry out similar sales in the future. Our management intends to closely monitor the nature and progress of future transactions by Hupecol in order to protect our interests. However, we have no effective ability to alter or prevent a transaction and are unable to predict whether or not any such transactions will in fact occur or the nature or timing of any such transaction.

UNLESS WE REPLACE OUR OIL AND NATURAL GAS RESERVES, OUR RESERVES AND PRODUCTION WILL DECLINE, WHICH WOULD ADVERSELY AFFECT OUR CASH FLOWS AND INCOME.

Unless we conduct successful development, exploitation and exploration activities or acquire properties containing proved reserves, our proved reserves will decline as those reserves are produced. Producing oil and natural gas reservoirs generally are characterized by declining production rates that vary depending upon reservoir characteristics and other factors. Our future oil and natural gas reserves and production, and, therefore our cash flow and income, are highly dependent on our success in efficiently developing and exploiting our current reserves and economically finding or acquiring additional recoverable reserves. If we are unable to develop, exploit, find or acquire additional reserves to replace our current and future production, our cash flow and income will decline as production declines, until our existing properties would be incapable of sustaining commercial production.

OUR SUCCESS DEPENDS ON OUR MANAGEMENT TEAM AND OTHER KEY PERSONNEL, THE LOSS OF ANY OF WHOM COULD DISRUPT OUR BUSINESS OPERATIONS.

Our success will depend on our ability to retain John F. Terwilliger, our principal executive officer, and to attract other experienced management and non-management employees, including engineers, geoscientists and other technical and professional staff. We will depend, to a large extent, on the efforts, technical expertise and continued employment of such personnel and members of our management team. If members of our management team should resign or we are unable to attract the necessary personnel, our business operations could be adversely affected.

THE UNAVAILABILITY OR HIGH COST OF DRILLING RIGS, EQUIPMENT, SUPPLIES, PERSONNEL AND OIL FIELD SERVICES COULD ADVERSELY AFFECT OUR ABILITY TO EXECUTE ON A TIMELY BASIS OUR EXPLORATION AND DEVELOPMENT PLANS WITHIN OUR BUDGET.

Shortages or the high cost of drilling rigs, equipment, supplies or personnel could delay or adversely affect our development and exploration operations. As the price of oil and natural gas increases, the demand for production equipment and personnel will likely also increase, potentially resulting, at least in the near-term, in shortages of equipment and personnel. In addition, larger producers may be more likely to secure access to such equipment by virtue of offering drilling companies more lucrative terms. If we are unable to acquire access to such resources, or can obtain access only at higher prices, not only would this potentially delay our ability to convert our reserves into cash flow, but could also significantly increase the cost of producing those reserves, thereby negatively impacting anticipated net income. (

IF OUR ACCESS TO MARKETS IS RESTRICTED, IT COULD NEGATIVELY IMPACT OUR PRODUCTION, OUR INCOME AND ULTIMATELY OUR ABILITY TO RETAIN OUR LEASES.

Market conditions or the unavailability of satisfactory oil and natural gas transportation arrangements may hinder our access to oil and natural gas markets or delay our production. The availability of a ready market for our oil and natural gas production depends on a number of factors, including the demand for and supply of oil and natural gas and the proximity of reserves to pipelines and terminal facilities. Our ability to market our production depends in substantial part on the availability and capacity of gathering systems, pipelines and processing facilities owned and operated by third parties. Our failure to obtain such services on acceptable terms could materially harm our business.

We may operate in areas with limited or no access to pipelines, thereby necessitating delivery by other means, such as trucking, or requiring compression facilities. Such restrictions on our ability to sell our oil or natural gas have several adverse affects, including higher transportation costs, fewer potential purchasers (thereby potentially resulting in a lower selling price) or, in the event we were unable to market and sustain production from a particular lease for an extended time, possibly causing us to lose a lease due to lack of production.

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WE MAY NEED ADDITIONAL FINANCING TO SUPPORT OPERATIONS AND FUTURE CAPITAL COMMITMENTS.

While we presently believe that our operating cash flows and funds on hand will support our ongoing operations and anticipated future capital requirements, a number of factors could result in our needing additional financing, including reductions in oil and natural gas prices, declines in production, unexpected developments in operations that could decrease our revenues, increase our costs or require additional capital contributions and commitments to new acquisition or drilling programs. We have no commitments to provide any additional financing, if needed, and may be limited in our ability to obtain the capital necessary to support operations, complete development, exploitation and exploration programs or carry out new acquisition or drilling programs. We have not thoroughly investigated whether this capital would be available, who would provide it, and on what terms. If we are unable, on acceptable terms, to raise the required capital, our business may be seriously harmed or even terminated.

COMPETITION IN THE OIL AND NATURAL GAS INDUSTRY IS INTENSE, WHICH MAY ADVERSELY AFFECT OUR ABILITY TO COMPETE.

We operate in a highly competitive environment for acquiring properties, marketing oil and natural gas and securing trained personnel. Many of our competitors possess and employ financial, technical and personnel resources substantially greater than ours, which can be particularly important in the areas in which we operate. Those companies may be able to pay more for productive oil and natural gas properties and exploratory prospects and to evaluate, bid for and purchase a greater number of properties and prospects than our financial or personnel resources permit. Our ability to acquire additional prospects and to find and develop reserves in the future will depend on our ability to evaluate and select suitable properties and to consummate transactions in a highly competitive environment. Also, there is substantial competition for capital available for investment in the oil and natural gas industry. We may not be able to compete successfully in the future in acquiring prospective reserves, developing reserves, marketing hydrocarbons, attracting and retaining quality personnel and raising additional capital.

THE PRICE OF OUR COMMON STOCK MAY FLUCTUATE SIGNIFICANTLY, AND THIS MAY MAKE IT DIFFICULT FOR YOU TO RESELL COMMON STOCK WHEN YOU WANT OR AT PRICES YOU FIND ATTRACTIVE.

The price of our common stock constantly changes. We expect that the market price of our common stock will continue to fluctuate.

Our stock price may fluctuate as a result of a variety of factors, many of which are beyond our control. These factors include:

- quarterly variations in our operating results;
- operating results that vary from the expectations of management, securities analysts and investors;
- changes in expectations as to our future financial performance;
- announcements by us, our partners or our competitors of leasing and drilling activities;
- the operating and securities price performance of other companies that investors believe are comparable to us;
- future sales of our equity or equity-related securities;
- changes in general conditions in our industry and in the economy, the financial markets and the domestic or international political situation;
- fluctuations in oil and gas prices;
- departures of key personnel; and
- regulatory considerations.

In addition, in recent years, the stock market in general has experienced extreme price and volume fluctuations. This volatility has had a significant effect on the market price of securities issued by many companies for reasons often unrelated to their operating performance. These broad market fluctuations may adversely affect our stock price, regardless of our operating results.

THE SALE OF A SUBSTANTIAL NUMBER OF SHARES OF OUR COMMON STOCK MAY AFFECT OUR STOCK PRICE.

Future sales of substantial amounts of our common stock or equity-related securities in the public market or privately, or the perception that such sales could occur, could adversely affect prevailing trading prices of our common stock and could impair our ability to raise capital through future offerings of equity or equity-related securities. No prediction can be made as to the effect, if any, that future sales of shares of common stock or the

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availability of shares of common stock for future sale, will have on the trading price of our common stock.

OUR CHARTER AND BYLAWS, AS WELL AS PROVISIONS OF DELAWARE LAW, COULD MAKE IT DIFFICULT FOR A THIRD PARTY TO ACQUIRE OUR COMPANY AND ALSO COULD LIMIT THE PRICE THAT INVESTORS ARE WILLING TO PAY IN THE FUTURE FOR SHARES OF OUR COMMON STOCK.

Delaware corporate law and our charter and bylaws contain provisions that could delay, deter or prevent a change in control of our company or our management. These provisions could also discourage proxy contests and make it more difficult for our stockholders to elect directors and take other corporate actions without the concurrence of our management or board of directors. These provisions:

- authorize our board of directors to issue "blank check" preferred stock, which is preferred stock that can be created and issued by our board of directors, without stockholder approval, with rights senior to those of our common stock;
- provide for a staggered board of directors and three-year terms for directors, so that no more than one-third of our directors could be replaced at any annual meeting;
- provide that directors may be removed only for cause; and
- establish advance notice requirements for submitting nominations

for election to the board of directors and for proposing matters that can be acted upon by stockholders at a meeting.

We are also subject to anti-takeover provisions under Delaware law, which could also delay or prevent a change of control. Taken together, these provisions of our charter and bylaws, Delaware law may discourage transactions that otherwise could provide for the payment of a premium over prevailing market prices of our common stock and also could limit the price that investors are willing to pay in the future for shares of our common stock.

OUR MANAGEMENT OWNS A SIGNIFICANT AMOUNT OF OUR COMMON STOCK, GIVING THEM INFLUENCE OR CONTROL IN CORPORATE TRANSACTIONS AND OTHER MATTERS, AND THEIR INTERESTS COULD DIFFER FROM THOSE OF OTHER SHAREHOLDERS.

At March 1, 2008, our directors and executive officers owned approximately 46.5 percent of our outstanding common stock. As a result, our current directors and executive officer are in a position to significantly influence or control the outcome of matters requiring a shareholder vote, including the election of directors, the adoption of any amendment to our certificate of incorporation or bylaws, and the approval of mergers and other significant corporate transactions. Such level of control of the company may delay or prevent a change of control on terms favorable to the other shareholders and may adversely affect the voting and other rights of other shareholders.

ITEM 1B. UNRESOLVED STAFF COMMENTS

Not applicable

ITEM 2. PROPERTIES

We currently lease approximately 4,739 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 average monthly rental under the lease, which expires on May 31, 2012, is $6,682.

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

ITEM 3. LEGAL PROCEEDINGS

We may from time to time be a party to lawsuits incidental to our business. As of March 1, 2008, we were not aware of any current, pending, or threatened litigation or proceedings that could have a material adverse effect on our results of operations, cash flows or financial condition.

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

Not applicable

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PART II

ITEM 5. MARKET FOR REGISTRANT'S COMMON EQUITY, RELATED STOCKHOLDER MATTERS AND ISSUER PURCHASES OF EQUITY SECURITIES

Our common stock is listed on the Nasdaq Capital Market ("Nasdaq") under the symbol "HUSA." From July 28, 2006 until July 5, 2007, our common stock traded on the American Stock Exchange and prior to July 28, 2006 traded on the over-the-counter electronic bulletin board. The following table sets forth the range of high and low sale prices of our common stock for each quarter during the past two fiscal years.

<TABLE>
<CAPTION>

<S>	<C>	High <C>	Low <C>
Calendar Year 2007	Fourth Quarter	$4.44	$2.46
	Third Quarter	6.10	2.29
	Second Quarter	6.14	4.71
	First Quarter	7.35	3.23
Calendar Year 2006	Fourth Quarter	$7.95	$2.28
	Third Quarter	3.25	2.25
	Second Quarter	4.94	2.90
	First Quarter	3.85	2.95

</TABLE>

At February 29, 2008, the closing price of the common stock on Nasdaq was $4.27.

As of February 29, 2008, there were approximately 2,059 record holders of our common stock.

We have not paid any cash dividends since inception and presently anticipate that all earnings, if any, will be retained for development of our business and that no dividends on our common stock will be declared in the foreseeable future. Any future dividends will be subject to the discretion of our Board of Directors and will depend upon, among other things, future earnings, operating and financial condition, capital requirements, general business conditions and other pertinent facts. Therefore, there can be no assurance that any dividends on our common stock will be paid in the future.

The following table provides information as of December 31, 2007 with respect to the shares of our common stock that may be issued under our existing equity compensation plans.

<TABLE>
<CAPTION>

PLAN CATEGORY	NUMBER OF SECURITIES TO BE ISSUED UPON EXERCISE OF OUTSTANDING OPTIONS, WARRANTS AND RIGHTS (A)	WEIGHTED-AVERAGE EXERCISE PRICE OF OUTSTANDING OPTIONS, WARRANTS AND RIGHTS (B)	NUMBER OF SECURITIES REMAINING AVAILABLE FOR FUTURE ISSUANCE UNDER EQUITY COMPENSATION PLANS (EXCLUDING SECURITIES REFLECTED IN COLUMN (A))
<S>	<C>	<C>	<C>
Equity compensation plans approved by security holders (1)	339,000	3.12	161,000
Equity compensation plans not approved by security holders	-	-	-
Total	339,000	3.12	161,000

</TABLE>

(1) Consists of 500,000 shares reserved for issuance under the Houston American Energy Corp. 2005 Stock Option Plan. The stock option plan was adopted by the board of directors in August 2005 and approved by shareholders in January 2006.

ITEM 6. SELECTED FINANCIAL DATA

Not applicable

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ITEM 7. MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS

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 founder and principal 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 over 30 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 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 2007

Drilling Activities

During 2007, we drilled 26 international wells in Colombia, as follows:

- 8 wells were drilled on concessions in which we hold a 12.5% working interest, of which 1 was in production as of December 31, 2007, 2 were temporarily shut in due to mechanical problems or weather conditions and 5 were either dry holes or were ultimately abandoned, including 1 well that was converted to a water disposal well.

- 18 wells were drilled on concessions in which we hold a 1.116% working interest, of which 13 were in production as of December 31, 2007 and 5 were dry holes.

During 2007, we drilled three domestic wells, of which 1 was in production as of December 31, 2007, 1 was a dry hole and 1 was awaiting a pipeline connection before testing and completion.

At December 31, 2007, we had 1 well in Colombia being drilled and no domestic wells being drilled.

Leasehold Activity

During 2007, we acquired an interest in a 640-acre prospect known as the Caddo Lake Prospect in Caddo Parish, Louisiana with a right to participate in drilling on an additional 4,400 acres. We paid 35% of the costs of the initial well drilled on the Caddo Lake Prospect and have a 33.5% Working Interest (25.125% Net Revenue Interest) until well payout. After well payout, we will own a 27.25% Working Interest and 20.4375% Net Revenue Interest. On all additional well costs after the initial well and on all additional lease costs, we will have a 27.25% Working Interest with a 20.4375% Net Revenue Interest.

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During 2007, we relinquished interests in various leases in Texas covering approximately 664 gross acres and 80 net acres and leases in Louisiana covering approximately 425 gross acres and 35 net acres. Also during 2007, a 30% interest in our Cara Cara Concession reverted to Ecopetrol pursuant to the terms of the concession, reducing our interest in the concession from approximately 1.59% to 1.116% and resulting in an approximately 1,094 acre reduction in our net acreage in Colombia.

Seismic Activity

During 2007, we conducted no new seismic activity.

Possible Sale of Cara Cara Concession

On July 17, 2007, our management was advised that Hupecol LLC had retained an investment bank for purposes of evaluating a possible transaction involving the monetization of Hupecol assets. Pursuant to that engagement, in March 2008, Hupecol Caracara LLC, as owner/operator under the Caracara Association Contract, entered into a Purchase and Sale Agreement to sell all of its interest in the Caracara Association Contract and related assets for a gross sale price of $920 million, subject to certain closing adjustments based on oil price fluctuations and operations between the effective date of the sale, January 1, 2008, and the closing date. Pursuant to our investment in Hupecol Caracara LLC, we hold a 1.594674% interest in the Caracara assets being sold and will receive our proportionate interest in the net sale proceeds after deduction of commissions and transaction expenses.

Completion of the sale of the Caracara assets is subject to satisfaction of various conditions set out in the Purchase and Sale Agreement, including the granting of all consents and approvals of the Colombian governmental authorities required for the transfer of the assets to the purchaser.

Hupecol Tax Allocation Credits

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

As a result of the adjustment by Hupecol, during 2007, we received a net credit from Hupecol for excess Colombian taxes allocated to us in the amount of $662,688. The credit is reflected in our financial statements as a credit to income tax expense.

Corporate Developments

During 2007, our compensation committee engaged a compensation consultant, as called for by the terms of employment of our chief financial officer, to review the compensation arrangements of our senior executives with a view to adjusting such compensation to reflect industry compensation practices. Following that review, the compensation committee approved increases in base salary of our chief executive officer and our chief financial officer, the payment of one-time cash bonuses to each and the grant of shares of restricted stock to each, which grants are subject to approval of the same by our shareholders.

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 is the case with accounting for oil and gas activities described below. In those 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. 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

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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, 2007. 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 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, 2007 and 2006:

<TABLE>
<CAPTION>

	At December 31, 2007	At December 31, 2006

<S>	<C>		<C>	
Acquisition costs	$	192,843	$	180,197
Evaluation costs		719,102		520,352
Retention costs		86,861		0
Total	$	998,806	$	700,549

</TABLE>

The carrying value of unevaluated oil and gas prospects include $13,330 and $480,532 expended for properties in South America at December 31, 2007 and December 31, 2006, respectively. We are maintaining our interest in these properties and development has or is anticipated to commence within the next twelve months.

Subordinated Convertible Notes and Warrants - Derivative Financial Instruments. The Subordinated Convertible Notes and Warrants issued during 2005 have been accounted for in accordance with SFAS 133 and EITF No. 00-19, "Accounting for Derivative Financial Instruments Indexed to, and Potentially Settled in, a Company's Own Stock."

We identified the following instruments and derivatives requiring evaluation and accounting under the relevant guidance applicable to financial derivatives:

- Subordinated Convertible Notes
- Conversion feature
- Conversion price reset feature
- Company's optional redemption right
- Warrants
- Warrants exercise price reset feature

We identified the conversion feature; the conversion price reset feature and our optional early redemption right within the Convertible Notes to represent embedded derivatives. These embedded derivatives were bifurcated from their respective host debt contracts and accounted for as derivative liabilities in accordance with EITF 00-19. The conversion feature, the conversion price reset feature and our optional early redemption right within the Convertible Notes were bundled together as a single hybrid compound instrument in accordance with SFAS No. 133 Derivatives Implementation Group Implementation Issue No. B-15, "Embedded Derivatives: Separate Accounting for Multiple Derivative Features Embedded in a Single Hybrid Instrument."

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We identified the common stock warrant to be a detachable derivative. The warrant exercise price reset provision was identified as an embedded derivative within the common stock warrant. The common stock warrant and the embedded warrant exercise price reset provision were accounted for as a separate single hybrid compound instrument.

The single compound embedded derivatives within Subordinated Convertible Notes and the derivative liability for Warrants were recorded at fair value at the date of issuance (May 4, 2005); and were marked-to-market each quarter with changes in fair value recorded to our income statement as "Net change in fair value of derivative liabilities." We utilized a third party valuation firm to fair value the single compound embedded derivatives under the following methods: a layered discounted probability-weighted cash flow approach for the single compound embedded derivatives within Subordinated Convertible Notes; and the Black-Scholes model for the derivative liability for Warrants based on a probability weighted exercise price.

The fair value of the derivative liabilities was subject to the changes in the trading value of our common stock. As a result, our financial statements were subject to fluctuations from quarter-to-quarter based on factors, such as the price of our stock at the balance sheet date, the amount of shares converted by note holders and/or exercised by warrant holders. Consequently, our financial position and results of operations varied from quarter-to-quarter based on conditions other than our operating revenues and expenses.

In May 2006, each of the Subordinated Convertible Notes and Warrants accounted for as derivative financial instruments was converted or exercised. Accordingly, for subsequent periods, we have no derivative financial instruments requiring account under SFAS 133.

Stock-Based Compensation. We account for stock-based compensation in accordance with the provisions of SFAS 123(R). We use the Black-Scholes option-pricing model, which requires the input of highly subjective assumptions. These assumptions include estimating the volatility of our common stock price over the vesting term, dividend yield, an appropriate risk-free interest rate and the number of options that will ultimately not complete their vesting requirements ("forfeitures"). Changes in the subjective assumptions can materially affect the estimated fair value of stock-based compensation and consequently, the related amount recognized on the Statements of Operations.

RESULTS OF OPERATIONS

YEAR ENDED DECEMBER 31, 2007 COMPARED TO YEAR ENDED DECEMBER 31, 2006

Oil and Gas Revenues. Total oil and gas revenues increased $1,774,441, or 55.4%, to $4,977,172 in fiscal 2007 compared to $3,202,731 in fiscal 2006. The increase in revenue is due to (a) increased production resulting from the development of the Colombian fields and (b) increases in oil and natural gas prices, partially offset by declines in U.S. production. We had interests in 39 producing wells in Colombia and 7 producing wells in North America during 2007 as compared to 22 producing wells in Colombia and 11 producing wells in North America during 2006. Average prices from sales were $65.61 per barrel of oil and $6.90 per mcf of gas during 2007 as compared to $55.55 per barrel of oil and $6.75 per mcf of gas during 2006. Following is a summary comparison, by region, of oil and gas sales for the periods.

<TABLE>
<CAPTION>

<S>	Colombia <C>	North America <C>	Total <C>
Year ended 2007			
Oil sales	$4,531,640	$140,313	$4,671,953
Gas sales	0	305,219	305,219
Year ended 2006			
Oil sales	$2,565,105	$ 95,363	$2,660,468
Gas sales	0	542,263	542,263

</TABLE>

Lease Operating Expenses. Lease operating expenses, excluding joint venture expenses relating to our Colombia operations discussed below, increased 81% to $1,841,119 in 2007 from $1,017,440 in 2006. The increase in lease operating expenses was attributable to the increase in the number of wells operated during 2007 (46 wells as compared to 33 wells) partially offset by improved operating efficiencies. Additionally operations have increased in workovers as well as in the Dorotea and Cabiona areas where we have a higher working interest (12.5%), which increased the amount of operating expense we incurred during the period.

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Following is a summary comparison of lease operating expenses for the years ended December 31, 2007 and 2006.

<TABLE>
<CAPTION>

<S>	Colombia <C>	North America <C>	Total <C>
Year ended 2007	$1,710,689	$130,430	$1,841,119
Year ended 2006	819,273	198,167	1,017,440

</TABLE>

Joint Venture Expenses. Joint venture expenses totaled $149,200 in 2007 compared to $167,023 in 2006. The joint venture expenses represent our allocable share of the indirect field operating and region administrative expenses billed by the operator of the Colombian concessions. The decrease in joint venture expenses was attributable to the operator reducing the personnel working on undrilled contract areas.

Depreciation and Depletion Expense. Depreciation and depletion expense increased by 23.9% to $1,099,826 in fiscal 2007 when compared to $887,911 in 2006. The increase in depreciation and depletion expense was primarily attributable to increases in Colombian production and an 82% increase in the depletable cost pool.

Impairment Expense. During 2007, we recorded a provision for impairments of $348,019, all of which was attributable to our North American properties. Impairments related to the termination, during 2007, of operations of seven wells in the U.S. and the fact that, as of December 31, 2007, well testing had not yet been conducted on, and no reserves had been attributed to, the well drilled during 2007 on our Caddo Lake Prospect.

General and Administrative Expenses. General and administrative expense (excluding stock based compensation) increased by 31.0% to $1,233,020 during 2007 from $941,324 in 2006. The increase in general and administrative expense was primarily attributable to an increase in salary to our president in mid-2006, payment of a full year's salary to our chief financial officer hired during 2006, increases in base salary of our president and chief financial officer during the third quarter of 2007 and payment of bonuses to our president and chief financial officer during 2007.

Stock based compensation expense included in general and administrative expenses increased by 15.7% to $335,208 in 2007 as compared to 289,755 in 2006. The increase in stock-based compensation expense was attributable to the 2006 grant of stock options in connection with the hiring of our chief financial officer and the grants of options to our directors during 2007.

Other Income, Net. Other income, net, consists of interest income, net of financing costs in the nature of interest and deemed interest associated with outstanding shareholder loans and convertible notes and warrants issued in May 2005 and outstanding during part of 2006. Certain features of the convertible notes and warrants resulted in the recording of a deemed derivative liability on the balance sheet and periodic interest associated with the deemed derivative liabilities and changes in the fair market value of those deemed liabilities.

Other income, net, totaled $649,792 in 2007 compared to $99,263 in 2006. The improvement in other income, net, was attributable to interest earned on funds received from the 2006 private placement and the absence of interest expense, financing fees and derivative related expense during 2007 attributable to the retirement or conversion during 2006 of all outstanding shareholder loans and convertible notes.

Income Tax Expense (Benefit). Income tax expense decreased to $127,116 in 2007 from $510,637 in 2006. The decrease in income tax expense during 2007 was attributable to the gain of $662,668 associated with the reallocation of the Hupecol tax credits discussed above, partially offset by an increase in revenue and an effective tax rate increase in Colombia. Income tax expense during 2007 and 2006 was entirely attributable to operations in Colombia. We recorded no U.S. income tax liability in 2007 or 2006. At December 31, 2007, we had net operating loss carry forward of approximately $832,821 and foreign tax credits of approximately $875,873.

FINANCIAL CONDITION

Liquidity and Capital Resources. At December 31, 2007, we had a cash balance of $417,818 and working capital of $10,358,502 compared to a cash balance of $409,008 and working capital of $14,314,190 at December 31, 2006. The changes in cash and working capital during the period were primarily attributable to the payment of drilling costs.

Cash Flows. Operating cash flows for 2007 totaled $1,801,481 as compared to $1,239,446 during 2006. The increase in operating cash flow was primarily attributable to increased revenues from oil and gas sales partially

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offset by increased lease operating expenses and general and administrative expenses and reductions in payables and accrued expenses.

Investing activities used $1,792,672 during 2007 as compared to $17,507,371 used during 2006. The decrease in cash flows used by investing activities during 2007 was primarily attributable to the temporary net investment of $14,000,000 in marketable securities during 2006 as compared to the sale of $7,500,000 of those marketable securities during 2007, offset by the purchase of $3,150,000 of marketable securities in 2007 and investments in oil and gas acquisition and drilling activities of $6,142,672 during 2007 as compared to $3,507,371 in 2006.

Financing activities provided $0 during 2007 as compared to $14,952,833 during 2006. Cash flows from financing activities during 2006 related to the private placement of common stock resulting in the receipt of net proceeds of $15,361,583 and the receipt of $491,250 from the exercise of warrants partially offset by the repayment of shareholder loans of $900,000.

Long-Term Liabilities. At December 31, 2007, we had long-term liabilities of $135,267 as compared to $38,816 at December 31, 2006. Long-term liabilities at December 31, 2007 and December 31, 2006 consisted of a reserve for plugging costs and deferred rent liability.

Capital and Exploration Expenditures and Commitments. Our principal capital and exploration expenditures relate to our ongoing efforts to acquire, drill and complete prospects. With the receipt of additional financing in 2006 and prior years, and the increase in our revenues and operating cash flows, we expect that future capital and exploration expenditures will be funded principally through funds on hand and funds generated from operations.

During 2007, we invested $6,142,672 for the acquisition and development of oil and gas properties, primarily consisting of (1) drilling of 3 domestic wells

($1,799,792), (2) drilling 26 wells in Colombia ($4,247,009), and (3) lease retention payments on domestic properties ($95,871).

At December 31, 2007, our only material contractual obligation requiring determinable future payments on our part was our lease relating to our executive offices.

The following table details our contractual obligations as of December 31, 2007:

<TABLE>
<CAPTION>

	Payments due by period				
	Total	2008	2009 - 2010	2011 - 2012	Thereafter
<S>	<C>	<C>	<C>	<C>	<C>
Operating leases	369,050	79,576	166,260	123,214	0
Total	369,050	79,576	166,260	123,214	0

</TABLE>

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 third parties.

2008 Planned Drilling, Leasehold and Other Activities. As of December 31, 2007, we planned to drill a total of 15 wells during 2008, of which 1 well is planned to be drilled on our domestic exploration projects and 14 wells are planned to be drilled on our Colombian exploration projects. The following table reflects planned drilling activities during 2008:

<TABLE>
<CAPTION>

Location	Prospect Name	# of Planned Wells
<S>	<C>	<C>
Caddo Parish, LA	Caddo Lake Prospect	1
Llanos Basin, Colombia	Cara Cara Concession	1
Llanos Basin, Colombia	Dorotea Concession	7
Llanos Basin, Colombia	Cabiona Concession	3
Llanos Basin, Colombia	Las Garzas Concession	1
Llanos Basin, Colombia	Leona Concession	1
Llanos Basin, Colombia	Camarita Concession	1

</TABLE>

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Additional wells are expected to be drilled at locations to be determined based on the results of the planned drilling projects. Our planned drilling activity is subject to change from time to time without notice. In particular, we cannot predict the impact on our planned drilling activities in Colombia of ongoing efforts by Hupecol to monetize assets.

We also plan to selectively evaluate and acquire interests in additional drilling prospects.

At December 31, 2007, our acquisition and drilling budget for 2008 totaled approximately $6,270,000, consisting of (1) $4,090,000 for drilling of 14 wells in Colombia, (2) $545,000 for drilling of 1 domestic well, (3) $385,000 for seismic operations in Colombia, and (4) $1,250,000 for road construction and facilities 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 financial resources will meet our anticipated objectives and business operations, including our planned property acquisitions and drilling activities, for at least the next 12 months without the need for additional capital. Management continues to evaluate producing property acquisitions as well as a number of drilling prospects. It is possible, although not anticipated, that the Company may require and seek additional financing if additional drilling prospects are pursued beyond those presently under consideration.

OFF-BALANCE SHEET ARRANGEMENTS

We had no off-balance sheet arrangements or guarantees of third party obligations at December 31, 2007.

INFLATION

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

ITEM 7A. QUANTITATIVE AND QUALITATIVE DISCLOSURES ABOUT MARKET RISK

COMMODITY PRICE RISK

The price we receive for our oil and gas production heavily influences our revenue, profitability, access to capital and future rate of growth. Crude oil and natural gas are commodities and, therefore, their prices are subject to wide fluctuations in response to relatively minor changes in supply and demand. Historically, the markets for oil and gas have been volatile, and these markets will likely continue to be volatile in the future. The prices we receive for production depends on numerous factors beyond our control.
We have not historically entered into any hedges or other transactions designed to manage, or limit exposure to oil and gas price volatility.

INTEREST RATE RISK

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

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

ITEM 8. FINANCIAL STATEMENTS AND SUPPLEMENTARY DATA

Our financial statements appear immediately after the signature page of this report. See "Index to Financial Statements" on page 30 of this report.

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ITEM 9. CHANGES IN AND DISAGREEMENTS WITH ACCOUNTANTS ON ACCOUNTING AND FINANCIAL DISCLOSURE

Previously disclosed. See Form 8-K, filed April 19, 2007.

ITEM 9A(T). CONTROLS AND PROCEDURES

CORPORATE DISCLOSURE CONTROLS

Evaluation of Disclosure Controls and Procedures

Disclosure controls and procedures are controls and other procedures of a registrant designed to ensure that information required to be disclosed by the registrant in the reports that it files or submits under the exchange Act is properly recorded, processed, summarized, and reported, within the time periods specified in the Securities and Exchange Commission's ("SEC") rules and forms. Disclosure controls and procedures are performed under the supervision and with the participation of our Chief Executive Officer and Chief Financial Officer to allow for timely decisions regarding required disclosures.

We evaluated the effectiveness of the design and operation of our disclosure controls and procedures as of December 31, 2007, as required by Rule 13a-15 of the Exchange Act. As described below, under "Management's Report on Internal Control Over Financial Reporting," material weaknesses were identified in our internal control over financial reporting as of December 31, 2007, relating to segregation of duties and review and approval of bank reconciliations. Based on the evaluation described above, our Chief Executive Officer and Chief Financial Officer have concluded that, as of December 31, 2007, our disclosure controls and procedures were not effective in ensuring that the information required to be disclosed by us in reports filed under the Securities Exchange Act of 1934 is recorded, processed, summarized and reported within the time periods specified in the rules and forms of the SEC. To address the material weakness, we performed additional analysis in an effort to ensure our consolidated financial statements included in this annual report have been prepared in accordance with generally accepted accounting principles. Accordingly, management believes that the financial statements included in this report fairly present in all material respects our financial condition, results of operations and cash flows for the periods presented.

Management's Report on Internal Control over Financial Reporting

As of December 31, 2007, Houston American Energy Corporation does not meet the definition of "accelerated filer," as described by Rule 12b-2 of the Exchange Act. We are required by the Sarbanes-Oxley Act of 2002 to include an assessment of our internal control over financial reporting for the year ended December 31, 2007. Our management is responsible for establishing and maintaining adequate internal control over financial reporting as that term is defined in Exchange Act Rule 13a-15(f). Our internal control over financial reporting is a process designed to provide reasonable assurance regarding the reliability of financial reporting and the preparation of our financial statements for external reporting purposes in accordance with generally accepted accounting principles ("GAAP"). Our internal control over financial reporting includes those policies and procedures that (i) pertain to the maintenance of records that, in reasonable detail, accurately and fairly reflect our transactions and dispositions of our assets; (ii) provide reasonable assurance that transactions are recorded as necessary to permit preparation of our financial statements in accordance with GAAP, and that our receipts and expenditures are being made only in accordance with authorizations of our management and directors; and (iii) provide reasonable assurance regarding prevention or timely detection of unauthorized acquisition, use or disposition of our assets that could have a material effect on our financial statements.

Internal control over financial reporting cannot provide absolute assurance of achieving financial reporting objectives because of its inherent limitations. Internal control over financial reporting is a process that involves human diligence and compliance and is subject to lapses in judgment and breakdowns resulting from human failures. Internal control over financial reporting also can be circumvented by collusion or improper management override. Because of such limitations, there is a risk that material misstatements may not be prevented or detected on a timely basis by internal control over financial reporting. However, these inherent limitations are known features of the financial reporting process. Therefore, it is possible to design into the process safeguards to reduce, though not eliminate, this risk. In addition, projections of any evaluation of effectiveness to future periods are subject to the risk that controls may become inadequate because of changes in conditions or that the degree of compliance with the policies or procedures may deteriorate.

In order to evaluate the effectiveness of our internal control over financial reporting as of December 31, 2007, as required by Section 404 of the Sarbanes-Oxley Act of 2002, our management conducted an assessment, including

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testing, based on the criteria set forth in Internal Control-Integrated Framework issued by the Committee of Sponsoring Organizations of the Treadway Commission (the "COSO Framework"). A material weakness is a control deficiency, or a combination of control deficiencies, that results in more than a remote likelihood that a material misstatement of our annual or interim financial statements will not be prevented or detected. In assessing the effectiveness of our internal control over financial reporting, management identified the following two material weaknesses in internal control over financial reporting as of December 31, 2007:

1. Deficiencies in Segregation of Duties. The Company continues to lack adequate segregation of duties in our financial reporting process, as our CFO serves as our only internal accounting and financial reporting personnel, and as such, performs substantially all accounting and financial reporting functions with the assistance of a part-time consultant. Accordingly, the preparation of financial statements and the related monitoring controls surrounding this process were not segregated. There is a risk that a material misstatement of the financial statements could be caused, or at least not be detected in a timely manner, due to insufficient segregation of duties.

   The Company has no current plans, however, to add accounting or financial reporting personnel and, accordingly, expects to continue to lack segregation of accounting, financial reporting and oversight functions. As operations increase in scope, the company intends to evaluate hiring additional in-house accounting personnel so as to provide for appropriate segregation of duties within the accounting function.

2. Deficiencies in the Company's treasury process controls. We did not consistently review bank reconciliations prepared by the part-time consultant. The Company failed to perform certain control procedures designed to ensure that the bank reconciliations were accurate and timely. There is a risk that a material misstatement of the financial statements could be caused, or at least not be detected in a timely manner, by this failure to review the bank reconciliation. We plan to implement a formal process for timely review and approval of bank reconciliations. The Company will monitor the effectiveness of this action and will make any other changes and take such other actions as management determines to be appropriate.

Based on the material weaknesses described above and the criteria set forth by the COSO Framework, we have concluded that our internal control over financial reporting at December 31, 2007, was not effective.

Changes in Internal Control over Financial Reporting

No change in our internal control over financial reporting (as defined in Rule 13a-15(f) under the Securities Exchange Act of 1934) occurred during the fourth quarter of fiscal 2007 that has materially affected, or is reasonably likely to materially affect, our internal control over financial reporting.

ITEM 9B. OTHER INFORMATION

Not applicable

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PART III

ITEM 10. DIRECTORS, EXECUTIVE OFFICERS AND CORPORATE GOVERNANCE

The information required by this Item will be included in a definitive proxy statement, pursuant to Regulation 14A, to be filed not later than 120 days after the close of our fiscal year. Such information is incorporated herein by reference.

EXECUTIVE OFFICERS

Our executive officers as of December 31, 2007, and their ages and positions as of that date, are as follows:

Name	Age	Position
John Terwilliger	60	President, Chief Executive Officer and Chairman
Jay Jacobs	30	Chief Financial Officer

John F. Terwilliger has served as our President, CEO and Chairman since our inception in April 2001.

Jay Jacobs has served as our Chief Financial Officer since July 2006. From April 2003 until joining the Company, Mr. Jacobs served as an Associate and as Vice President - Energy Investment Banking at Sanders Morris Harris, Inc., an investment banking firm, where he specialized in energy sector financing and transactions. Previously, Mr. Jacobs was an Energy Finance Analyst at Duke Capital Partners, LLC from June 2001 to April 2003 and a Tax Consultant at Deloitte & Touch , LLP. Mr. Jacobs holds a Masters of Professional Accounting from the University of Texas and is a Certified Public Accountant.

There are no family relationships among the executive officers and directors. Except as otherwise provided in employment agreements, each of the executive officers serves at the discretion of the Board.

ITEM 11. EXECUTIVE COMPENSATION

The information required by this Item will be included in a definitive proxy statement, pursuant to Regulation 14A, to be filed not later than 120 days after the close of our fiscal year. Such information is incorporated herein by reference.

ITEM 12. SECURITY OWNERSHIP OF CERTAIN BENEFICIAL OWNERS AND MANAGEMENT AND RELATED STOCKHOLDER MATTERS

The information required by this Item will be included in a definitive proxy statement, pursuant to Regulation 14A, to be filed not later than 120 days after the close of our fiscal year. Such information is incorporated herein by reference.

Equity compensation plan information is set forth in Part II, Item 5 of this Form 10-KSB.

ITEM 13. CERTAIN RELATIONSHIPS AND RELATED TRANSACTIONS, AND DIRECTOR INDEPENDENCE

The information required by this Item will be included in a definitive proxy statement, pursuant to Regulation 14A, to be filed not later than 120 days after the close of our fiscal year. Such information is incorporated herein by reference.

ITEM 14. PRINCIPAL ACCOUNTANT FEES AND SERVICES

The information required by this Item will be included in a definitive proxy statement, pursuant to Regulation 14A, to be filed not later than 120 days after the close of our fiscal year. Such information is incorporated herein by reference.

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PART IV

ITEM 15. EXHIBITS AND FINANCIAL STATEMENT SCHEDULES

1. Financial statements. See "Index to Financial Statements" on page 30 of this report.

2. Exhibits

<TABLE>
<CAPTION>

EXHIBIT NUMBER	EXHIBIT DESCRIPTION	INCORPORATED BY REFERENCE FORM	DATE	NUMBER	FILED HEREWITH
<S>	<C>	<C>	<C>	<C>	<C>
3.1	Certificate of Incorporation of Houston American Energy Corp. filed April 2, 2001	SB-2	8/3/01	3.1	
3.2	Amended and Restated Bylaws of Houston American Energy Corp. adopted November 26, 2007	8-K	11/29/07	3.1	
3.3	Certificate of Amendment to the Certificate of Incorporation of Houston American Energy Corp. filed September 25,2001	SB-2	10/01/01	3.4	
4.1	Text of Common Stock Certificate of Houston American Energy Corp.	SB-2	8/3/01	4.1	
10.1	Form of Registration Rights Agreement, dated May 4, 2005	8-K	5/10/05	4.3	
10.2	Houston American Energy Corp. 2005 Stock Option Plan*	8-K	8/16/05	10.1	
10.3	Form of Director Stock Option Agreement*	8-K	8/16/05	10.2	
10.4	Form of Placement Agent Warrant, dated April 28, 2006	8-K	4/28/06	4.1	
10.5	Form of Registration Rights Agreement, dated April 28,2006	8-K	4/28/06	4.2	
10.6	Form of Subscription Agreement, dated April 2006 relating to the sale of shares of common stock	8-K	4/28/06	10.1	
10.7	Form of Lock-Up Agreement, dated April 2006	8-K	4/28/06	10.2	
14.1	Code of Ethics for CEO and Senior Financial Officers	10-KSB	3/26/04	14.1	
23.1	Consent of Thomas Leger & Co. L.L.P.				X
23.2	Consent of Malone & Bailey, P.C.				X
31.1	Section 302 Certification of CEO				X
31.2	Section 302 Certification of CFO				X

32.1	Section 906 Certification of CEO				X
32.2	Section 906 Certification of CFO				X
99.1	Code of Business Ethics	8-K	7/7/06	99.1	

</TABLE>

* Compensatory plan or arrangement.

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SIGNATURES

Pursuant to the requirements of Section 13 or 15(d) of the Securities Exchange Act of 1934, the registrant has duly caused this report to be signed on its behalf by the undersigned, thereunto duly authorized.

HOUSTON AMERICAN ENERGY CORP.

Dated: March 27, 2008

By: /s/ John F. Terwilliger
John F. Terwilliger
President

Pursuant to the requirements of the Securities Exchange Act of 1934, this report has been signed below by the following persons on behalf of the registrant and in the capacities and on the dates indicated.

Signature	Title	Date
/s/ John F. Terwilliger John F. Terwilliger	Chairman, Chief Executive Officer, President, Treasurer and Director (Principal Executive Officer)	March 27, 2008
/s/ O. Lee Tawes III O. Lee Tawes III	Director	March 27, 2008
/s/ Edwin Broun III Edwin Broun III	Director	March 27, 2008
/s/ Stephen Hartzell Stephen Hartzell	Director	March 27, 2008
/s/ John P. Boylan John P. Boylan	Director	March 27, 2008
/s/ James J. Jacobs James J. Jacobs	Chief Financial Officer (Principal Accounting and Financial Officer	March 27, 2008

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HOUSTON AMERICAN ENERGY CORP.

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REPORT OF INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRM

The Board of Directors and Stockholders

10-K 1 d10k.htm FORM 10-K FOR THE FISCAL YEAR ENDED DECEMBER 31, 2008

PLAINTIFF'S EXHIBIT
PX-006

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, 2008

☐ **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	[redacted]
(State or other jurisdiction of incorporation or organization)	Identification No.)

[redacted]

(Address of principal executive offices)(Zip code)

Issuer's telephone number, including area code: [redacted]

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	**The Nasdaq Stock Market LLC**

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 ☒

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 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, 2008, based on the closing sales price of the registrant's common stock on that date, was approximately $167,656,443. 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 February 28, 2009 was 28,000,772.

DOCUMENTS INCORPORATED BY REFERENCE

Portions of the Company's Proxy Statement for its 2009 Annual Meeting are incorporated by reference into Part III of this Report.

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FORWARD-LOOKING STATEMENTS

This annual report on Form 10-K contains forward-looking statements within the meaning of the federal securities laws. These 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-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 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 Louisiana, and development of concessions in the South American country of Colombia. We seek to utilize the contacts and experience of our executive officers, particularly John F. Terwilliger and James Jacobs, 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

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, 2008 consisted of the following:

- Domestic Exploration Properties:

Webster Parish, Louisiana. In Webster Parish, Louisiana, we hold a 7.5% working interest at an 8.3% net revenue interest carried to point of sales for the first well in over 640 acres known as the South Sibley Prospect. Drilling of a 10,600-foot well on the South Sibley Prospect, was completed in May 2005 with multiple pay sands identified. Sales from the well commenced June 28, 2005.

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. Between 2004 and 2005, the Hoffpauer #1 (formerly the Baronet #1) and the Baronet #2 wells were drilled and commenced production. The Baronet #2 was reworked in 2006 and in 2007; both the Hoffpauer #1 and the Baronet #2 were plugged and abandoned. The Baronet #3, a replacement well for the Baronet #2, was drilled in the second quarter of 2007 and commercial production began in July 2007. We own a 17.5% working interest and 13.125% net revenue interest in the Baronet #3 well, which was scheduled for a re-work as of December 31, 2008 after the well sanded up and ceased production.

Caddo Parish, Louisiana. In Caddo Parish, Louisiana, we hold a 33.5% working interest, subject to payment of 35% of the costs of the initial well, and a 25.125% net revenue interest in the 640-acre Caddo Lake Prospect with options to additional leases covering 4,400 acres. After payout, we will own a 27.25% working interest and 20.4375% net revenue interest in the initial well and any additional wells. In November 2007, we drilled a 10,000-foot test well on the Caddo Lake Prospect. During the fourth quarter of 2008, pipeline construction and connection to the well was completed and several completion attempts in the Cotton Valley formation were not successful. Currently a Bossier Shale test is planned subject to a unit and permit being granted.

Iberville Parish, Louisiana. In Iberville Parish, Louisiana, we hold a 4.81% working interest in the Home Run Prospect and a 24.12% working interest in the West Klondike prospect. We plan to drill both of these prospects during calendar year 2009.

Vermillion Parish, Louisiana. In Vermillion Parish, Louisiana, we hold a 10% working interest in the North Jade and Northwest Jade prospects. We plan to drill these prospects in the 4th quarter of 2009 and the 1st quarter of 2010.

Jim Hogg County, Texas. In Jim Hogg County, Texas, we hold a 4.375% working interest, subject to payment of 5.8334% of costs to the casing point in the first well, in the 340 acre Hog Heaven Prospect. The Weil #1 well, a 6,200-foot test well, was drilled on the Hog Heaven Prospect in November 2005. Electric log and sidewall core analysis indicated multiple pay sands in the Weil #1 well. The well was completed in January 2006 and production and sales commenced in March 2006. The Weil #2 was drilled as a dry hole during 2007.

Hardeman County, Texas. In Hardeman County, Texas, we hold a 10% working interest with a 7.5% net revenue interest in the 91.375 acre West Turkey Prospect. The DDD-Evans #1, an 8,500-foot test well, was drilled on the West Turkey Prospect in April 2006 and production began in May 2006. At December 31, 2008, the DDD-Evans #1 was producing, but at non-commercial levels.

- Colombian Exploration Properties:

Llanos Basin, Colombia. In the Llanos Basin, Colombia, at December 31, 2008, we held interests in (1) the Tambaqui Association Contract covering 4,400 acres in the State of Casanare, Colombia, (2) two concessions, the Dorotea Contract and the Cabiona Contract, totaling over 137,000 acres, (3) the Surimena concession covering approximately 69,000 acres, (4) the Las Garzas concession covering approximately 103,000 acres, (5) the Leona concession covering approximately

70,343 acres, (6) the Camarita concession covering approximately 166,000 acres, and (7) the La Cuerva Contract covering approximately 48,000 acres. See "—Sale of Caracara Assets."

Our interest in each of the described concessions and contracts in Colombia is held through an interest in Hupecol, LLC and affiliated entities. We hold a 12.5% working interest in each of the prospects of Hupecol other than the Surimena concession, the Tambaqui Association Contract and the La Cuerva Contract. We hold a 6.25% working interest in the Surimena concession, a 12.6% working interest, with an 11.31% net revenue interest, in the Tambaqui Association Contract and a 1.594674% working interest in the La Cuerva Contract.

Our working interest in the Tambaqui Association Contract is subject to an escalating royalty of 8% on the first 5,000 barrels of oil per day, increasing to 20% at 125,000 barrels of oil per day and 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 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 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 Cabiona and Dorotea concessions acquired in the fourth quarter of 2004, the Surimena concession acquired in the second quarter of 2005, the Las Garzas concession acquired in November 2005, the Jagueyes TEA acquired in May 2005 and the Simon TEA acquired in June 2005. During 2006 we acquired 3D seismic data on the Las Garzas contract, the Jagueyes TEA and the Simon TEA. As a result of seismic evaluation, the Jagueyes TEA was converted to the Leona concession and the Simon TEA was converted to the Camarita concession during 2006.

- Other Holdings

In addition to our principal exploration projects, we hold various interests in producing wells in Plaquemines Parish, Louisiana, Matagorda County, Texas, and Ellis County, Oklahoma. We have no present plans to conduct additional drilling activities on those prospects.

Summary Leasehold Information

The following table sets forth certain information about our oil and gas holdings at December 31, 2008:

Project Area	Acres Leased or Under Option at December 31, 2008 (1) Project Gross	Project Net	Company Net	Project Interest
TEXAS:				
Jim Hogg County	340.00	340.00	14.89	4.38%
Hardeman County	91.38	91.38	9.14	10.00%
Matagorda County				
S.W. Pheasant Prospect	779.00	779.00	27.27	3.50%
Texas Sub-Total	1,210.38	1,210.38	51.30	
LOUISIANA:				
Webster Parish	640.00	640.00	48.00	7.50%
Caddo Parish (2)	5,040.00	5,040.00	1,373.40	27.25%
Iberville Parish				
Home Run Prospect	1,146.00	1,146.00	55.15	4.81%
W. Klondike Prospect	561.00	561.00	135.31	24.12%
Vermilion Parish				
LaFurs F-16 Well	830.00	830.00	18.68	2.25%
N. Jade & NW Jade Prospects	1,423.12	1,402.85	140.29	10.0%
Acadia Parish	620.00	620.00	18.60	3.00%
Plaquemines Parish	300.00	300.00	5.40	1.80%
Louisiana Sub-Total	10,560.12	10,539.85	1,794.83	
OKLAHOMA				
Jenny #1-14	160.00	160.00	3.78	2.36%
Oklahoma Sub-Total	160.00	160.00	3.78	
COLOMBIA				
La Cuerva Contract	48,000.00	48,000.00	765.00	1.59%
Tambaqui Assoc. Contract (3)	4,403.00	4,403.00	555.00	12.60%
Dorotea Concession	51,321.00	51,321.00	6,415.00	12.50%
Cabiona Concession	86,066.00	86,066.00	10,758.00	12.50%
Surimena Concession	69,189.00	69,189.00	4,324.00	6.25%
Las Garzas Concession	103,784.00	103,784.00	12,973.00	12.50%
Leona Concession	70,343.00	70,343.00	8,793.00	12.50%
Camarita Concession	166,301.00	166,301.00	20,788.00	12.50%
Colombia Sub-Total	599,407.00	599,407.00	65,371.00	
Total	611,337.50	611,317.23	67,220.91	

(1) Except as otherwise noted, all acreage is held under leases. 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 by our working interest therein.

(2) Includes an option to lease 4,360 Project Gross and Project Net Acres and 1,188.10 Company Net Acres. Upon exercise of the option, we will be obligated to pay $218,000 and to drill one well every 180 days to maintain the lease.

(3) The project interest is the working interest in the concession and not necessarily the working interest in the well.

Sale of Caracara Assets

In June 2008, we, through Hupecol Caracara LLC as owner/operator under the Caracara Association Contract, sold all of our interest in the Caracara Association Contract and related assets. Pursuant to our investment in Hupecol Caracara LLC, we held a 1.594674% interest in the Caracara assets, covering approximately 232,500 acres, representing our principal, and initial, Colombian prospect. At December 31, 2007, the estimated proved reserves associated with these assets totaled 787,742 barrels of oil, which represented 60.37% of our estimated proved oil and natural gas reserves.

As a result of the sale of the Caracara assets, we received net proceeds, after deduction of fees and expenses of the transaction, of $11,546,510 (before amounts placed in escrow as discussed below), realized a gain on the sale of $7,615,236 and eliminated from oil and gas properties costs subject to amortization associated with the Caracara assets totaling $3,977,907.

Pursuant to the terms of the sale of the Caracara assets, on the closing date of the sale, a portion of the purchase price was deposited in escrow to settle post-closing adjustments under the purchase and sale agreement. The funds deposited in escrow will be released to us, or to the purchaser, based on post-closing adjustments 12 months following closing. Our proportionate interest in the escrow deposit, totaling $1,673,551, has been recorded as Other Current Assets. The net proceeds and the gain realized from the sale of the Caracara assets may be adjusted based on post-closing adjustments.

Production from the Caracara prospect accounted for $3,005,140 and $3,703,739 of our revenues during 2008 and 2007, respectively.

Drilling Activities

In 2008, we drilled 1 domestic well and 15 wells in Colombia, consisting of 9 exploratory and 7 developmental wells 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 2008 and 2007 as to wells drilled in each such individual year:

	Exploratory Wells (1)		Developmental Wells (1)	
	Gross	Net	Gross	Net
2007				
Productive	4	0.53366	14	0.43392
Dry	7	0.56607	4	0.15848
2008				
Productive	5	0.62500	6	0.75000
Dry	4	0.47500	1	0.12500

(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.

At December 31, 2008, two wells were being drilled in Colombia and one well was being drilled in the U.S.

Seismic Activity

During 2008, our operator in Colombia (1) acquired approximately 65 miles of additional seismic and geological data relating primarily to prospects in which we hold a 12.5% working interest, (2) acquired additional seismic data on the La Cuerva prospect and (3) shot 32.824 square miles of combined seismic on the Las Garzas and Leona contracts.

Productive Well Summary

The following table sets forth certain information regarding our ownership as of December 31, 2008 of productive gas and oil wells in the areas indicated:

	Gas		Oil	
	Gross	Net	Gross	Net
Texas	2	0.079	0	0.000
Louisiana	2	0.098	1	0.018
Oklahoma	1	0.024	0	0.000
Colombia	0	0.000	10	1.250
Total	5	0.201	11	1.268

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,	
	2007	2008
Net Production:		
Gas (Mcf):		
North America	44,250	24,748
South America	0	0
Oil (Bbls):		
North America	2,078	1,510
South America	69,127	122,415
Average sales price:		
Gas ($ per Mcf)	6.90	10.22
Oil ($ per Bbl)	65.61	83.67
Average production expense and Taxes ($ per BOE):		
North America	13.80	10.40
South America	24.75	27.03

Natural Gas and Oil Reserves

The following table summarizes the estimates of our historical net proved reserves as of December 31, 2007 and 2008, and the present value attributable to these reserves at these dates. The reserve data and present values were prepared by Aluko & Associates, Inc. and Lonquist & Co. LLC, independent petroleum engineering consultants for 2007 and 2008, respectively:

	At December 31,	
	2007	2008
Net proved reserves (1):		
Natural gas (Mcf)	135,649	18,774
Oil (Bbls)	1,285,239	213,416
Standardized measure of discounted future net Cash flows (2)	$55,951,503	$3,151,493

(1) At December 31, 2008, net proved and proved developed reserves, by region, consisted of 211,475 barrels of oil in South America and 1,941 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 11—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.

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. Oil and 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 report 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 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, 2008, 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	1,210.38	51.30	0.00	0.00	0.00	0.00
Louisiana	2,390.00	90.68	0.00	0.00	8,170.12	1,704.15
Oklahoma	160.00	3.78	0.00	0.00	0.00	0.00
Colombia	1,600.00	200.00	1,920.00	240.00	595,887.00	64,931.00
Total	5,360.38	345.76	1,920.00	240.00	604,057.12	66,635.15

During 2008, we acquired, through our 1.594674% interest in Hupecol Caracara LLC, an interest in the La Cuerva Contract covering approximately 48,000 acres in Colombia.

During 2008, we also acquired interests in two additional prospects in South Louisiana for which we advanced leasehold costs and delay rentals of approximately $231,403. We sold our interest in one of the prospects—the North Henry Bayou prospect—during 2008, retaining a 4.5% carried interest in the prospect, for which we received $60,301 and sold our interest in the second prospect—the Home Run prospect—during 2008 for which we received $213,395.

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 is made before commencement of drilling operations.

2009 Drilling and Operating Plans

As a result of the continued depressed commodity price environment in the first quarter of 2009, Hupecol, the operator of our Colombian properties, made the determination in early March to temporarily shut-in production from the majority of our wells in Colombia. During the first quarter of 2009, most of our Colombian wells remained profitable to operate; however, the Hupecol managing partners chose not to continue to produce what they considered valuable oil reserves at these low levels of profitability.

On March 14th, the Company was notified by Hupecol that the majority of its productive wells will be immediately restored to production.

As of January 1, 2009, we planned to drill a total of 11 wells during 2009, of which three wells are planned to be drilled on our domestic exploration projects and eight wells are planned to be drilled on our Colombian exploration projects. The following table reflects planned drilling activities during 2009:

Location	Prospect Name	# of Planned Wells
Llanos Basin, Colombia	La Cuerva Contract	2
Llanos Basin, Colombia	Dorotea Concession	2
Llanos Basin, Colombia	Las Garzas Concession	1
Llanos Basin, Colombia	Leona Concession	1
Llanos Basin, Colombia	Camarita Concession	1
Llanos Basin, Colombia	Surimena Concession	1
Louisiana—Vermilion Parish	North Jade	1
Louisiana—Iberville Parish	W. Klondike	1
Louisiana—Iberville Parish	Home Run	1

Our planned drilling activity is subject to change from time to time without notice. In particular, the recent sharp decline in oil and gas prices may result in delays in, or abandonment of, planned drilling operations. Additional wells are expected to be drilled at locations to be determined based on the results of the planned drilling projects and prevailing market conditions.

Marketing

At January 1, 2009, we had no contractual agreements to sell our gas and oil production and all production was sold on spot markets.

Employees

As of March 1, 2009, we had 3 full-time employees and no part time employees. The employees are not covered by a collective bargaining agreement, and we do not anticipate that any of our future employees will be covered by such agreements.

Item 1A. Risk Factors

Our business activities and the value of our securities are subject to significant hazards and risks, including those described below. If any of such events should occur, our business, financial condition, liquidity and/or results of operations could be materially harmed, and holders and purchasers of our securities could lose part or all of their investments.

A substantial or extended decline in oil and natural gas prices may adversely affect our business, financial condition or results of operations and our ability to meet our capital expenditure obligations and financial commitments.

The price we receive for our oil and natural gas production heavily influences our revenue, profitability, access to capital and future rate of growth. Oil and natural gas are commodities and, therefore, their prices are subject to wide fluctuations in response to relatively minor changes in supply and demand. Historically, the markets for oil and natural gas have been volatile. These markets will likely continue to be volatile in the future. The prices we receive for our production, and the levels of our production, depend on numerous factors beyond our control. These factors include, but are not limited to, the following:

- changes in global supply and demand for oil and natural gas;
- the actions of the Organization of Petroleum Exporting Countries, or OPEC;
- the price and quantity of imports of foreign oil and natural gas;
- political conditions, including embargoes, in or affecting other oil-producing activity;
- the level of global oil and natural gas exploration and production activity;
- the level of global oil and natural gas inventories;
- weather conditions;
- technological advances affecting energy consumption; and
- the price and availability of alternative fuels.

Lower oil and natural gas prices may not only decrease our revenues on a per unit basis but also may reduce the amount of oil and natural gas that we can produce economically. Lower prices will also negatively impact the value of our proved reserves. A substantial or extended decline in oil or natural gas prices may materially and adversely affect our future business, financial condition, results of operations, liquidity or ability to finance planned capital expenditures.

We May Be Affected by General Economic Conditions

The disruption experienced in U.S. and global credit markets during second half of 2008 has resulted in projected decreases in demand for oil and natural gas, resulting in a sharp drop in energy prices, and has affected the availability and cost of capital. Prolonged negative changes in domestic and global economic conditions or disruptions of either or both of the financial and credit markets may have a material adverse effect on our results of operations, financial condition and liquidity. At this time, it is unclear whether and to what extent the actions taken by the U.S. government, including, without limitation, the passage of the Emergency Economic Stabilization Act of 2008 and other measures currently being implemented or contemplated, will mitigate the effects of the crisis. With respect to Houston American Energy, while we have no immediate need to access the credit markets in the foreseeable future, the impact of the current crisis on our ability to obtain financing in the future, if needed, and the cost and terms of same, is unclear. From an operating standpoint, the current crisis has resulted in a steep decline in the price of oil and natural gas, a marked decline in the value of our reserves, a determination in March 2009 to temporarily shut-in production from our Colombian wells and will result in reduced revenues and reduced profitability and, if prices continue to decline, may result in deterioration of our financial position.

A substantial percentage of our properties are undeveloped; therefore the risk associated with our success is greater than would be the case if the majority of our properties were categorized as proved developed producing.

Because a substantial percentage of our properties are unproven or proved undeveloped, we will require significant additional capital to prove and develop such properties before they may become productive. At December 31, 2008, approximately 58.1% of our proved reserves were producing. Further, because of the inherent uncertainties associated with drilling for oil and gas, some of these properties may never be developed to the extent that they result in positive cash flow. Even if we are successful in our development efforts, it could take several years for a significant portion of our undeveloped properties to be converted to positive cash flow.

While our current business plan is to fund the development costs with funds on hand and cash flow from our other producing properties, if such funds are not sufficient we may be forced to seek alternative sources for cash, through the issuance of additional equity or debt securities, increased borrowings or other means.

Drilling for and producing oil and natural gas are high risk activities with many uncertainties that could adversely affect our business, financial condition or results of operations.

Our future success will depend on the success of our exploitation, exploration, development and production activities. Our oil and natural gas exploration and production activities are subject to numerous risks beyond our control, including the risk that drilling will not result in commercially viable oil or natural gas production. Our decisions to purchase, explore, develop or otherwise exploit prospects or properties will depend in part on the evaluation of data obtained through geophysical and geological analyses, production data and engineering studies, the results of which are often inconclusive or subject to varying interpretations. Please read "—Reserve estimates depend on many assumptions that may turn out to be inaccurate" (below) for a discussion of the uncertainty involved in these processes. Our cost of drilling, completing and operating wells is often uncertain before drilling commences. Overruns in budgeted expenditures are common risks that can make a particular project uneconomical. Further, many factors may curtail, delay or cancel drilling, including the following:

- delays imposed by or resulting from compliance with regulatory requirements;
- pressure or irregularities in geological formations;
- shortages of or delays in obtaining equipment and qualified personnel;
- equipment failures or accidents;
- adverse weather conditions;
- reductions in oil and natural gas prices;
- title problems; and
- limitations in the market for oil and natural gas.

If oil and natural gas prices decrease, we may be required to take write-downs of the carrying values of our oil and natural gas properties, potentially negatively impacting the trading value of our securities.

Accounting rules require that we review periodically the carrying value of our oil and natural gas properties for possible impairment. Based on specific market factors and circumstances at the time of prospective impairment reviews, and the continuing evaluation of development plans, production data, economics and other factors, we have and may be required to further write down the carrying value of our oil and natural gas properties. A write-down could constitute a non-cash charge to earnings. It is likely the cumulative effect of a write-down could also negatively impact the trading price of our securities.

Reserve estimates depend on many assumptions that may turn out to be inaccurate. Any material inaccuracies in these reserve estimates or underlying assumptions will materially affect the quantities and present value of our reserves.

The process of estimating oil and natural gas reserves is complex. It requires interpretations of available technical data and many assumptions, including assumptions relating to economic factors. Any significant inaccuracies in these interpretations or assumptions could materially affect the estimated quantities and present value of reserves shown in this report.

In order to prepare our estimates, we must project production rates and timing of development expenditures. We must also analyze available geological, geophysical, production and engineering data. The extent, quality and reliability of this data can vary. The process also requires economic assumptions about matters such as oil and natural gas prices, drilling and operating expenses, capital expenditures, taxes and availability of funds. Therefore, estimates of oil and natural gas reserves are inherently imprecise.

Actual future production, oil and natural gas prices, revenues, taxes, development expenditures, operating expenses and quantities of recoverable oil and natural gas reserves most likely will vary from our estimates. Any significant variance could materially affect the estimated quantities and present value of our reserves. In addition, we may adjust estimates of proved reserves to reflect production history, results of exploration and development, prevailing oil and natural gas prices and other factors, many of which are beyond our control. During the years ended December 31, 2007 and 2008, revisions to prior estimates resulted in significant negative revisions to our proved reserves. Negative revisions during fiscal year 2007 amounted to 57.7% of prior year-end proved natural gas reserves and 40.2% of prior year-end proved oil reserves. Product sales and negative revisions during fiscal year 2008 amounted to 86.2% of prior year-end proved gas reserves and 83.4% of prior year-end proved oil reserves.

You should not assume that the present value of future net revenues from our proved reserves, as reported from time to time, is the current market value of our estimated oil and natural gas reserves. In accordance with SEC requirements, we generally base the estimated discounted future net cash flows from our proved reserves on prices and costs on the date of the estimate. Actual future prices and costs may differ materially from those used in the present value estimate. If future values decline or costs increase it could negatively impact our ability to finance operations, and individual properties could cease being commercially viable, affecting our decision to continue operations on producing properties or to attempt to develop properties. All of these factors would have a negative impact on earnings and net income, and most likely the trading price of our securities.

We are dependent upon third party operators of our oil and gas properties.

Under the terms of the Operating Agreements related to our oil and gas properties, third parties act as the operator of our oil and gas wells and control the drilling activities to be conducted on our properties. Therefore, we have limited control over certain decisions related to activities on our properties, which could affect our results of operations. Decisions over which we have limited control include:

- the timing and amount of capital expenditures;

- the timing of initiating the drilling and recompleting of wells;
- the extent of operating costs; and
- the level of ongoing production.

Prospects that we decide to drill may not yield oil or natural gas in commercially viable quantities.

Our prospects are properties on which we have identified what we believe, based on available seismic and geological information, to be indications of oil or natural gas. Our prospects are in various stages of evaluation, ranging from a prospect that is ready to drill to a prospect that will require substantial additional seismic data processing and interpretation. There is no way to predict in advance of drilling and testing whether any particular prospect will yield oil or natural gas in sufficient quantities to recover drilling or completion costs or to be economically viable. This risk may be enhanced in our situation, due to the fact that a significant percentage of our reserves are currently unproved reserves. The use of seismic data and other technologies and the study of producing fields in the same area will not enable us to know conclusively prior to drilling whether oil or natural gas will be present or, if present, whether oil or natural gas will be present in commercial quantities. We cannot assure you that the analogies we draw from available data from other wells, more fully explored prospects or producing fields will be applicable to our drilling prospects.

We may incur substantial losses and be subject to substantial liability claims as a result of our oil and natural gas operations.

We are not insured against all risks. Losses and liabilities arising from uninsured and underinsured events could materially and adversely affect our business, financial condition or results of operations. Our oil and natural gas exploration and production activities are subject to all of the operating risks associated with drilling for and producing oil and natural gas, including the possibility of:

- environmental hazards, such as uncontrollable flows of oil, natural gas, brine, well fluids, toxic gas or other pollution into the environment, including groundwater and shoreline contamination;
- abnormally pressured formations;
- mechanical difficulties, such as stuck oil field drilling and service tools and casing collapse;
- fires and explosions;
- personal injuries and death; and
- natural disasters.

Any of these risks could adversely affect our ability to conduct operations or result in substantial losses to our company. We may elect not to obtain insurance if we believe that the cost of available insurance is excessive relative to the risks presented. In addition, pollution and environmental risks generally are not fully insurable. If a significant accident or other event occurs and is not fully covered by insurance, then it could adversely affect us.

We are subject to complex laws that can affect the cost, manner or feasibility of doing business.

Exploration, development, production and sale of oil and natural gas are subject to extensive federal, state, local and international regulation. We may be required to make large expenditures to comply with governmental regulations. Matters subject to regulation include:

- discharge permits for drilling operations;

- drilling bonds;
- reports concerning operations;
- the spacing of wells;
- unitization and pooling of properties; and
- taxation.

Under these laws, we could be liable for personal injuries, property damage and other damages. Failure to comply with these laws also may result in the suspension or termination of our operations and subject us to administrative, civil and criminal penalties. Moreover, these laws could change in ways that substantially increase our costs. Any such liabilities, penalties, suspensions, terminations or regulatory changes could materially adversely affect our financial condition and results of operations.

Our operations may incur substantial liabilities to comply with the environmental laws and regulations.

Our oil and natural gas operations are subject to stringent federal, state and local laws and regulations relating to the release or disposal of materials into the environment or otherwise relating to environmental protection. These laws and regulations may require the acquisition of a permit before drilling commences, restrict the types, quantities and concentration of substances that can be released into the environment in connection with drilling and production activities, limit or prohibit drilling activities on certain lands lying within wilderness, wetlands and other protected areas, and impose substantial liabilities for pollution resulting from our operations. Failure to comply with these laws and regulations may result in the assessment of administrative, civil and criminal penalties, incurrence of investigatory or remedial obligations or the imposition of injunctive relief. Changes in environmental laws and regulations occur frequently, and any changes that result in more stringent or costly waste handling, storage, transport, disposal or cleanup requirements could require us to make significant expenditures to maintain compliance, and may otherwise have a material adverse effect on our results of operations, competitive position or financial condition as well as the industry in general. Under these environmental laws and regulations, we could be held strictly liable for the removal or remediation of previously released materials or property contamination regardless of whether we were responsible for the release or if our operations were standard in the industry at the time they were performed.

Our operations in Colombia are subject to risks relating to political and economic instability.

We currently have interests in multiple oil and gas concessions in Colombia and anticipate that operations in Colombia will constitute a substantial element of our strategy going forward. 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 the political or economic climate in Colombia, we may be forced to abandon or suspend our operations in Colombia.

Our operations in Colombia are controlled by Hupecol which may carry out transactions affecting our Colombian assets and operations without our consent.

We are an investor in Hupecol and our interest in the assets and operations of Hupecol represent all of our assets and operations in Colombia and are our principal assets and operations. During 2008, Hupecol sold its interest in the Caracara Association Contract, the largest single prospect in terms of reserves and revenues in which we then held an interest. Also, during 2008, Hupecol acquired an interest in the La Cuerva Contract. In early March 2009, Hupecol determined to temporarily shut-in production from our Colombian properties. It is possible that Hupecol will carry out similar sales or acquisitions of prospects or make similar decisions in the future. Our management intends to closely monitor the nature and progress of future transactions by Hupecol in order to protect our interests. However, we have no effective ability to alter or prevent a transaction and are unable to predict whether or not any such transactions will in fact occur or the nature or timing of any such transaction.

Unless we replace our oil and natural gas reserves, our reserves and production will decline, which would adversely affect our cash flows and income.

Unless we conduct successful development, exploitation and exploration activities or acquire properties containing proved reserves, our proved reserves will decline as those reserves are produced. Producing oil and natural gas reservoirs generally are characterized by declining production rates that vary depending upon reservoir characteristics and other factors. Our future oil and natural gas reserves and production, and, therefore our cash flow and income, are highly dependent on our success in efficiently developing and exploiting our current reserves and economically finding or acquiring additional recoverable reserves. If we are unable to develop, exploit, find or acquire additional reserves to replace our current and future production, our cash flow and income will decline as production declines, until our existing properties would be incapable of sustaining commercial production.

Our success depends on our management team and other key personnel, the loss of any of whom could disrupt our business operations.

Our success will depend on our ability to retain John F. Terwilliger, our principal executive officer, and James Jacobs, our chief financial officer, and to attract other experienced management and non-management employees, including engineers, geoscientists and other technical and professional staff. We will depend, to a large extent, on the efforts, technical expertise and continued employment of such personnel and members of our management team. If members of our management team should resign or we are unable to attract the necessary personnel, our business operations could be adversely affected.

The unavailability or high cost of drilling rigs, equipment, supplies, personnel and oil field services could adversely affect our ability to execute on a timely basis our exploration and development plans within our budget.

Shortages or the high cost of drilling rigs, equipment, supplies or personnel could delay or adversely affect our development and exploration operations. As the price of oil and natural gas increases, the demand for production equipment and personnel will likely also increase, potentially resulting, at least in the near-term, in shortages of equipment and personnel. In addition, larger producers may be more likely to secure access to such equipment by virtue of offering drilling companies more lucrative terms. If we are unable to acquire access to such resources, or can obtain access only at higher prices, not only would this potentially delay our ability to convert our reserves into cash flow, but could also significantly increase the cost of producing those reserves, thereby negatively impacting anticipated net income.

If our access to markets is restricted, it could negatively impact our production, our income and ultimately our ability to retain our leases.

Market conditions or the unavailability of satisfactory transportation arrangements may hinder our access to oil and natural gas markets or delay our production. The availability of a ready market for our oil and natural gas production depends on a number of factors, including the demand for and supply of oil and natural gas and the proximity of reserves to pipelines and terminal facilities. Our ability to market our production depends in substantial part on the availability and capacity of gathering systems, pipelines and processing facilities owned and operated by third parties. Our failure to obtain such services on acceptable terms could materially harm our business.

We may operate in areas with limited or no access to pipelines, thereby necessitating delivery by other means, such as trucking, or requiring compression facilities. Such restrictions on our ability to sell our oil or natural gas have several adverse affects, including higher transportation costs, fewer potential purchasers (thereby potentially resulting in a lower selling price) or, in the event we were unable to market and sustain production from a particular lease for an extended time, possibly causing us to lose a lease due to lack of production.

We may need additional financing to support operations and future capital commitments.

While we presently believe that our operating cash flows and funds on hand will support our ongoing operations and anticipated future capital requirements, a number of factors could result in our needing additional financing, including reductions in oil and natural gas prices, declines in production, unexpected developments in operations that could decrease our revenues, increase our costs or require additional capital contributions and commitments to new acquisition or drilling programs. We have no commitments to provide any additional financing, if needed, and may be limited in our ability to obtain the capital necessary to support operations, complete development, exploitation and exploration programs or carry out new acquisition or drilling programs. We have not thoroughly investigated whether this capital would be available, who would provide it, and on what terms. If we are unable, on acceptable terms, to raise the required capital, our business may be seriously harmed or even terminated.

Competition in the oil and natural gas industry is intense, which may adversely affect our ability to compete.

We operate in a highly competitive environment for acquiring properties, marketing oil and natural gas and securing trained personnel. Many of our competitors possess and employ financial, technical and personnel resources substantially greater than ours, which can be particularly important in the areas in which we operate. Those companies may be able to pay more for productive oil and natural gas properties and exploratory prospects and to evaluate, bid for and purchase a greater number of properties and prospects than our financial or personnel resources permit. Our ability to acquire additional prospects and to find and develop reserves in the future will depend on our ability to evaluate and select suitable properties and to consummate transactions in a highly competitive environment. Also, there is substantial competition for capital available for investment in the oil and natural gas industry. We may not be able to compete successfully in the future in acquiring prospective reserves, developing reserves, marketing hydrocarbons, attracting and retaining quality personnel and raising additional capital.

The price of our common stock may fluctuate significantly, and this may make it difficult for you to resell common stock when you want or at prices you find attractive.

The price of our common stock constantly changes. We expect that the market price of our common stock will continue to fluctuate.

Our stock price may fluctuate as a result of a variety of factors, many of which are beyond our control. These factors include:

- quarterly variations in our operating results;
- operating results that vary from the expectations of management, securities analysts and investors;
- changes in expectations as to our future financial performance;
- announcements by us, our partners or our competitors of leasing and drilling activities;

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- the operating and securities price performance of other companies that investors believe are comparable to us;
- future sales of our equity or equity-related securities;
- changes in general conditions in our industry and in the economy, the financial markets and the domestic or international political situation;
- fluctuations in oil and gas prices;
- departures of key personnel; and
- regulatory considerations.

In addition, in recent years, the stock market in general has experienced extreme price and volume fluctuations. This volatility has had a significant effect on the market price of securities issued by many companies for reasons often unrelated to their operating performance. These broad market fluctuations may adversely affect our stock price, regardless of our operating results.

The sale of a substantial number of shares of our common stock may affect our stock price.

Future sales of substantial amounts of our common stock or equity-related securities in the public market or privately, or the perception that such sales could occur, could adversely affect prevailing trading prices of our common stock and could impair our ability to raise capital through future offerings of equity or equity-related securities. No prediction can be made as to the effect, if any, that future sales of shares of common stock or the availability of shares of common stock for future sale, will have on the trading price of our common stock.

Our charter and bylaws, as well as provisions of Delaware law, could make it difficult for a third party to acquire our company and also could limit the price that investors are willing to pay in the future for shares of our common stock.

Delaware corporate law and our charter and bylaws contain provisions that could delay, deter or prevent a change in control of our company or our management. These provisions could also discourage proxy contests and make it more difficult for our stockholders to elect directors and take other corporate actions without the concurrence of our management or board of directors. These provisions:

- authorize our board of directors to issue "blank check" preferred stock, which is preferred stock that can be created and issued by our board of directors, without stockholder approval, with rights senior to those of our common stock;
- provide for a staggered board of directors and three-year terms for directors, so that no more than one-third of our directors could be replaced at any annual meeting;
- provide that directors may be removed only for cause; and
- establish advance notice requirements for submitting nominations for election to the board of directors and for proposing matters that can be acted upon by stockholders at a meeting.

We are also subject to anti-takeover provisions under Delaware law, which could also delay or prevent a change of control. Taken together, these provisions of our charter and bylaws, Delaware law may discourage transactions that otherwise could provide for the payment of a premium over prevailing market prices of our common stock and also could limit the price that investors are willing to pay in the future for shares of our common stock.

Our management owns a significant amount of our common stock, giving them influence or control in corporate transactions and other matters, and their interests could differ from those of other shareholders.

At March 1, 2009, our directors and executive officers owned approximately 46.6% of our outstanding common stock. As a result, our current directors and executive officers are in a position to significantly influence or control the outcome of matters requiring a shareholder vote, including the election of directors, the adoption of any amendment to our certificate of incorporation or bylaws, and the approval of mergers and other significant corporate transactions. Such level of control of the company may delay or prevent a change of control on terms favorable to the other shareholders and may adversely affect the voting and other rights of other shareholders.

Item 1B. Unresolved Staff Comments

Not applicable

Item 2. Properties

We currently lease approximately 4,739 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 average monthly rental under the lease, which expires on May 31, 2012, is $6,682.

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

Item 3. Legal Proceedings

We may from time to time be a party to lawsuits incidental to our business. As of March 1, 2009, we were not aware of any current, pending, or threatened litigation or proceedings that could have a material adverse effect on our results of operations, cash flows or financial condition.

Item 4. Submission of Matters to a Vote of Security Holders

Not applicable

PART II

Item 5. Market for Registrant's Common Equity, Related Stockholder Matters and Issuer Purchases of Equity Securities

Market Information

Our common stock is listed on the Nasdaq Global Market ("Nasdaq") under the symbol "HUSA." The following table sets forth the range of high and low sale prices of our common stock for each quarter during the past two fiscal years.

		High	Low
Calendar Year 2008	Fourth Quarter	$ 6.01	$2.05
	Third Quarter	11.23	5.25
	Second Quarter	11.22	4.02
	First Quarter	4.27	2.76
Calendar Year 2007	Fourth Quarter	$ 4.44	$2.46
	Third Quarter	6.10	2.29
	Second Quarter	6.14	4.71
	First Quarter	7.35	3.23

At March 12, 2009, the closing price of the common stock on Nasdaq was $2.33.

Holders

As of March 4, 2009, there were approximately 947 shareholders of record of our common stock.

Dividends

Commencing in the third quarter of 2008 and continuing in the fourth quarter of 2008, we declared and paid a quarterly cash dividend of $0.02 per share on our common stock.

The payment of future cash dividends will depend upon, among other things, our financial condition, funds from operations, the level of our capital and development expenditures, our future business prospects, contractual restrictions and any other factors considered relevant by the Board of Directors.

Securities Authorized for Issuance Under Equity Compensation Plans

The following table provides information as of December 31, 2008 with respect to the shares of our common stock that may be issued under our existing equity compensation plans.

Plan Category	Number of securities to be issued upon exercise of outstanding options, warrants and rights (a)	Weighted-average exercise price of outstanding options, warrants and rights (b)	Number of securities remaining available for future issuance under equity compensation plans (excluding securities reflected in column (a))
Equity compensation plans approved by security holders (1)	1,392,333	$ 6.21	1,307,667
Equity compensation plans not approved by security holders	—	—	—
Total	1,392,333	$ 6.21	1,307,667

(1) Consists of 500,000 shares reserved for issuance under the Houston American Energy Corp. 2005 Stock Option Plan and 2,200,000 shares reserved for issuance under the Houston American Energy 2008 Equity Incentive Plan.

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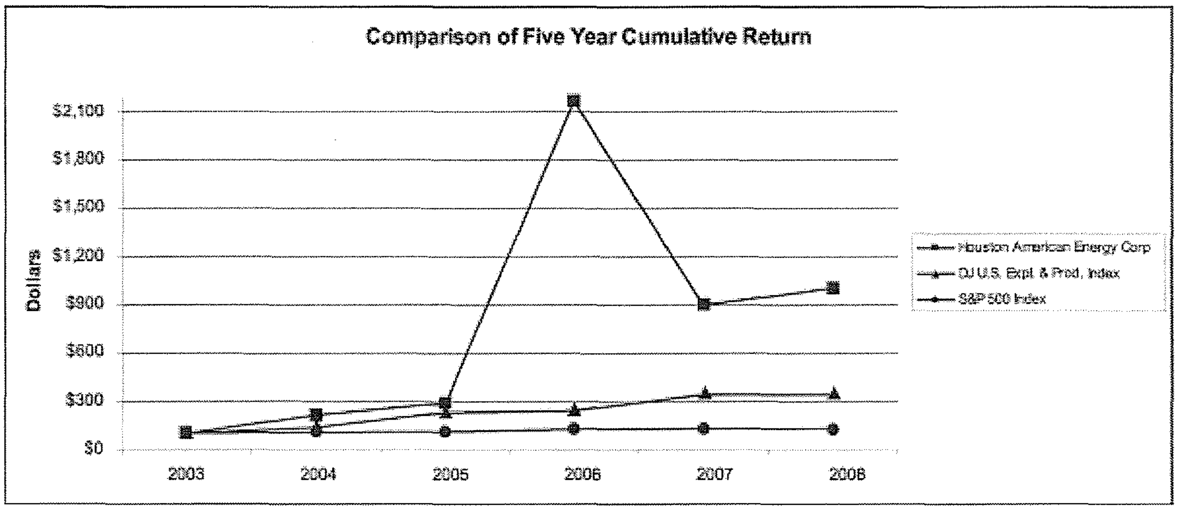
Performance Graph

The following performance graph and related information shall not be deemed "soliciting material" or to be "filed" with the Securities and Exchange Commission, nor shall such information be incorporated by reference into any future filing under the Securities Act of 1933 or Securities Exchange Act of 1934, each as amended, except to the extent that the Company specifically incorporates it by reference into such filing.

The following performance graph compares the change in the cumulative total return of Houston American Energy's common stock, the Dow Jones U.S. Exploration and Production Index, and the S&P 500 Index for the five years ended December 31, 2008. The graph assumes that $100 was invested in the Company's common stock and each index on December 31, 2003.

COMPARISON OF 5 YEAR CUMULATIVE TOTAL RETURN AMONG HOUSTON AMERICAN ENERGY CORPORATION, THE S&P 500 INDEX AND DJ U.S. EXPL & PROD. INDEX



	December 31,					
	2003	2004	2005	2006	2007	2008
Houston American Energy Corporation	$100	$215	$288	$2,165	$897	$1,006
S&P 500 Index	$100	$140	$230	$ 241	$344	$ 344
DJ U.S. Expl. & Prod. Index	$100	$109	$112	$ 128	$132	$ 132

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Item 6. Selected Financial Data

The following table sets forth a summary of selected historical financial information for each of the years in the five-year period ended December 31, 2008. This information is derived from our Financial Statements and the notes thereto. See "Item 7. Management's Discussion and Analysis of Financial Condition and Results of Operations" and "Item 8. Financial Statements and Supplementary Data."

	Year Ended December 31,				
	2008	2007	2006	2005	2004
Statement of Operations Data:					
Revenue:					
Oil and gas revenue	$10,622,050	$ 4,977,172	$ 3,202,731	$ 2,780,457	$1,182,063
Commissions	—	—	—	60,000	—
Total revenues	10,622,050	4,977,172	3,202,731	2,840,457	1,182,063
Expenses of operations:					
Lease operating expense and severance tax	3,366,740	1,841,119	1,017,440	953,624	413,723
Joint venture expense	183,510	149,200	167,023	61,500	41,944
Depreciation and depletion	5,816,691	1,099,826	887,911	363,196	211,759
Impairment of oil and gas properties	5,621,106	348,019	—	—	—
General and administrative expense	3,152,930	1,568,228	1,231,079	835,829	333,412
Gain on sale of oil and gas properties	(7,615,236)	—	—	—	—
Total operating expenses	10,525,741	5,006,392	3,303,453	2,214,149	1,000,838
Income (loss) from operations	96,309	(29,220)	(100,722)	626,308	181,225
Other (income) expense:					
Interest income	(295,375)	(649,742)	(496,490)	(34,191)	(6,058)
Interest expense	—	—	57,278	111,920	—
Interest expense—related party	—	—	20,440	72,000	72,000
Interest expense—derivative	—	—	37,773	319,714	—
Loss on change in fair value of derivative	—	—	170,949	402,628	—
Financing costs	—	—	110,787	16,816	—
Total other (income) expense	(295,375)	(649,742)	(99,263)	888,887	65,942
Net income (loss) before income taxes	391,684	620,572	(1,459)	(262,579)	115,283
Income tax expense (benefit)	(73,261)	127,116	510,637	239,201	—
Net income (loss)	$ 464,945	$ 493,456	$ (512,096)	$ (501,780)	$ 115,283
Basic net income (loss) per share	$ 0.02	$ 0.02	$ (0.02)	$ (0.03)	$ 0.01
Diluted net income (loss) per share	$ 0.02	$ 0.02	$ (0.02)	$ (0.03)	$ 0.01
Cash dividends paid per share	$ 0.04	$ —	$ —	$ —	$ —
Cash Flow Data:					
Cash flow from operating activities	$ 1,452,054	$ 1,801,481	$ 1,239,446	$ 694,581	$ 297,995
Cash flow from investing activities	8,787,853	(1,792,671)	(17,507,371)	(1,589,594)	(590,247)
Cash flow from financing activities	(747,031)	—	14,952,833	1,897,500	350,443
Balance Sheet Data (at end of period):					
Working capital (deficit)	$10,536,834	$10,358,502	$ 14,202,160	$(1,041,453)	$ 771,392
Property, plant and equipment, net	5,263,131	10,017,045	5,248,272	2,631,245	1,403,551
Total assets	22,637,054	20,714,797	19,985,883	5,052,483	2,458,419
Long-term debt, less current portion	—	—	—	975,416	1,000,000
Total stockholders' equity	21,048,248	20,243,447	19,414,783	728,227	1,178,110

Item 7. Management's Discussion and Analysis of Financial Condition and Results of Operations

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 founder and principal 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 over 30 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 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 2008 and 2009

Drilling Activity

During 2008, we drilled 15 international wells in Colombia, as follows:

- 13 wells were drilled on concessions in which we hold a 12.5% working interest; of which, at December 31, 2008, 10 were in production and 3 were dry holes.
- One well was drilled on concessions in which we hold a 6.25% working interest and was deemed a dry hole.
- One well was drilled on a concession in which we hold a 1.6% working interest, was sold as part of the Caracara transaction and was in production at the time of that sale.

During 2008, one domestic well, (the N. Bayou Henry Prospect) was drilled and was deemed a dry hole.

The Caddo Lake prospect was drilled during the fourth quarter of 2007. During the fourth quarter of 2008, pipeline construction and connection to the well was completed and several completion attempts in the Cotton Valley formation were not successful. Currently a Bossier Shale test is planned subject to a unit and permit being granted.

At December 31, 2008, two wells were being drilled in Colombia and one well was being drilled in the U.S.

Sale of Caracara Assets

In June 2008, we, through Hupecol Caracara LLC as owner/operator under the Caracara Association Contract, sold all of our interest in the Caracara Association Contract and related assets. Pursuant to our investment in Hupecol Caracara LLC, we held a 1.594674% working interest in the Caracara assets, covering approximately 232,500 acres, representing our principal, and initial, Colombian prospect. At December 31, 2007, the estimated proved reserves associated with these assets totaled 787,742 barrels of oil, which represented 60.37% of our estimated proved oil and natural gas reserves.

As a result of the sale of the Caracara assets, we received net proceeds, after deduction of fees and expenses of the transaction, of $11,546,510, realized a gain on the sale of $7,615,236 and eliminated from oil and gas properties costs subject to amortization associated with the Caracara assets totaling $3,977,907.

Pursuant to the terms of the sale of the Caracara assets, on the closing date of the sale, a portion of the purchase price was deposited in escrow to settle post-closing adjustments under the purchase and sale agreement. The funds deposited in escrow will be released to us, or to the purchaser, based on post-closing adjustments 12 months following closing. Our proportionate interest in the escrow deposit, totaling $1,673,551, has been recorded as Other Current Assets. The net proceeds and the gain realized from the sale of the Caracara assets may be adjusted based on post-closing adjustments.

Colombian taxes attributable to the sale of the Caracara assets, totaling $4,394,575, were recorded and paid at the time of closing.

Production from the Caracara prospect accounted for $3,005,140 and $3,703,739 of our revenues during 2008 and 2007, respectively.

Lease operating expense from the Caracara prospect accounted for $458,240 and $641,583 of our lease operating expense during 2008 and 2007, respectively.

Leasehold Activity

During 2008, we acquired, through our 1.594674% interest in Hupecol Caracara LLC, an interest in the La Cuerva Contract covering approximately 48,000 acres in Colombia.

During 2008, we acquired interests in two additional prospects in South Louisiana for which we advanced leasehold costs and delay rentals of approximately $231,403. We sold our interest in one of the prospects—the North Henry Bayou prospect—during 2008, retaining a 4.5% carried interest in the prospect, for which we received $60,301 and sold our interest in the second prospect—the Home Run prospect—during 2008 for which we received $213,395.

Seismic Activity

During 2008, our operator in Colombia acquired approximately 65 miles of additional seismic and geological data. The additional data relates primarily to prospects in which we hold a 12.5% working interest. Our share of the costs of such data acquisition was $309,061. The operator also acquired additional seismic data on the La Cuerva prospect. Our share of this cost was $41,030.

During 2008 we shot an additional 32.824 square miles combined of seismic on the Las Garzas and Leona contracts.

Executive Compensation—Restricted Stock, Stock Options and Bonus Payments

During 2008, we recognized compensation expense, in addition to salaries, to our two executive officers consisting of (1) $400,320 attributable to grants of 55,600 shares of restricted stock, (2) payment of cash bonuses totaling $750,000, which bonuses were contingent on the completion of the sale of the Caracara assets and were paid in June 2008, and (3) $670,045 attributable to grants of stock options.

Dividends

During the third and fourth quarters of 2008, we declared and paid cash dividends to our shareholders of $0.02 per share, or an aggregate of $1,122,031.

Macroeconomic Impact on Oil and Natural Gas Prices

Late in the third quarter of 2008 and accelerating during the fourth quarter of 2008, the United States and global economies suffered a severe disruption in credit and financial markets that have been accompanied by economic contraction and a sharp drop in the price of oil and natural gas due to a projected decline in demand for oil and natural gas. We have not historically entered into hedging transactions to reduce our exposure to commodity price risks. As a result of such macroeconomic conditions and our unhedged position, the prices at which we sell oil and natural gas declined markedly during the fourth quarter of 2008 and are expected to remain at substantially lower levels for the foreseeable future. Our total revenues and profitability declined during the fourth quarter of 2008 as a result of the decline in oil and natural gas prices and a reduction in our production and are expected to continue to be adversely affected for the foreseeable future.

Determination to Temporarily Shut-in Colombian Production

As a result of the continued depressed commodity price environment in the first quarter of 2009, Hupecol, the operator of our Colombian properties, made the determination to temporarily shut-in production from the majority of our wells in Colombia. During the first quarter of 2009, most of our Colombian wells remained profitable to operate; however, the Hupecol managing partners chose not to continue to produce what they considered valuable oil reserves at these low levels of profitability.

On March 14th, the Company was notified by Hupecol that the majority of its productive wells will be immediately restored to production.

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 is the case with accounting for oil and gas activities described below. In those 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. 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, 2008. 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 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, 2007 and 2008:

	At December 31, 2007	At December 31, 2008
Acquisition costs	$ 192,843	$ 221,253
Evaluation costs	719,102	1,815,122
Retention costs	86,861	28,191
Total	$ 998,806	$2,064,566

The carrying value of unevaluated oil and gas prospects include $480,532 and $88,681 expended for properties in South America at December 31, 2007 and December 31, 2008, respectively. We are maintaining our interest in these properties and development has or is anticipated to commence within the next twelve months.

Subordinated Convertible Notes and Warrants—Derivative Financial Instruments. The Subordinated Convertible Notes and Warrants issued during 2005 have been accounted for in accordance with SFAS 133 and EITF No. 00-19, "Accounting for Derivative Financial Instruments Indexed to, and Potentially Settled in, a Company's Own Stock."

We identified the following instruments and derivatives requiring evaluation and accounting under the relevant guidance applicable to financial derivatives:

- Subordinated Convertible Notes
- Conversion feature
- Conversion price reset feature

- Company's optional redemption right
- Warrants
- Warrants exercise price reset feature

We identified the conversion feature; the conversion price reset feature and our optional ~~early~~ redemption right within the Convertible Notes to represent embedded derivatives. These embedded derivatives were bifurcated from their respective host debt contracts and accounted for as derivative liabilities in accordance with EITF 00-19. The conversion feature, the conversion price reset feature and our optional early redemption right within the Convertible Notes were bundled together as a single hybrid compound instrument in accordance with SFAS No. 133 Derivatives Implementation Group Implementation Issue No. B-15, "Embedded Derivatives: Separate Accounting for Multiple Derivative Features Embedded in a Single Hybrid Instrument."

We identified the common stock warrant to be a detachable derivative. The warrant exercise price reset provision was identified as an embedded derivative within the common stock warrant. The common stock warrant and the embedded warrant exercise price reset provision were accounted for as a separate single hybrid compound instrument.

The single compound embedded derivatives within Subordinated Convertible Notes and the derivative liability for Warrants were recorded at fair value at the date of issuance (May 4, 2005); and were marked-to-market each quarter with changes in fair value recorded to our income statement as "Net change in fair value of derivative liabilities." We utilized a third party valuation firm to fair value the single compound embedded derivatives under the following methods: a layered discounted probability-weighted cash flow approach for the single compound embedded derivatives within Subordinated Convertible Notes; and the Black-Scholes model for the derivative liability for Warrants based on a probability weighted exercise price.

The fair value of the derivative liabilities was subject to the changes in the trading value of our common stock. As a result, our financial statements were subject to fluctuations from quarter-to-quarter based on factors, such as the price of our stock at the balance sheet date, the amount of shares converted by note holders and/or exercised by warrant holders. Consequently, our financial position and results of operations varied from quarter-to-quarter based on conditions other than our operating revenues and expenses.

In May 2006, each of the Subordinated Convertible Notes and Warrants accounted for as derivative financial instruments was converted or exercised. Accordingly, for subsequent periods, we have no derivative financial instruments requiring account under SFAS 133.

Stock-Based Compensation. We account for stock-based compensation in accordance with the provisions of SFAS 123(R). We use the Black-Scholes option-pricing model, which requires the input of highly subjective assumptions. These assumptions include estimating the volatility of our common stock price over the vesting term, dividend yield, an appropriate risk-free interest rate and the number of options that will ultimately not complete their vesting requirements ("forfeitures"). Changes in the subjective assumptions can materially affect the estimated fair value of stock-based compensation and consequently, the related amount recognized on the Statements of Operations.

Results of Operations

Year Ended December 31, 2008 Compared to Year Ended December 31, 2007

Oil and Gas Revenues. Total oil and gas revenues increased $5,644,878, or 113.4%, to $10,622,050 in fiscal 2008 compared to $4,977,172 in fiscal 2007.

The increase in oil and gas revenue is principally due to increased production resulting from the development of the Colombian fields, particularly fields in which we hold a higher working interest (12.5%), and higher oil prices during the first three quarters of 2008, partially offset by the sale of 34 producing wells as part of the Caracara transaction during the second quarter of 2008. During 2008, we had interests in 45 producing wells in Colombia, including the 34 Caracara wells, and 6 producing wells in the U.S as compared to 39 producing wells in Colombia and 7 producing wells in the U.S. during 2007.

Oil and gas revenues from the Caracara prospect totaled $3,005,140 and $3,703,739 during 2008 and 2007, respectively.

The following table sets forth a comparison of hydrocarbon prices for 2008 and 2007:

	2008	2007
Hydrocarbon prices:		
Oil—Average price per barrel	$83.67	$65.61
Gas—Average price per mcf	$10.22	$ 6.90

As a result of the sharp worldwide economic decline during the second half of 2008, our average prices realized from the sale of oil and gas declined markedly in the fourth quarter of 2008 to $59.26 per barrel of oil and $6.20 per mcf of gas. That decline in prices continued into 2009 and, as a result of such decline and the determination to temporarily shut-in production from our wells in Colombia during March of 2009, 2009 revenues are expected to decline.

The following table sets forth a comparison of oil and gas sales by region during 2008 and 2007.

Sales:		2008	2007
Oil	Colombia	$10,211,579	$4,531,640
	US	157,492	140,313
	Total—Oil	$10,369,071	$4,671,953
Gas	Colombia	$ 0	$ 0
	US	252,979	305,219
	Total—Gas	$ 252,979	$ 305,219

Natural Gas production was down in 2008 due to production declines related to our domestic wells.

Lease Operating Expenses. Lease operating expenses, excluding joint venture expenses relating to our Colombia operations discussed below, increased 82.9% to $3,366,740 in 2008 from $1,841,119 in 2007.

The increase in lease operating expenses was attributable to the increase in the number of wells operated during 2008 and increased activities on prospects in which we hold a higher working interest (12.5%) during 2008 as compared to 2007, partially offset by the elimination of lease operating expenses on the Caracara assets following the sale of the assets in June 2008.

Following is a summary comparison of lease operating expenses, by region, for 2008 and 2007:

	2008	2007
Lease Operating Expenses:		
Colombia	$3,232,213	$1,710,689
U.S.	134,527	130,430
Total	$3,366,740	$1,841,119

Joint Venture Expenses. Joint venture expenses totaled $183,510 in 2008 compared to $149,200 in 2007. The joint venture expenses represent our allocable share of the indirect field operating and region administrative expenses billed by the operator of the Colombian concessions. The increase in joint venture expenses was attributable to an increase in drilling activity in concessions in which we own a higher working interest.

Depreciation and Depletion Expense. Depreciation and depletion expense increased by 428.9% to $5,816,691 in 2008 from $1,099,826 in 2007. This significant increase was due to a 37.6% increase in the depletable cost pool attributable to the drilling results on prospects in which we hold a higher interest, as well as a significant decrease in our proved reserve estimates at year end; partially offset by the sale of our interest in the Caracara prospect.

Impairment Expense. During 2008, we recorded a provision for impairments of $5,621,106, most of which was attributable to our South American properties. Impairments related to reduced commodity prices at year end and lower reserve estimates for our Colombian wells, as well as reduced reserve estimates for our U.S. properties as a result of lower commodity prices and lower then expected production volumes, as well as the lack of commercial production on our Caddo Lake prospect.

During 2007, we recorded a provision for impairments of $348,019, all of which was attributable to our North American properties. Impairments related to the termination, during 2007, of operations of seven wells in the U.S. and the fact that, as of December 31, 2007, well testing had not yet been conducted on, and no reserves had been attributed to, the well drilled during 2007 on our Caddo Lake Prospect.

General and Administrative Expenses. General and administrative expense increased by 101% to $3,152,930 in 2008 from $1,568,228 in 2007. The increase in general and administrative expense was primarily attributable to increases in compensation expense relating to one time restricted stock grants ($400,320), cash bonuses payable on closing of the Caracara sale ($750,000) and stock options grants ($686,567).

Gain on sale of oil & gas properties. The sale of our Caracara assets resulted in a gain of $7,615,236 during 2008. The gain realized may be subject to adjustment based on post-closing adjustments.

Other Income. Other income consists of interest income earned on cash balances and marketable securities.

Interest income decreased 54.5% to $295,375 during 2008 from $649,792 during 2007. The decrease in interest income was attributable to reduced interest rates on short term cash investments and slightly reduced cash and cash equivalent amounts held through the year.

Income Tax Expense. Income tax expense decreased to a benefit of ($73,261) in 2008 from income tax expense of $127,116 in 2007. The decrease in income tax expense was attributable to the overall decrease to net income, due to the book impairment write-down on oil and gas properties, as well as the tax gain on the sale of the Caracara property. A deferred income tax benefit in the amount of $5,273,567 was attributable to the US and income tax expense in the amount of $5,200,306 was attributable to Colombia. Income tax expense during 2007 was entirely attributable to operations in Colombia. No U.S. income tax liability was recorded in 2007. At December 31, 2008, we had foreign tax credit carryovers of $2,019,488.

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Year Ended December 31, 2007 Compared to Year Ended December 31, 2006

Oil and Gas Revenues. Total oil and gas revenues increased $1,774,441, or 55.4%, to $4,977,172 in fiscal 2007 compared to $3,202,731 in fiscal 2006. The increase in revenue is due to (a) increased production resulting from the development of the Colombian fields and (b) increases in oil and natural gas prices, partially offset by declines in U.S. production. We had interests in 39 producing wells in Colombia and 7 producing wells in North America during 2007 as compared to 22 producing wells in Colombia and 11 producing wells in North America during 2006. Average prices from sales were $65.61 per barrel of oil and $6.90 per mcf of gas during 2007 as compared to $55.55 per barrel of oil and $6.75 per mcf of gas during 2006. Following is a summary comparison, by region, of oil and gas sales for the periods.

	Colombia	North America	Total
Year ended 2007			
Oil sales	$4,531,640	$ 140,313	$4,671,953
Gas sales	0	305,219	305,219
Year ended 2006			
Oil sales	$2,565,105	$ 95,363	$2,660,468
Gas sales	0	542,263	542,263

Lease Operating Expenses. Lease operating expenses, excluding joint venture expenses relating to our Colombia operations discussed below, increased 81% to $1,841,119 in 2007 from $1,017,440 in 2006. The increase in lease operating expenses was attributable to the increase in the number of wells operated during 2007 (46 wells as compared to 33 wells) partially offset by improved operating efficiencies. Additionally operations have increased in workovers as well as in the Dorotea and Cabiona areas where we have a higher working interest (12.5%), which increased the amount of operating expense we incurred during the period.

Following is a summary comparison of lease operating expenses for the years ended December 31, 2007 and 2006.

	Colombia	North America	Total
Year ended 2007	$1,710,689	$ 130,430	$1,841,119
Year ended 2006	819,273	198,167	1,017,440

Joint Venture Expenses. Joint venture expenses totaled $149,200 in 2007 compared to $167,023 in 2006. The joint venture expenses represent our allocable share of the indirect field operating and region administrative expenses billed by the operator of the Colombian concessions. The decrease in joint venture expenses was attributable to the operator reducing the personnel working on undrilled contract areas.

Depreciation and Depletion Expense. Depreciation and depletion expense increased by 23.9% to $1,099,826 in fiscal 2007 when compared to $887,911 in 2006. The increase in depreciation and depletion expense was primarily attributable to increases in Colombian production and an 82% increase in the depletable cost pool.

Impairment Expense. During 2007, we recorded a provision for impairments of $348,019, all of which was attributable to our North American properties. Impairments related to the termination, during 2007, of operations of seven wells in the U.S. and the fact that, as of December 31, 2007, well testing had not yet been conducted on, and no reserves had been attributed to, the well drilled during 2007 on our Caddo Lake Prospect.

General and Administrative Expenses. General and administrative expense (excluding stock based compensation) increased by 31.0% to $1,233,020 during 2007 from $941,324 in 2006. The increase in general and administrative expense was primarily attributable to an increase in salary to our president in mid-2006, payment of a full year's salary to our chief financial officer hired during 2006, increases in base salary of our president and chief financial officer during the third quarter of 2007 and payment of bonuses to our president and chief financial officer during 2007.

Stock based compensation expense included in general and administrative expenses increased by 15.7% to $335,208 in 2007 as compared to $289,755 in 2006. The increase in stock-based compensation expense was attributable to the 2006 grant of stock options in connection with the hiring of our chief financial officer and the grants of options to our directors during 2007.

Other Income, Net. Other income, net, consists of interest income, net of financing costs in the nature of interest and deemed interest associated with outstanding shareholder loans and convertible notes and warrants issued in May 2005 and outstanding during part of 2006. Certain features of the convertible notes and warrants resulted in the recording of a deemed derivative liability on the balance sheet and periodic interest associated with the deemed derivative liabilities and changes in the fair market value of those deemed liabilities.

Other income, net, totaled $649,792 in 2007 compared to $99,263 in 2006. The improvement in other income, net, was attributable to interest earned on funds received from the 2006 private placement and the absence of interest expense, financing fees and derivative related expense during 2007 attributable to the retirement or conversion during 2006 of all outstanding shareholder loans and convertible notes.

Income Tax Expense (Benefit). Income tax expense decreased to $127,116 in 2007 from $510,637 in 2006. The decrease in income tax expense during 2007 was attributable to a gain of $662,668 associated with the reallocation by Hupecol of certain Colombian tax credits among the members of the various Hupecol entities, partially offset by an increase in revenue and an effective tax rate increase in Colombia. Income tax expense during 2007 and 2006 was entirely attributable to operations in Colombia. We recorded no U.S. income tax liability in 2007 or 2006. At December 31, 2007, we had net operating loss carry forward of approximately $832,821 and foreign tax credits of approximately $875,873.

Financial Condition

Liquidity and Capital Resources. At December 31, 2008, we had a cash balance of $9,910,694 and working capital of $10,536,834 compared to a cash balance of $417,818 and working capital of $10,358,502 at December 31, 2007. The increase in working capital during the period was attributable to the sale proceeds from the Caracara sale offset by increased drilling activity in Colombia and lower product prices.

Cash Flows. Operations provided cash during 2008 totaling $1,452,054 as compared to $1,801,481 of cash provided by operations during 2007. The decrease in cash flows from operations was primarily a result of cash taxes paid in Colombia.

Investing activities provided $8,787,853 during 2008 compared to $1,792,672 used during 2007. The funds provided by investing activities reflect the receipt of proceeds from the sale of the Caracara assets ($9,878,797) and the Home Run and North Henry Bayou prospects ($273,696), as well as the net sale of marketable securities of ($9,650,000) during 2008 and ($4,350,000) during 2007. Funds used in investing activities consisted primarily of investments in oil and gas properties and assets of ($10,841,353) during 2008 and ($6,142,672) during 2007.

Financing activities used $747,031 during 2008, consisting of cash dividends paid in the amount of $1,122,031, partially offset by the receipt of $375,000 from the exercise of outstanding warrants. We had no financing activities during 2007.

Long-Term Liabilities. At December 31, 2008, we had long-term liabilities of $205,524 as compared to $135,267 at December 31, 2007. Long-term liabilities at December 31, 2008 and December 31, 2007 consisted of a reserve for plugging costs and deferred rent liability. The increase in 2008 of long-term liabilities was a result of increased plugging cost from drilling in Colombia.

Capital and Exploration Expenditures and Commitments. Our principal capital and exploration expenditures relate to our ongoing efforts to acquire, drill and complete prospects. We expect that future capital and exploration expenditures will be funded principally through funds generated from operations and funds on hand, including funds generated from the sale of our interest in the Caracara prospect.

During 2008, we invested approximately $10,841,353 for the acquisition and development of oil and gas properties, consisting of (1) drilling of 15 wells in Colombia ($9,212,662), (2) seismic and geological costs in Colombia ($700,427), (3) delay rentals on U.S. properties ($40,977), (4) leasehold costs on U.S. properties ($188,550) and (5) capital expenditures on U.S. wells ($698,737).

At December 31, 2008, our only material contractual obligation requiring determinable future payments on our part was our lease relating to our executive offices.

The following table details our contractual obligations as of December 31, 2008:

	Payments due by period				
	Total	2009	2010	2011	2012
Operating leases	289,474	81,945	84,315	86,684	36,530
Total	289,474	81,945	84,315	86,684	36,530

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 third parties.

2009 Planned Drilling, Leasehold and Other Activities. As of December 31, 2008, we planned to drill a total of 11 wells during 2009, of which three wells are planned to be drilled on our domestic exploration projects and eight wells are planned to be drilled on our Colombian exploration projects. The following table reflects planned drilling activities during 2009:

Location	Prospect Name	# of Planned Wells
Llanos Basin, Colombia	La Cuerva Contract	2
Llanos Basin, Colombia	Dorotea Concession	2
Llanos Basin, Colombia	Las Garzas Concession	1
Llanos Basin, Colombia	Leona Concession	1
Llanos Basin, Colombia	Camarita Concession	1
Llanos Basin, Colombia	Surimena Concession	1
Louisiana—Vermilion Parish	North Jade	1
Louisiana—Iberville Parish	W. Klondike	1
Louisiana—Iberville Parish	Home Run	1

Additional wells are expected to be drilled at locations to be determined based on the results of the planned drilling projects. Our planned drilling activity is subject to change from time to time without notice. In particular, the recent sharp decline in oil and gas prices may result in delays in, or abandonment of, planned drilling operations.

We also plan to selectively evaluate and acquire interests in additional drilling prospects.

At December 31, 2008, our acquisition and drilling budget for 2009 totaled approximately $2,950,000, consisting of (1) $1,850,000 for drilling of eight wells in Colombia, (2) $1,000,000 for drilling of three domestic wells, and (3) $100,000 for infrastructure construction related cost 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 financial resources will meet our anticipated objectives and business operations, including our planned property acquisitions and drilling activities, for at least the next 12 months without the need for additional capital. Management continues to evaluate producing property acquisitions as well as a number of drilling prospects. It is possible, although not anticipated, that the Company may require and seek additional financing if additional drilling prospects are pursued beyond those presently under consideration.

Off-Balance Sheet Arrangements

We had no off-balance sheet arrangements or guarantees of third party obligations at December 31, 2008.

Inflation

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

Item 7A. Quantitative and Qualitative Disclosures About Market Risk

Commodity Price Risk

The price we receive for our oil and gas production heavily influences our revenue, profitability, access to capital and future rate of growth. Crude oil and natural gas are commodities and, therefore, their prices are subject to wide fluctuations in response to relatively minor changes in supply and demand. Historically, the markets for oil and gas have been volatile, and these markets will likely continue to be volatile in the future. The prices we receive for production depends on numerous factors beyond our control.

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

Item 8. Financial Statements and Supplementary Data

Our financial statements appear immediately after the signature page of this report. See "Index to Financial Statements" on page 35 of this report.

Item 9. Changes in and Disagreements With Accountants on Accounting and Financial Disclosure

Previously disclosed. See Form 8-K, filed April 19, 2007.

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Item 9A. Controls and Procedures

Evaluation of Disclosure Controls and Procedures

Under the supervision and the participation of our management, including our principal executive officer and principal financial officer, we conducted an evaluation as of December 31, 2008 of the effectiveness of the design and operation of our disclosure controls and procedures, as such term is defined under Rule 13a-15(e) promulgated under the Securities Exchange Act of 1934, as amended. Based on this evaluation, our principal executive officer and our principal financial officer concluded that our disclosure controls and procedures were effective as of December 31, 2008.

Management's Report on Internal Control over Financial Reporting

Our management is responsible for establishing and maintaining adequate internal control over financial reporting as that term is defined in Exchange Act Rule 13a-15(f). Our internal control over financial reporting is a process designed to provide reasonable assurance regarding the reliability of financial reporting and the preparation of our financial statements for external reporting purposes in accordance with generally accepted accounting principles ("GAAP"). Our internal control over financial reporting includes those policies and procedures that (i) pertain to the maintenance of records that, in reasonable detail, accurately and fairly reflect our transactions and dispositions of our assets; (ii) provide reasonable assurance that transactions are recorded as necessary to permit preparation of our financial statements in accordance with GAAP, and that our receipts and expenditures are being made only in accordance with authorizations of our management and directors; and (iii) provide reasonable assurance regarding prevention or timely detection of unauthorized acquisition, use or disposition of our assets that could have a material effect on our financial statements.

Internal control over financial reporting cannot provide absolute assurance of achieving financial reporting objectives because of its inherent limitations. Internal control over financial reporting is a process that involves human diligence and compliance and is subject to lapses in judgment and breakdowns resulting from human failures. Internal control over financial reporting also can be circumvented by collusion or improper management override. Because of such limitations, there is a risk that material misstatements may not be prevented or detected on a timely basis by internal control over financial reporting. However, these inherent limitations are known features of the financial reporting process. Therefore, it is possible to design into the process safeguards to reduce, though not eliminate, this risk. In addition, projections of any evaluation of effectiveness to future periods are subject to the risk that controls may become inadequate because of changes in conditions or that the degree of compliance with the policies or procedures may deteriorate.

In order to evaluate the effectiveness of our internal control over financial reporting as of December 31, 2008, as required by Section 404 of the Sarbanes-Oxley Act of 2002, our management conducted an assessment, including testing, based on the criteria set forth in Internal Control—Integrated Framework issued by the Committee of Sponsoring Organizations of the Treadway Commission (the "COSO Framework"). A material weakness is a control deficiency, or a combination of control deficiencies, that results in more than a remote likelihood that a material misstatement of our annual or interim financial statements will not be prevented or detected. Based on our assessment, management has concluded that our internal control over financial reporting at December 31, 2008 were effective.

The effectiveness of our internal control over financial reporting as of December 31, 2008 has been audited by GBH CPAs, PC, an independent registered public accounting firm, as stated in their report which is included herein.

Changes in Internal Control over Financial Reporting

At September 30, 2008, we identified deficiencies in segregation of duties as a weakness in internal controls. During the fourth quarter of 2008 we increased the involvement of members of management and other personnel in the financial processes in order to provide for the segregation of duties. As a result of such changes, we determined that the previously identified weakness no longer existed at December 31, 2008.

Except as noted above, no change in our internal control over financial reporting (as defined in Rule 13a-15(f) under the Securities Exchange Act of 1934) occurred during the fourth quarter of fiscal 2008 that has materially affected, or is reasonably likely to materially affect, our internal control over financial reporting.

Item 9B. Other Information

Not applicable

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PART III

Item 10. Directors, Executive Officers and Corporate Governance

The information required by this Item will be included in a definitive proxy statement, pursuant to Regulation 14A, to be filed not later than 120 days after the close of our fiscal year. Such information is incorporated herein by reference.

Executive Officers

Our executive officers as of December 31, 2008, and their ages and positions as of that date, are as follows:

Name	Age	Position
John F. Terwilliger	61	President, Chief Executive Officer and Chairman
James J. Jacobs	31	Chief Financial Officer

John F. Terwilliger has served as our President, CEO and Chairman since our inception in April 2001.

James J. Jacobs has served as our Chief Financial Officer since July 2006. From April 2003 until joining the Company, Mr. Jacobs served as an Associate and as Vice President—Energy Investment Banking at Sanders Morris Harris, Inc., an investment banking firm, where he specialized in energy sector financing and transactions. Previously, Mr. Jacobs was an Energy Finance Analyst at Duke Capital Partners, LLC from June 2001 to April 2003 and a Tax Consultant at Deloitte & Touché, LLP. Mr. Jacobs holds a Masters of Professional Accounting from the University of Texas and is a Certified Public Accountant.

There are no family relationships among the executive officers and directors. Except as otherwise provided in employment agreements, each of the executive officers serves at the discretion of the Board.

Item 11. Executive Compensation

The information required by this Item will be included in a definitive proxy statement, pursuant to Regulation 14A, to be filed not later than 120 days after the close of our fiscal year. Such information is incorporated herein by reference.

Item 12. Security Ownership of Certain Beneficial Owners and Management and Related Stockholder Matters

The information required by this Item will be included in a definitive proxy statement, pursuant to Regulation 14A, to be filed not later than 120 days after the close of our fiscal year. Such information is incorporated herein by reference.

Equity compensation plan information is set forth in Part II, Item 5 of this Form 10-K.

Item 13. Certain Relationships and Related Transactions, and Director Independence

The information required by this Item will be included in a definitive proxy statement, pursuant to Regulation 14A, to be filed not later than 120 days after the close of our fiscal year. Such information is incorporated herein by reference.

Item 14. Principal Accountant Fees and Services

The information required by this Item will be included in a definitive proxy statement, pursuant to Regulation 14A, to be filed not later than 120 days after the close of our fiscal year. Such information is incorporated herein by reference.

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PART IV

Item 15. Exhibits and Financial Statement Schedules

1. Financial statements. See "Index to Financial Statements" on page 30 of this report.
2. Exhibits

Exhibit Number	Exhibit Description	Incorporated by Reference Form	Date	Number	Filed Herewith
3.1	Certificate of Incorporation of Houston American Energy Corp. filed April 2, 2001	SB-2	8/3/01	3.1	
3.2	Amended and Restated Bylaws of Houston American Energy Corp. adopted November 26, 2007	8-K	11/29/07	3.1	
3.3	Certificate of Amendment to the Certificate of Incorporation of Houston American Energy Corp. filed September 25, 2001	SB-2	10/01/01	3.4	
4.1	Text of Common Stock Certificate of Houston American Energy Corp.	SB-2	8/3/01	4.1	
10.1	Form of Registration Rights Agreement, dated May 4, 2005	8-K	5/10/05	4.3	
10.2	Houston American Energy Corp. 2005 Stock Option Plan*	8-K	8/16/05	10.1	
10.3	Form of Director Stock Option Agreement*	8-K	8/16/05	10.2	
10.4	Form of Placement Agent Warrant, dated April 28, 2006	8-K	4/28/06	4.1	
10.5	Form of Registration Rights Agreement, dated April 28, 2006	8-K	4/28/06	4.2	
10.6	Form of Subscription Agreement, dated April 2006 relating to the sale of shares of common stock	8-K	4/28/06	10.1	
10.7	Form of Lock-Up Agreement, dated April 2006	8-K	4/28/06	10.2	
10.8	Houston American Energy Corp. 2008 Equity Incentive Plan*	Sch 14A	4/28/08	Ex A	
10.9	Form of Restricted Stock Agreement with John Terwilliger and James J. Jacobs*	Sch 14A	4/28/08	Ex B	
10.10	Letter Agreement, dated February 3, 2009, between Houston American Energy Corp., Yazoo Pipeline Co., L.P., Sterling Exploration & Production Co., L.L.C., and Matagorda Operating Company.	8-K	2/05/09	10.1	
14.1	Code of Ethics for CEO and Senior Financial Officers	10-KSB	3/26/04	14.1	
23.1	Consent of Thomas Leger & Co. L.L.P.				X

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Exhibit Number	Exhibit Description	Incorporated by Reference Form	Date	Number	Filed Herewith
23.2	Consent of Malone & Bailey, P.C.				X
23.3	Consent of GBH CPAs, P.C.				X
31.1	Section 302 Certification of CEO				X
31.2	Section 302 Certification of CFO				X
32.1	Section 906 Certification of CEO				X
32.2	Section 906 Certification of CFO				X
99.1	Code of Business Ethics	8-K	7/7/06	99.1	

* Compensatory plan or arrangement.

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Index to Financial Statements

SIGNATURES

Pursuant to the requirements of Section 13 or 15(d) of the Securities Exchange Act of 1934, the registrant has duly caused this report to be signed on its behalf by the undersigned, thereunto duly authorized.

HOUSTON AMERICAN ENERGY CORP.

Dated: March 16, 2009

By: /s/ JOHN F. TERWILLIGER
John F. Terwilliger
President

Pursuant to the requirements of the Securities Exchange Act of 1934, this report has been signed below by the following persons on behalf of the registrant and in the capacities and on the dates indicated.

Signature	Title	Date
/s/ JOHN F. TERWILLIGER John F. Terwilliger	Chairman, Chief Executive Officer, President and Director (Principal Executive Officer)	March 16, 2009
/s/ O. LEE TAWES, III O. Lee Tawes, III	Director	March 16, 2009
/s/ EDWIN BROUN III Edwin Broun III	Director	March 16, 2009
/s/ STEPHEN HARTZELL Stephen Hartzell	Director	March 16, 2009
/s/ JOHN P. BOYLAN John P. Boylan	Director	March 16, 2009
/s/ JAMES J. JACOBS James J. Jacobs	Chief Financial Officer (Principal Accounting and Financial Officer)	March 16, 2009

CPO-4 In Llanos Basin

Colombia

Farm-in Opportunity

2009. 4. 13.

SK energy

PLAINTIFF'S
EXHIBIT
PX-011

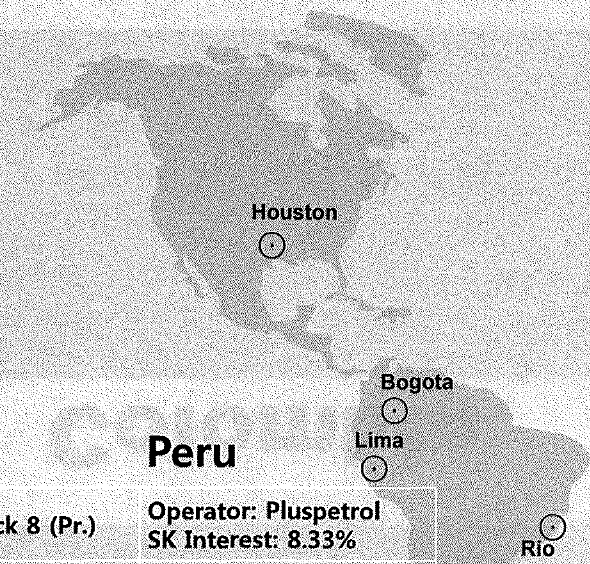
SK Energy E&P Activities

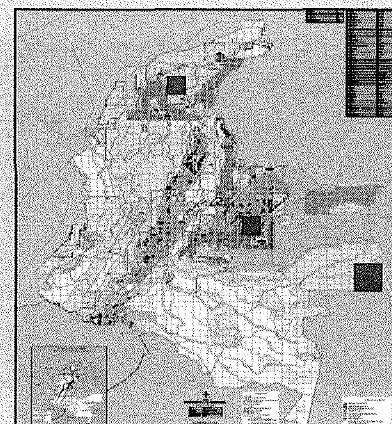
SK Energy

34 Blocks (11 Dev./Prod. and 23 Exp.) and 4 LNG Businesses in 19 Countries

- Reserves: 520 MM Boe at the end of 2008

⊙ Branch Offices
■ E&P Activities
☼ LNG Business



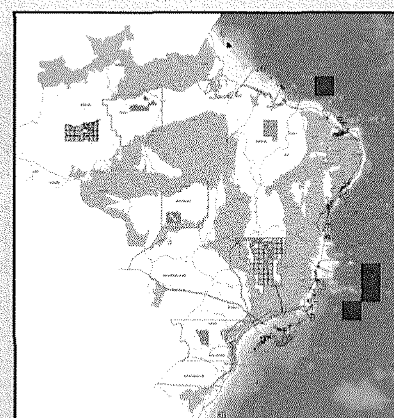


Colombia

CPE-5 (Ex.)	Operator: BHP SK Interest: 28.6%
CPO-4 (Ex.)	Operator: SK SK Interest: 100%
SSJN-5(Ex.)	Operator: SK SK Interest: 50%

Peru

Block 8 (Pr.)	Operator: Pluspetrol SK Interest: 8.33%
Block 56 (Pr.)	Operator: Pluspetrol SK Interest: 17.60%
Block 88 (Pr.)	Operator: Pluspetrol SK Interest: 17.60%
Z-46 (Ex.)	Operator: SK SK Interest: 90%
Peru LNG	Operator: Hunt SK Interest: 20%



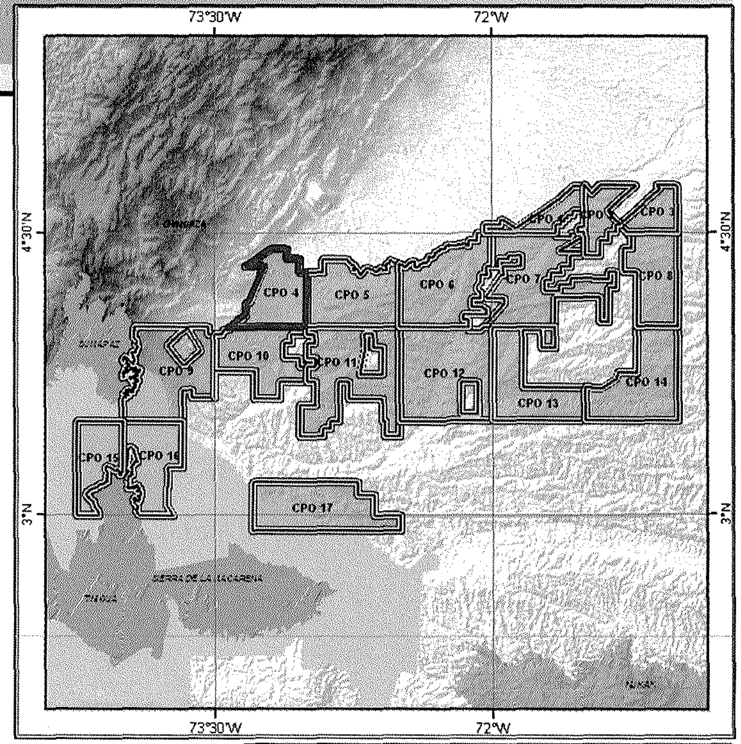
Brazil

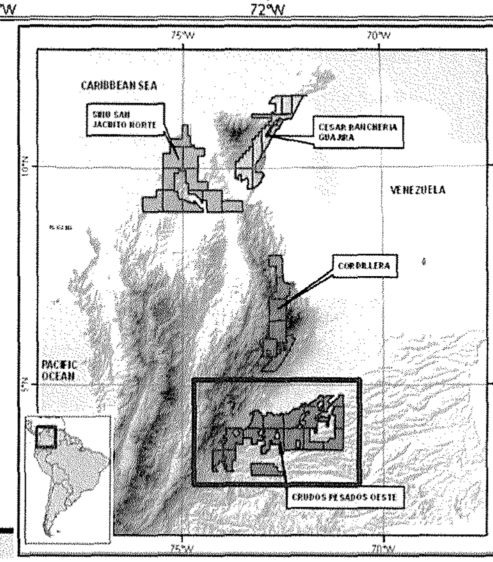
BMC-8 (Pr.)	Operator: Devon SK Interest: 40%
BMC-30 (Ex.)	Operator: Anadarko SK Interest: 20%
BMC-32 (Ex.)	Operator: Devon SK Interest: 26.67%
Bar-3 (Ex.)	Operator: Devon SK Interest: 30%

SK energy

CPO-4 Overview

Overview





❖ Location : Onshore, Central Colombia

❖ Basin : Western Llanos Basin

❖ Area : 139,859 ha (1,398.591885 km^2)

❖ Effective Date : December 18, 2008

❖ Contract Type : E&P Contract(Royalty & Tax)

❖ Participant

- SK Energy : 100 % (Operator)

❖ Exploration Period & Work Obligation

PHASE	PERIOD	WORK OBLIGATION
Phase 0	'08.12.18 ~ '09.6.17 (6 mos.)	Phase 0 Report (Letter) (~'09.1.17)
Phase 1	'09.6.18 ~'12.6.17 (3 yrs.)	• 400 km 2-D Seismic Reprocessing • 620 km 2-D New Seismic Acquisition • 2 Exploration Wells
Phase 2	'12.6.18 ~ '15.6.17 (3 yrs.)	• 400 km 2-D Seismic Reprocessing • 3 Exploration Wells

Summary

Proven Area

- Source : Surrounded by Existing Fields
- Multi Reservoirs
- Trap Type : On trend of discovery
- Relatively High API Oil
- Expected Reserve : 40 ~ >150 MMBO Recoverable each

Excellent Working Environment

- Near P/L
- Ease of Access Roads
- No Indigenous Reservation Area
- All year round Working

Main Risk : Existence of Trap (New Seismic will verify)

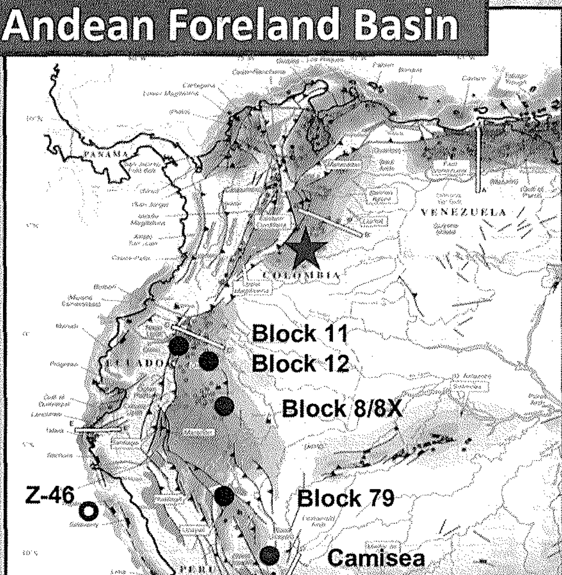
Farm-out Plan

- First come First served
- Up to 50% (2 Parties)
- FO Terms & Conditions : Open
- Data Room : middle of April ~ end of May

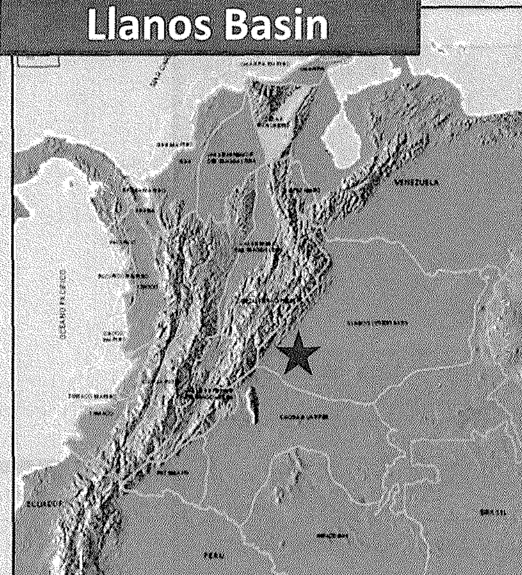
Location of CPO-4

Location

Andean Foreland Basin



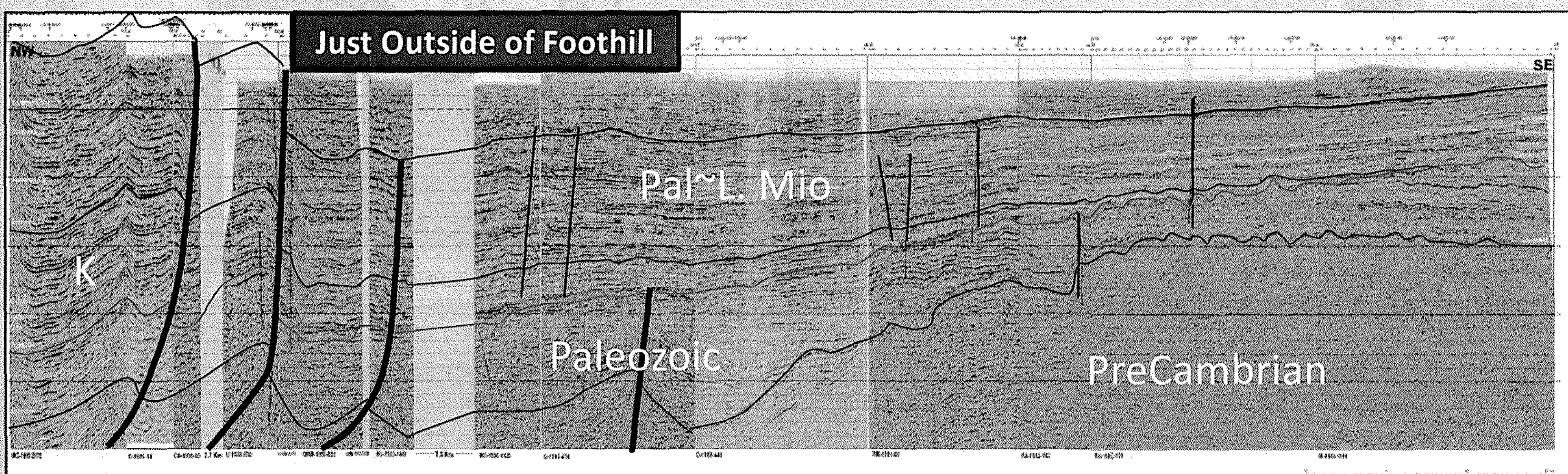
Llanos Basin



- 220,000 ㎢ (55 MM Acres)
- 4 Billion Barrels Proven

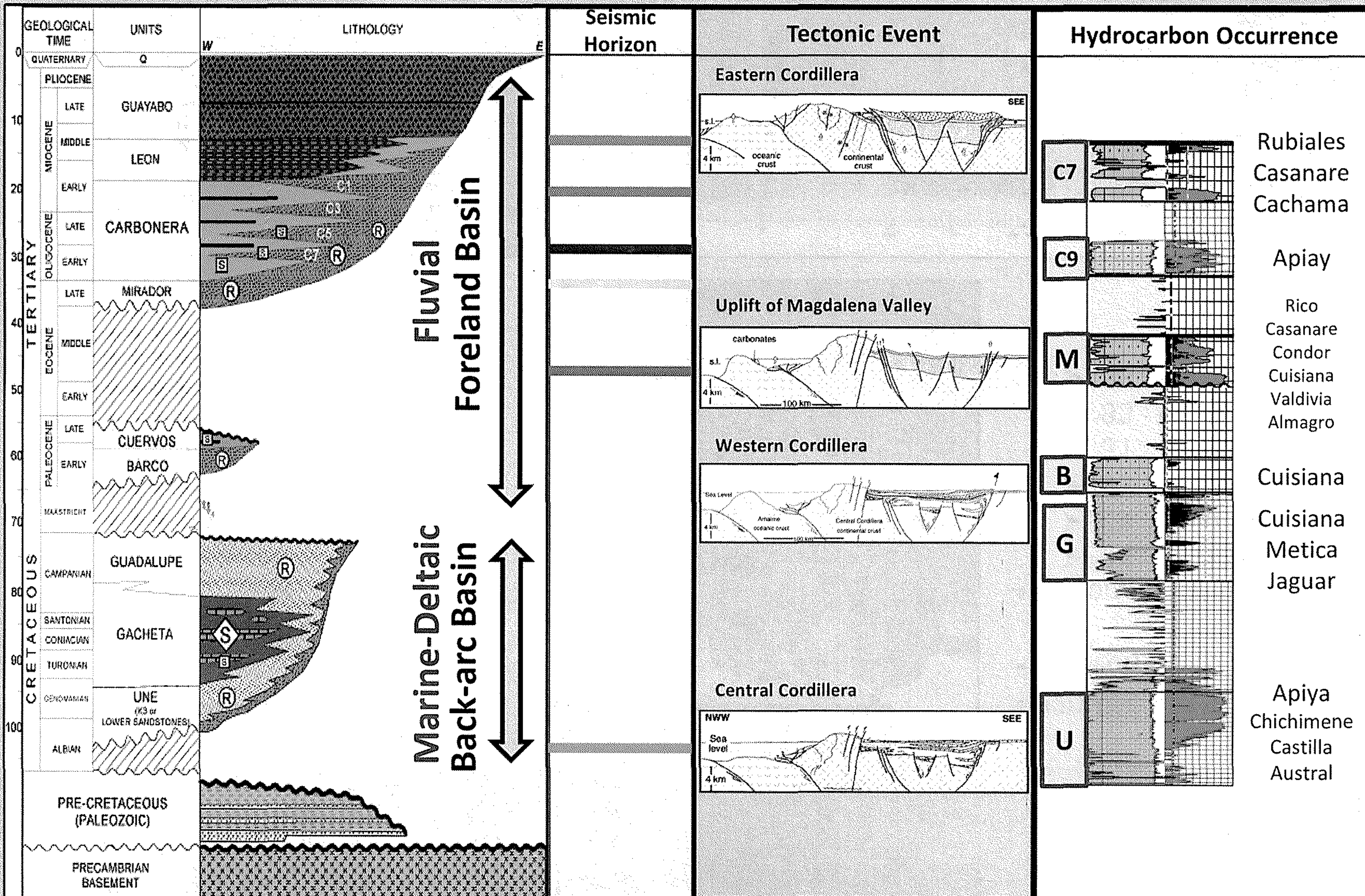
- History
  - '44 : San Martin-1, shell
  - '69 : Castilla-1, Chevron
  - '81 : Apiay-1, Ecopetrol
  - '81 : Rubiales, Intercol
  - '83 : Cano Limon, OXY
  - '88 : Cusiana, BP

Just Outside of Foothill



SK energy

General Geology

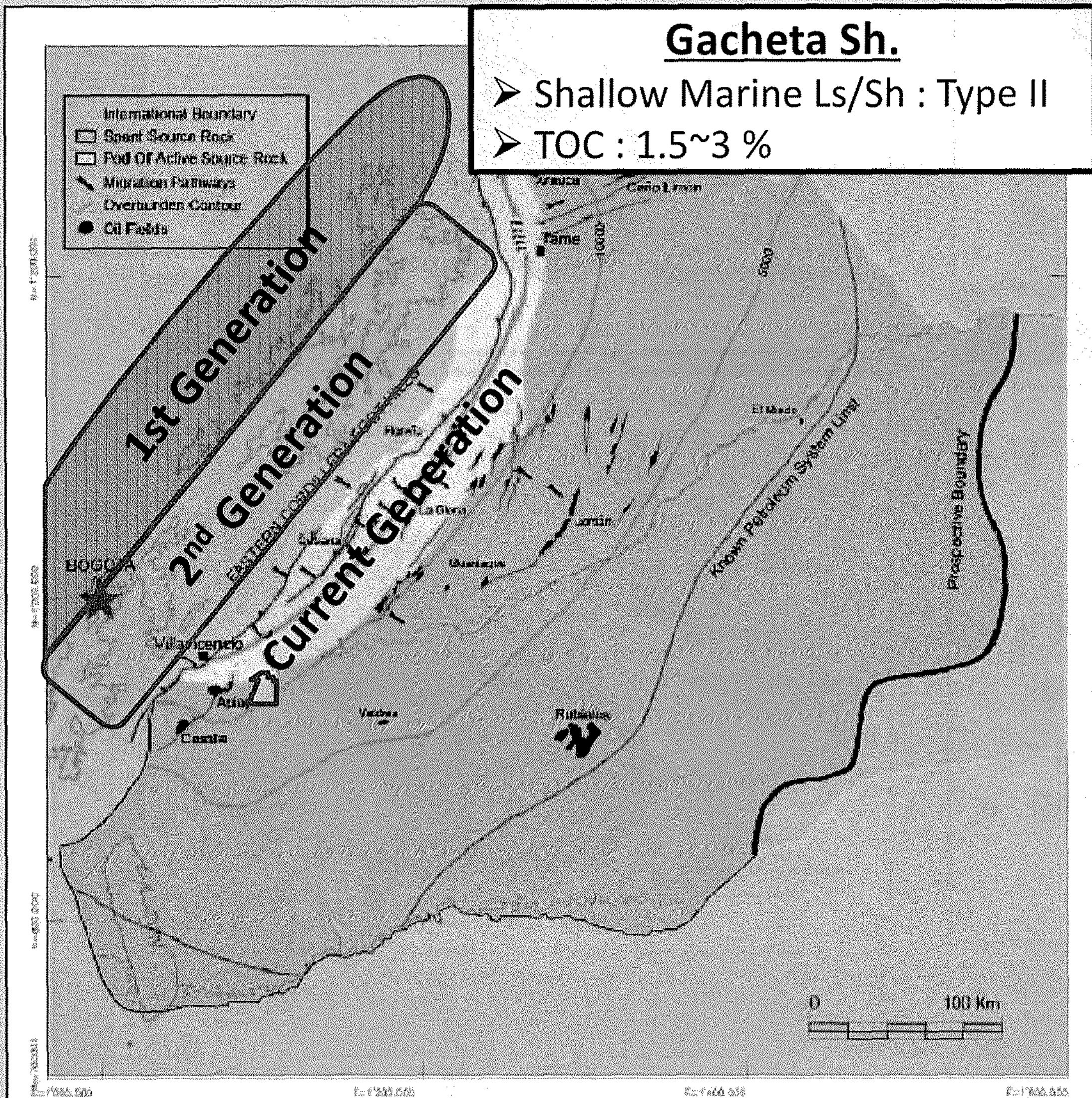


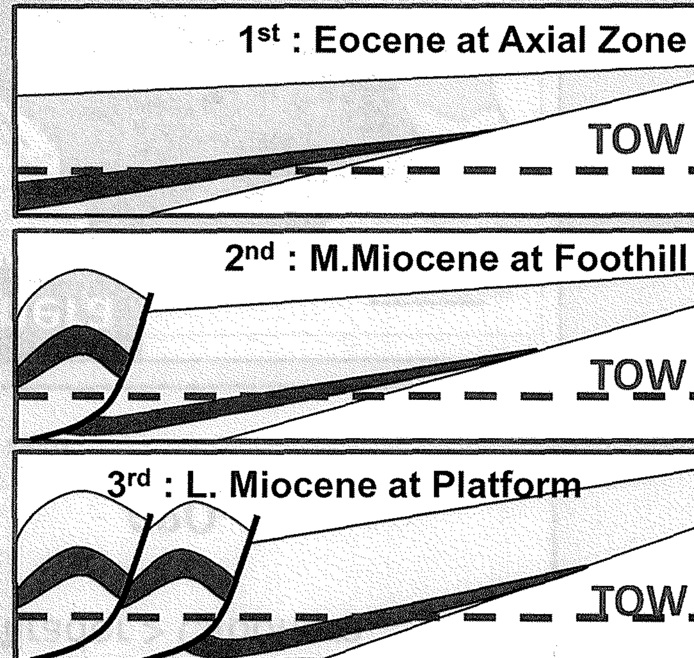
3 Times Generation

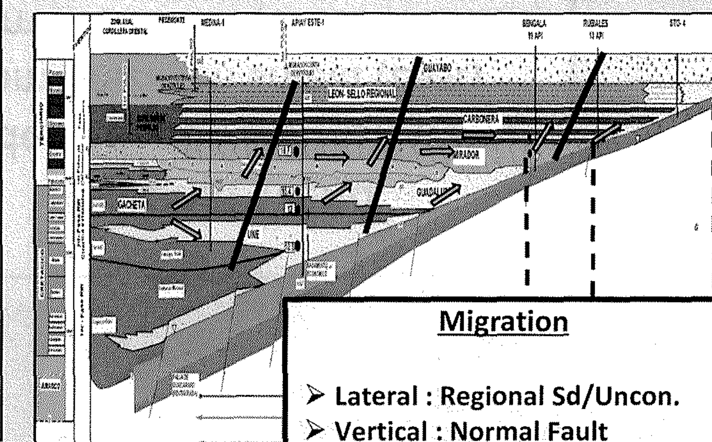
Source Rock

Gacheta Sh.

- ➢ Shallow Marine Ls/Sh : Type II
- ➢ TOC : 1.5~3 %







Migration

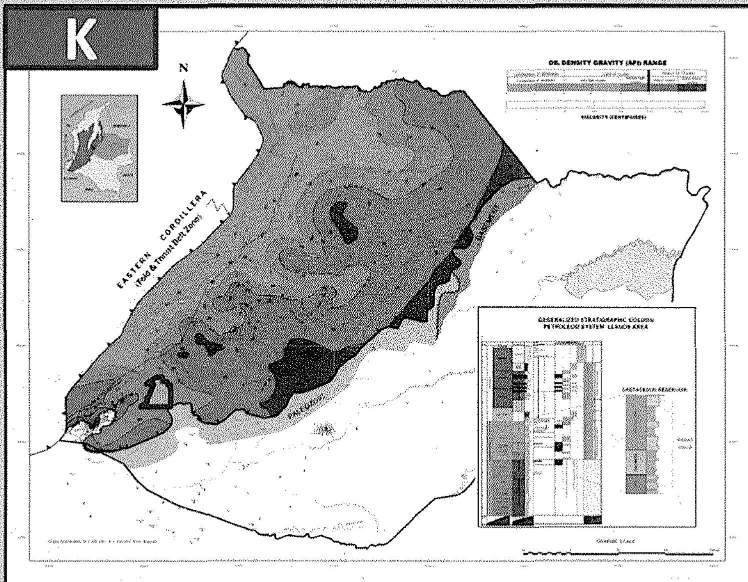
- ➢ Lateral : Regional Sd/Uncon.
- ➢ Vertical : Normal Fault

SK energy

Regional API Distribution

Source Rock

K



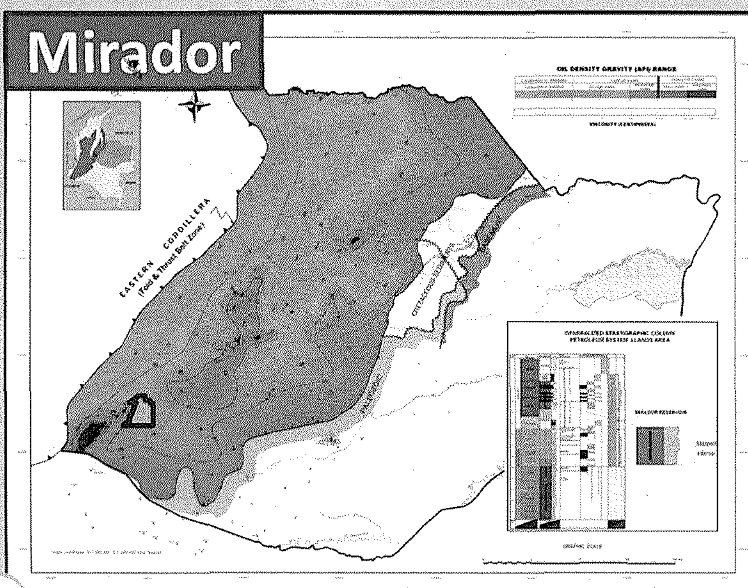
Regional Trend

- Biodegradation by fresh water
  - from Brazillian shield (East)
  - from Mountain (West & south)
- K > Mirador > Cabonera

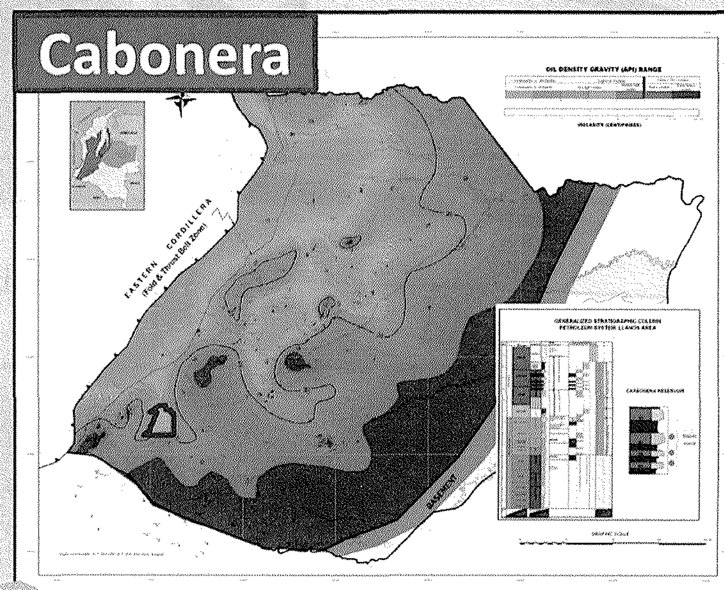
CPO-4

- ± 25 API

Mirador

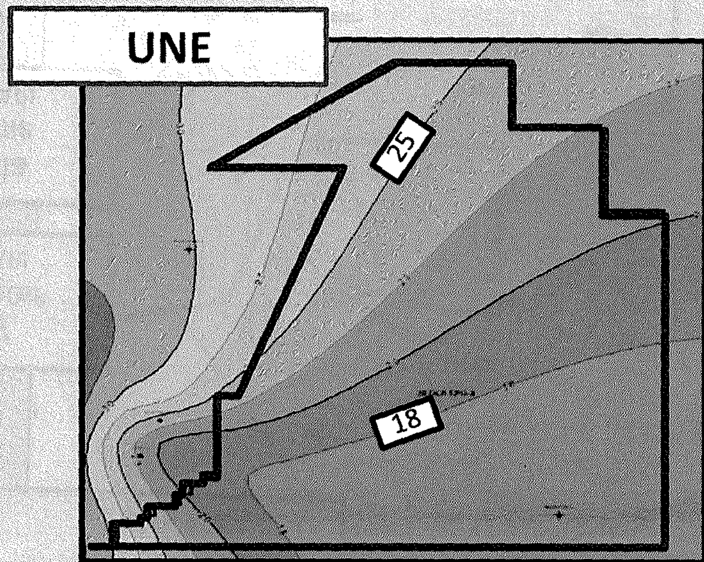


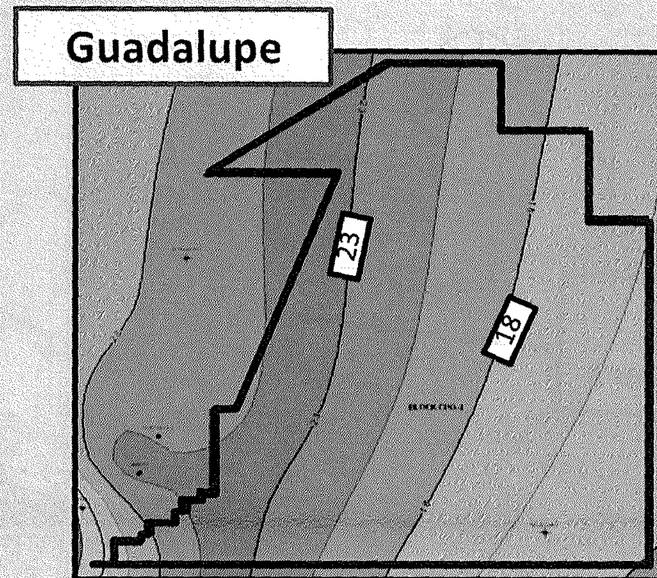
Cabonera

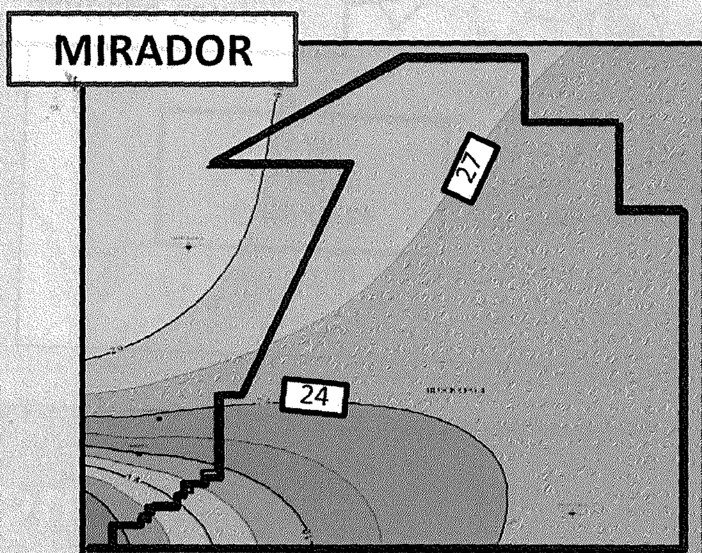


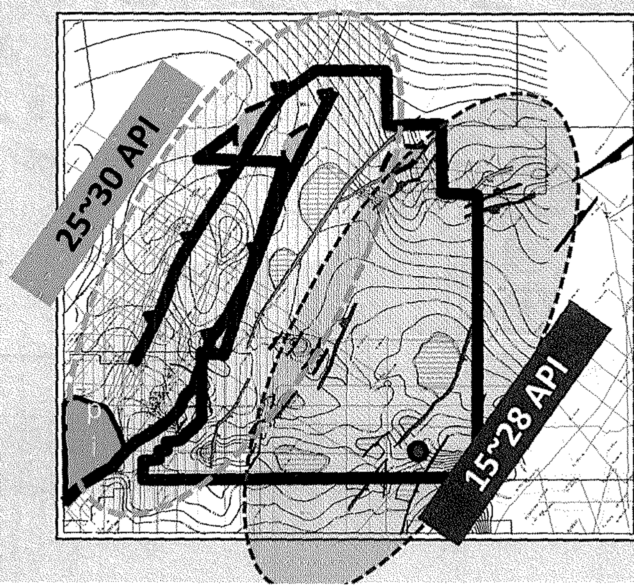
API MAP on CPO-4

Source Rock





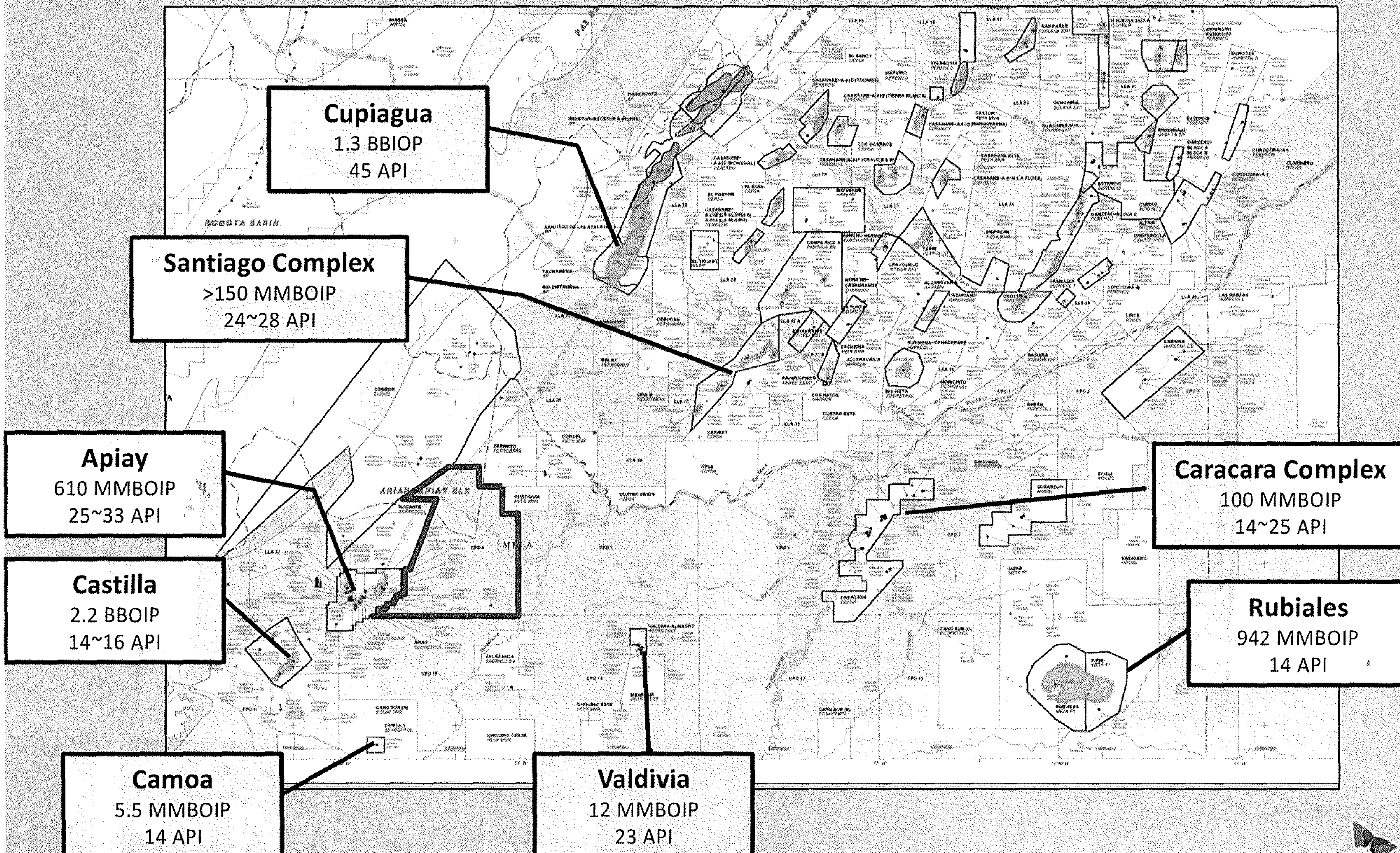




SK energy

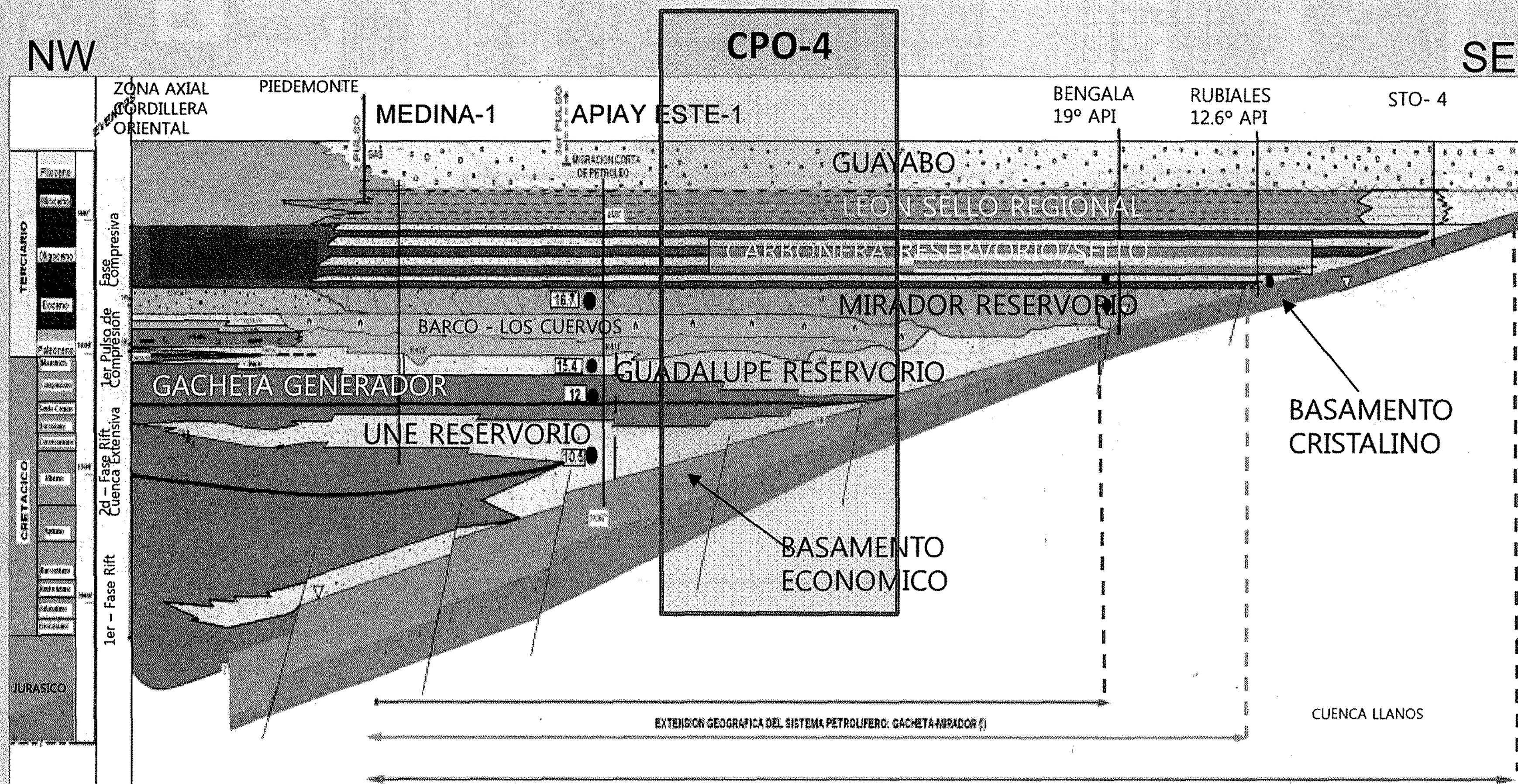
Surrounded Area by Existing Fields

Source Rock



Multi Reservoir

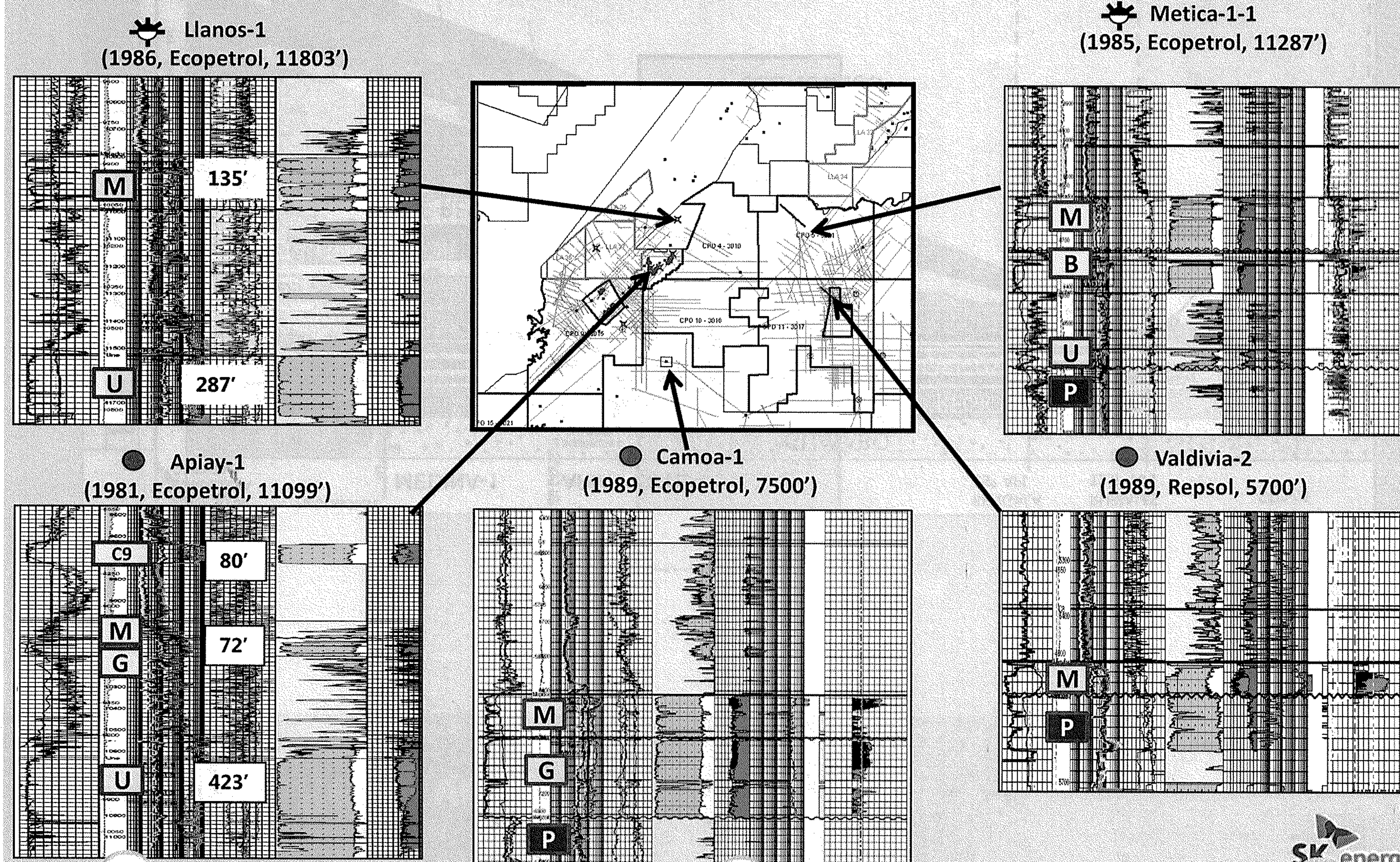
Reservoir Rock



SK energy

Proven Reservoir

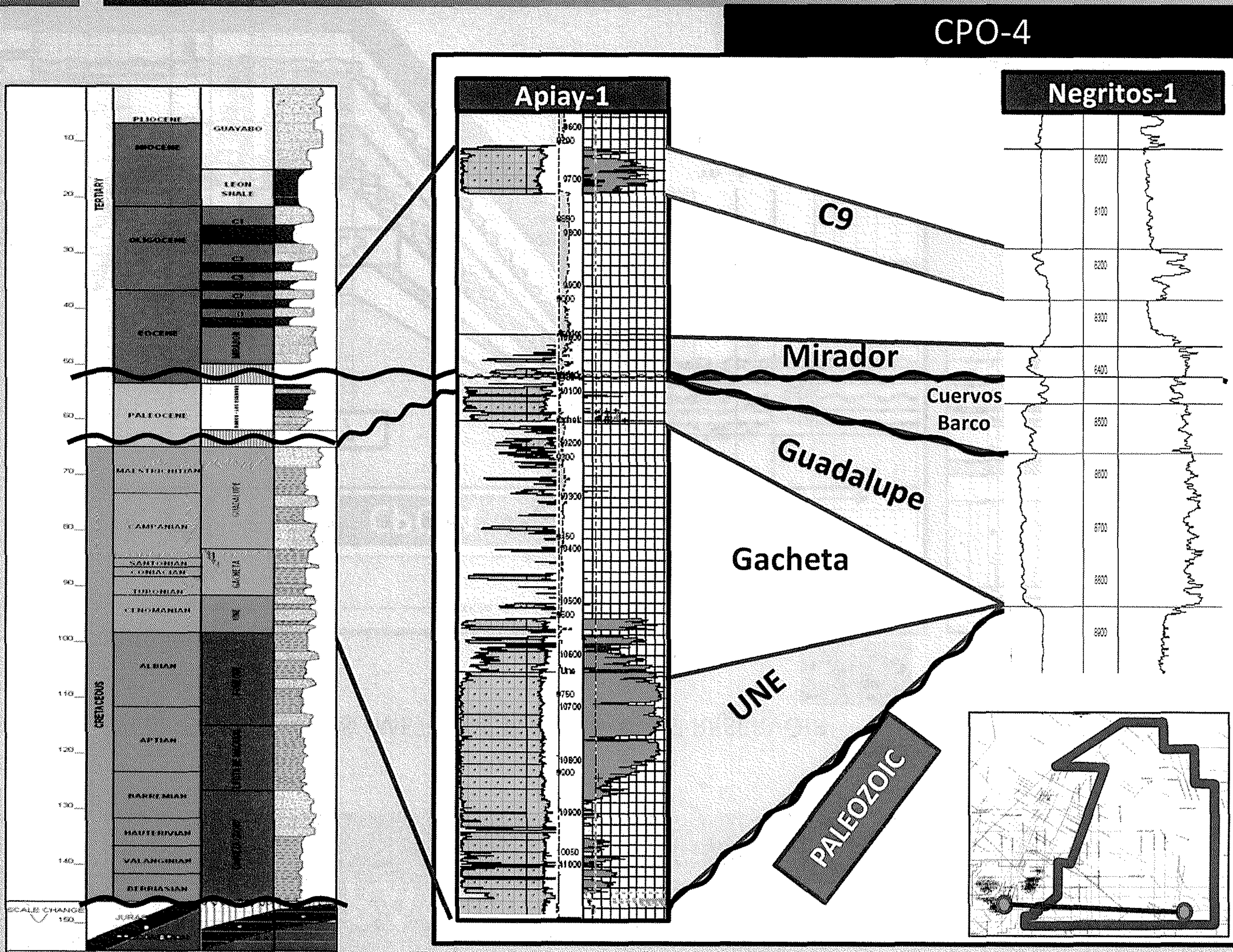
Reservoir Rock



SK energy

Multi Sands with Oil

Reservoir Rock



Φ : 22%

Φ : 22%

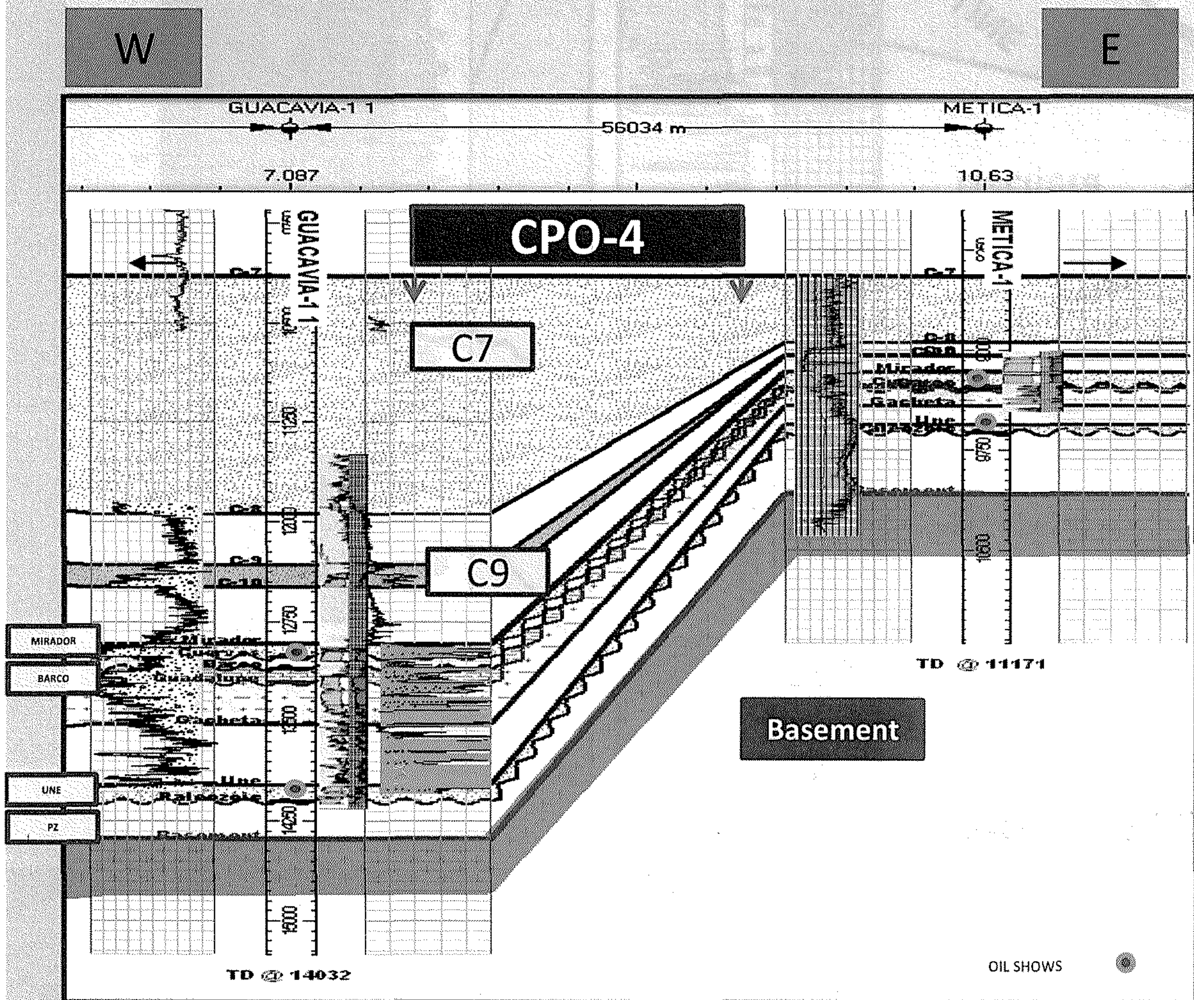
Φ : 21%

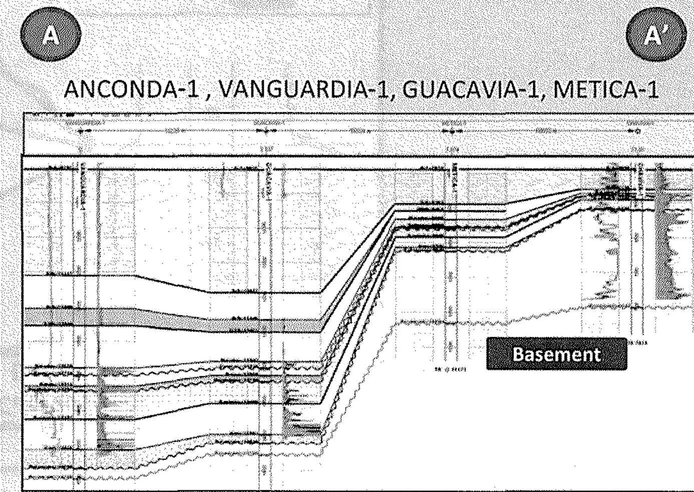
SK energy

STRATIGRAPHIC SECTION A-A'

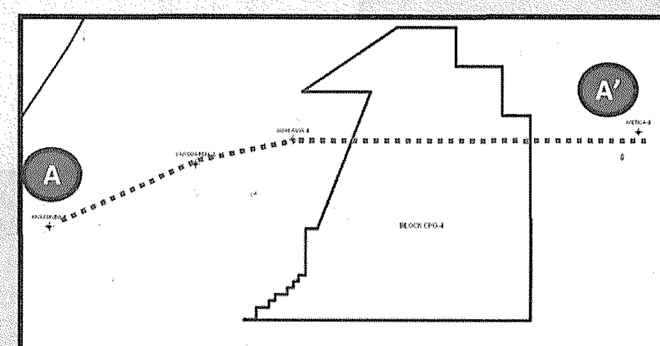
RESERVOIR

WELL GUACAVIA-1 & METICA-1 FLATTEN AT C7 RESERVOIR



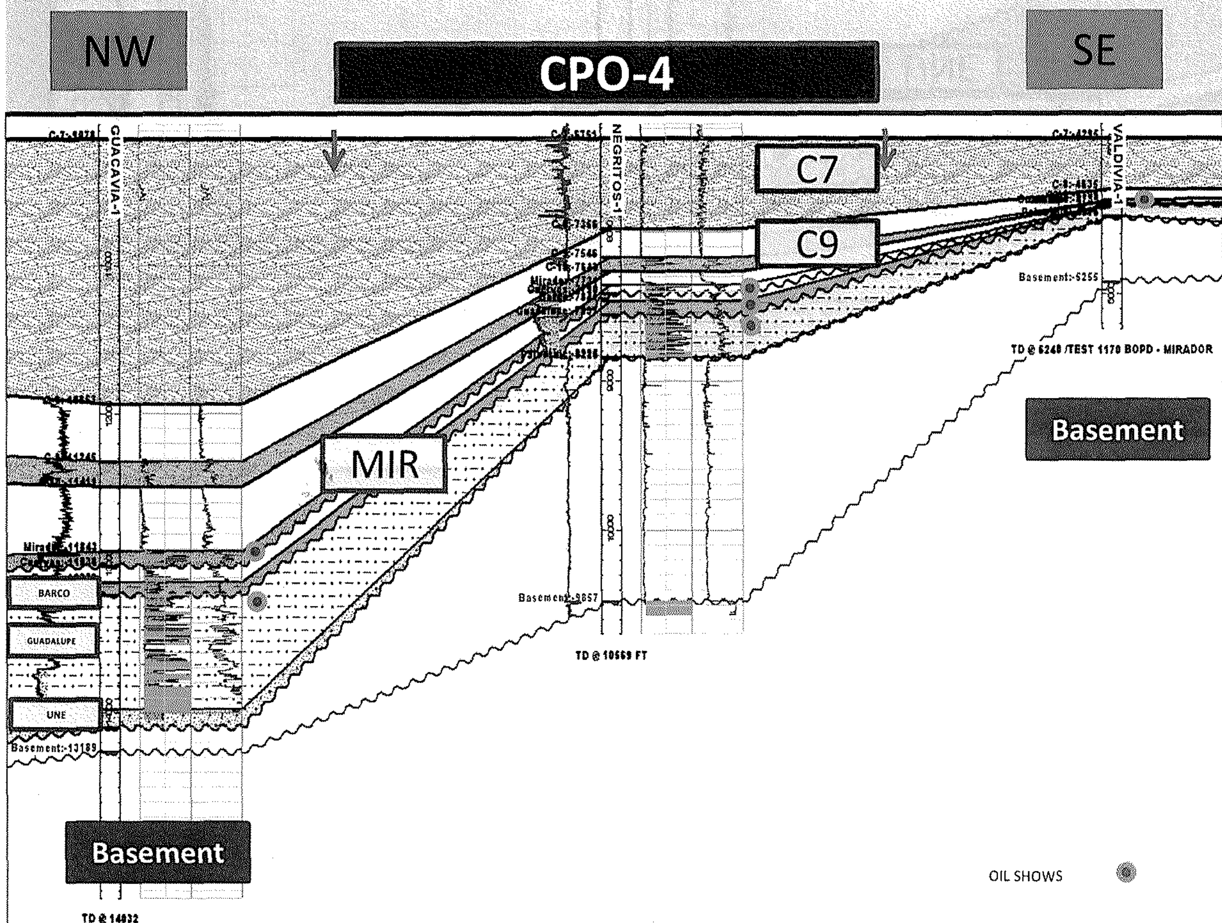


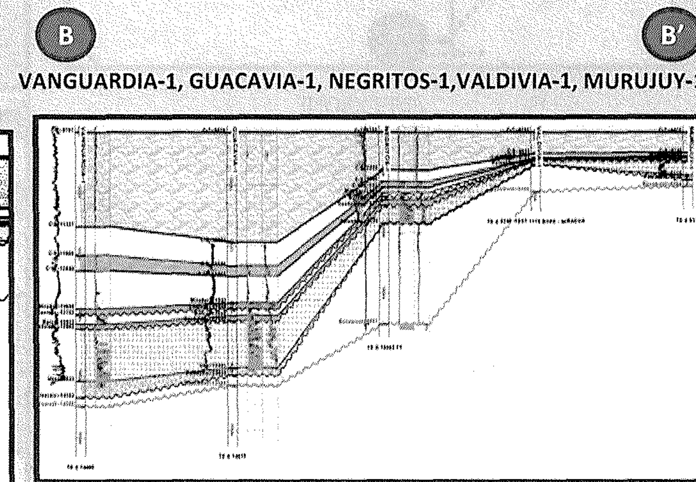
INDEX MAP



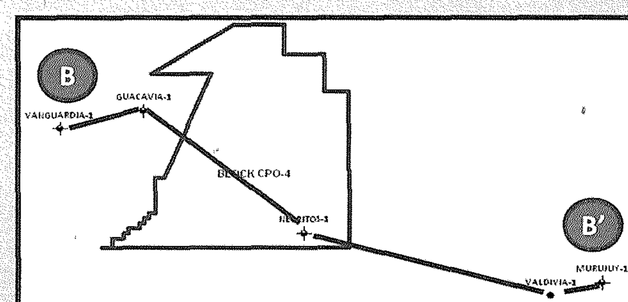
SK energy

STRATIGRAPHIC SECTION B-B'



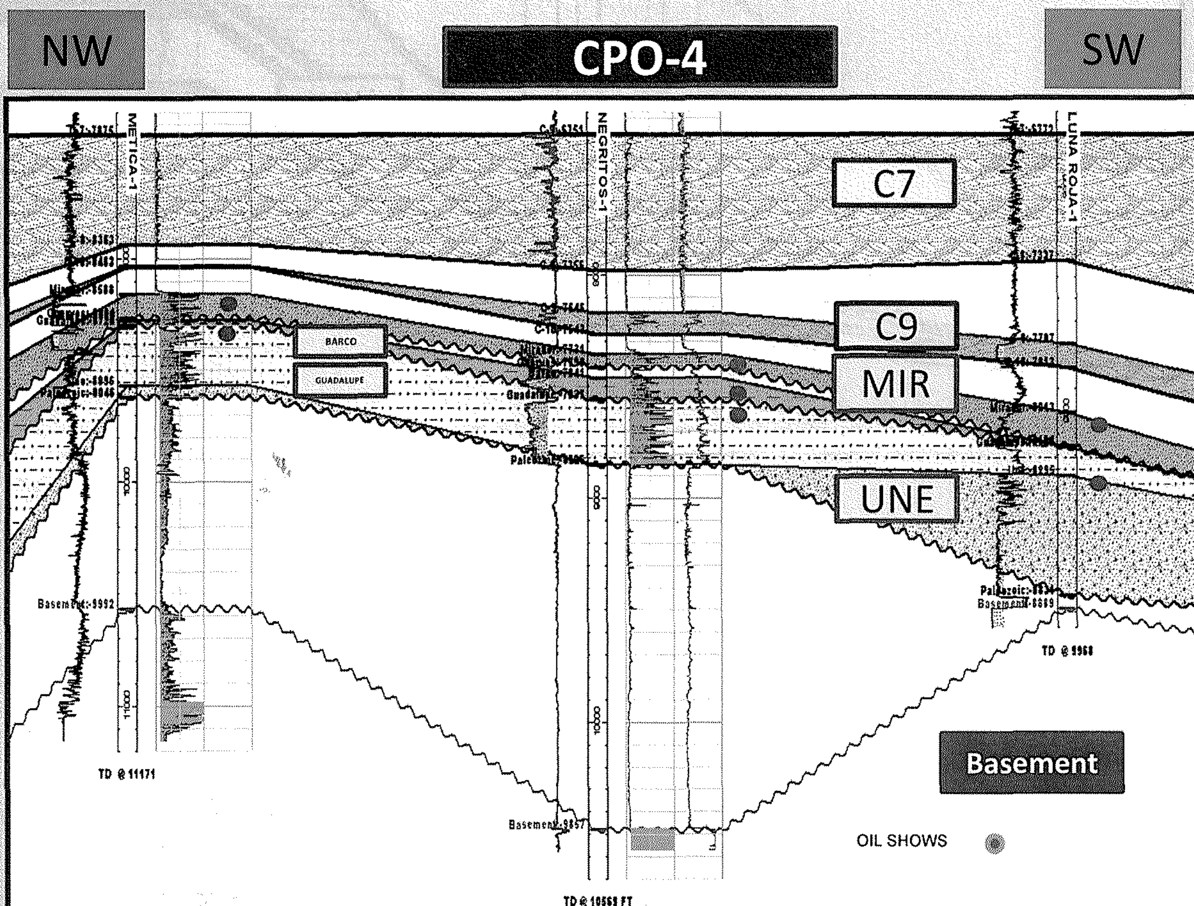


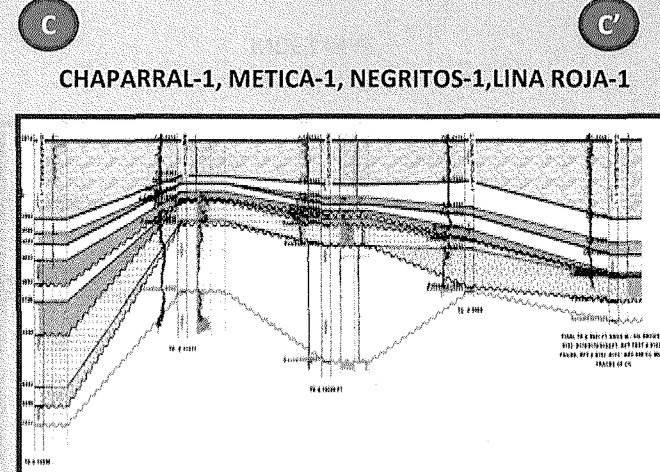
INDEX MAP



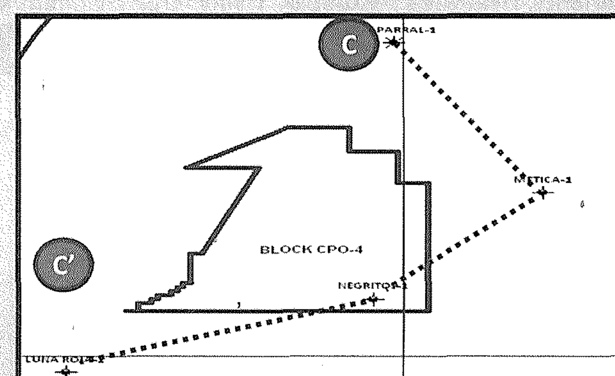
SK energy

STRATIGRAPHIC SECTION C-C’



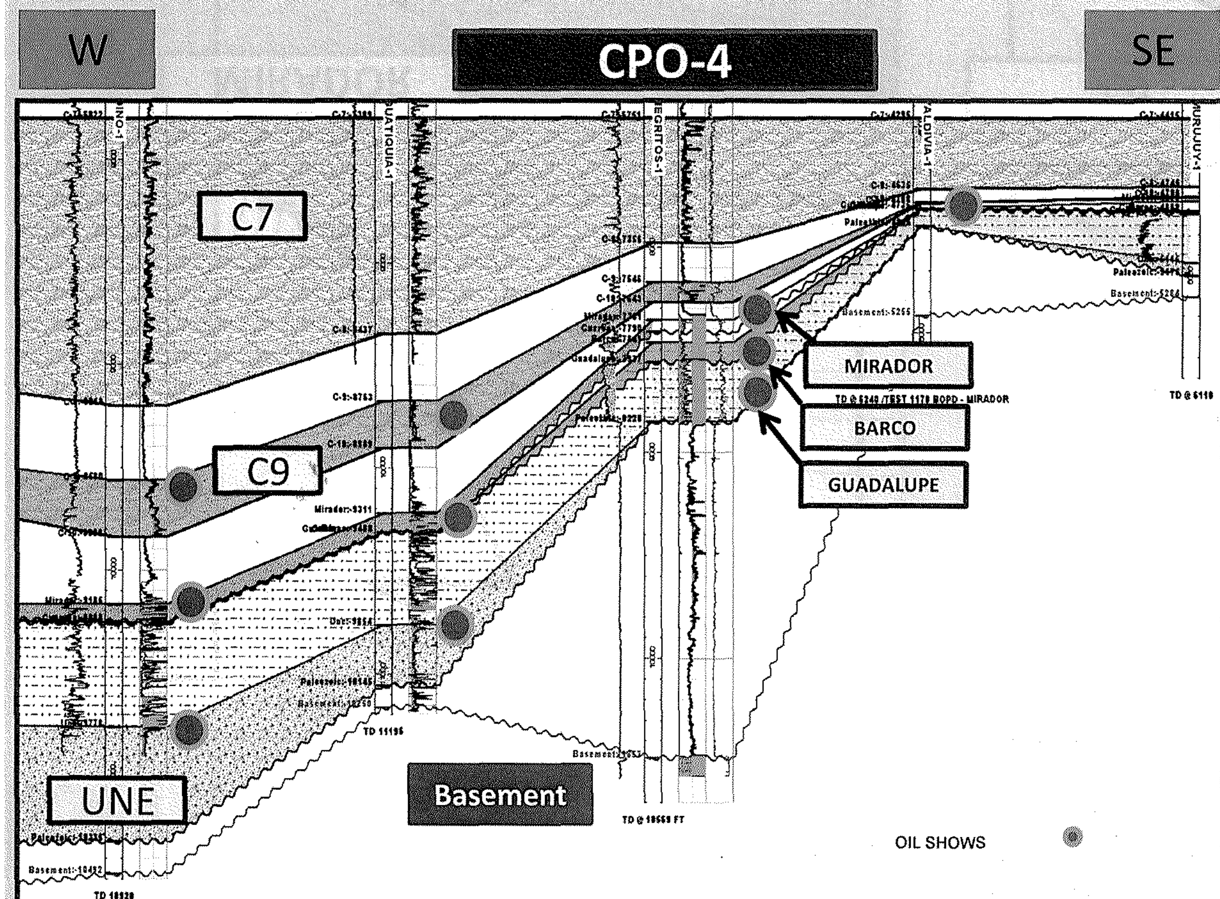


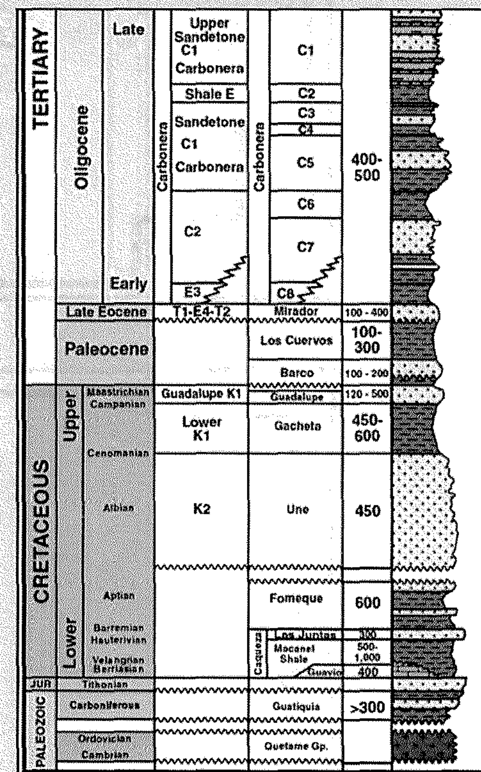
INDEX MAP

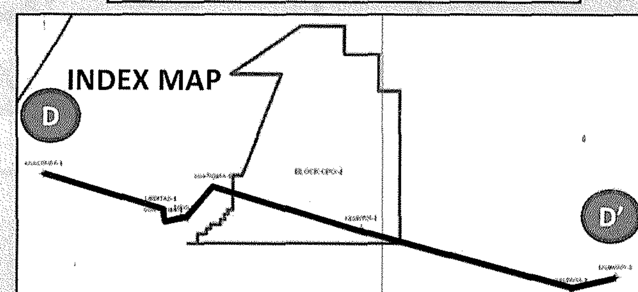


SK energy

Multi Targets



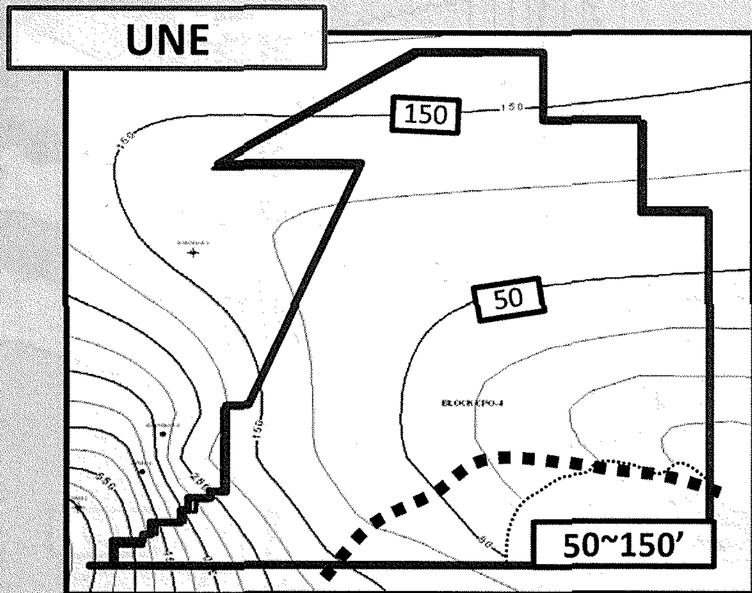


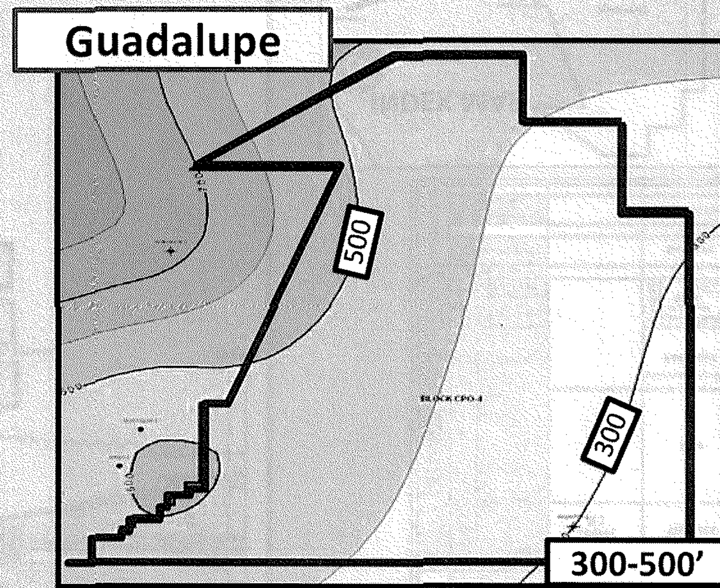


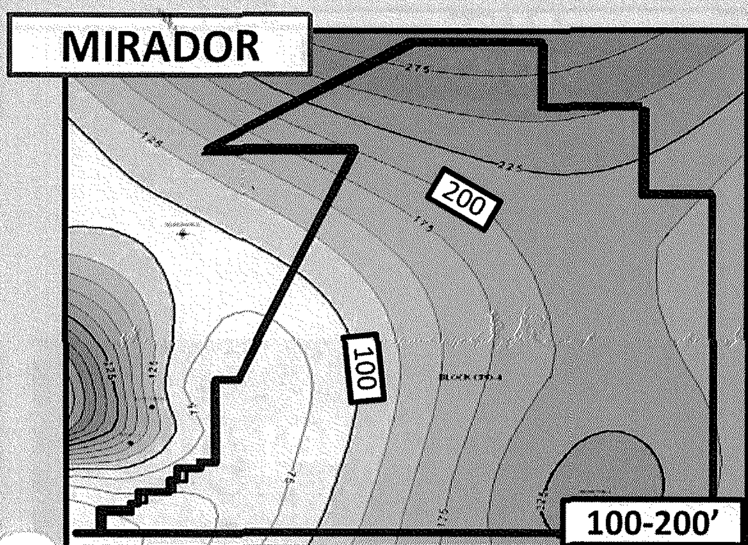
SK energy

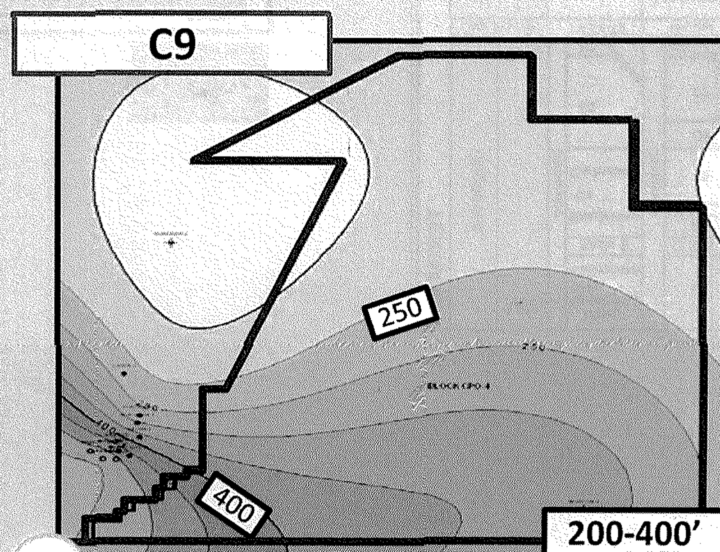
GROSS THICKNESS

Reservoir









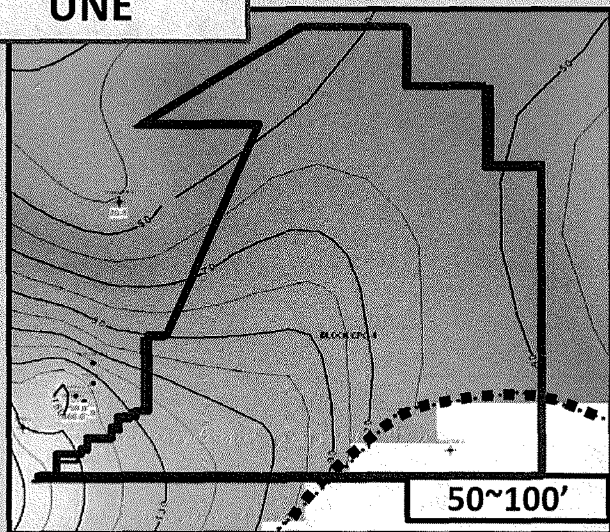
SK energy

NET SAND THICKNESS

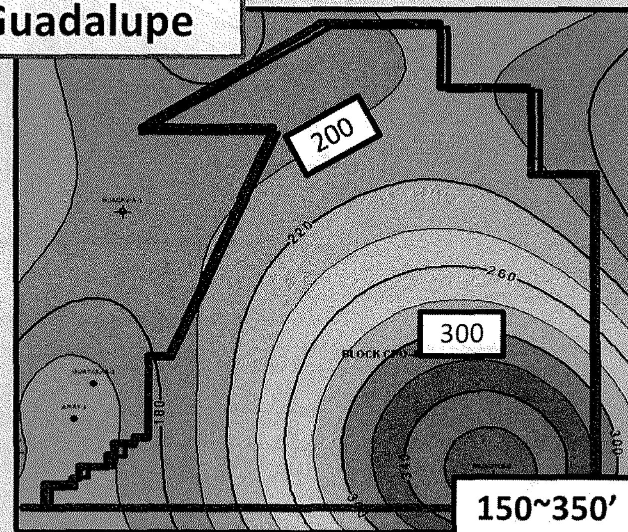
Reservoir

30~350'

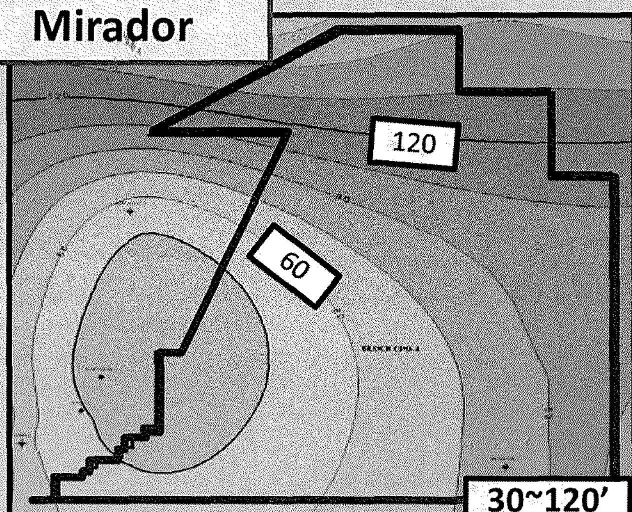
UNE



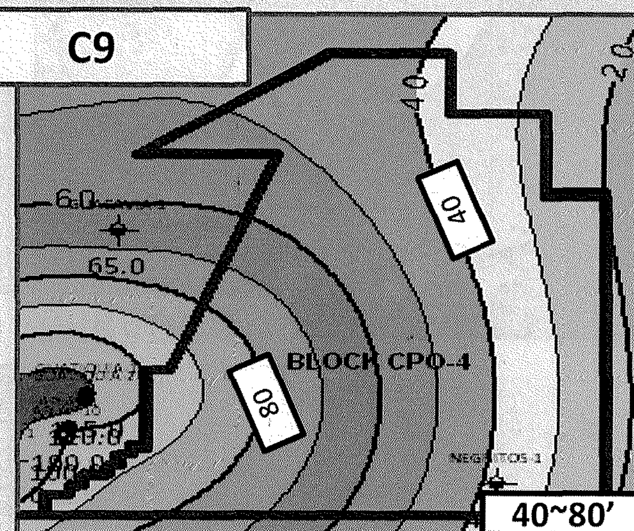
Guadalupe



Mirador



C9

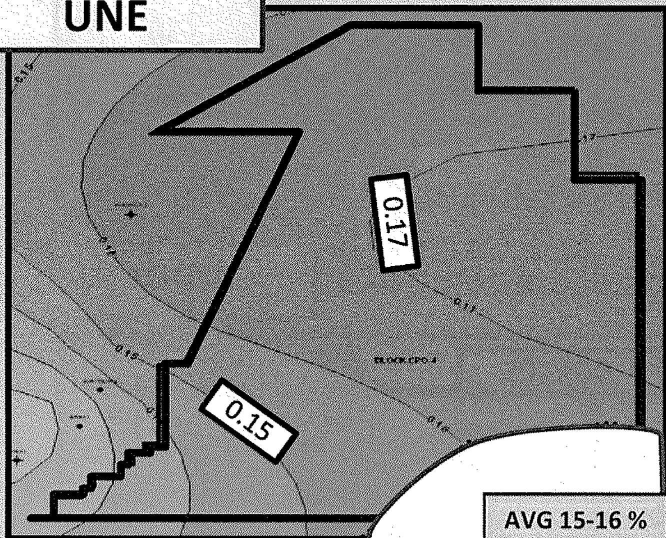


SK energy

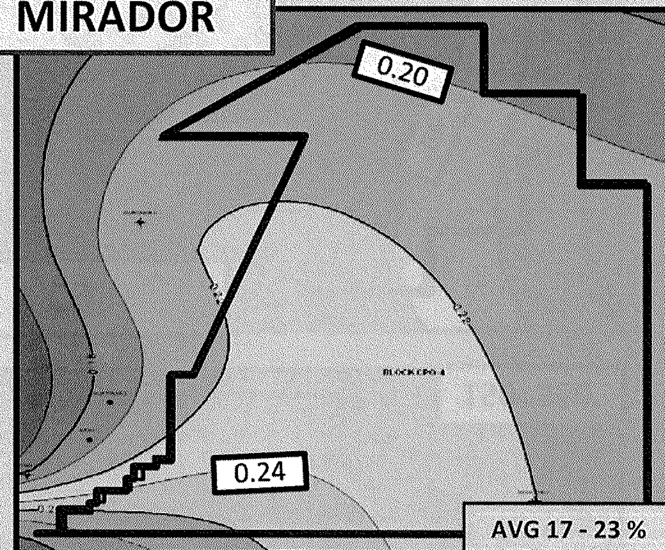
ISO-POROSITY RESERVOIR MAP

Reservoir

UNE

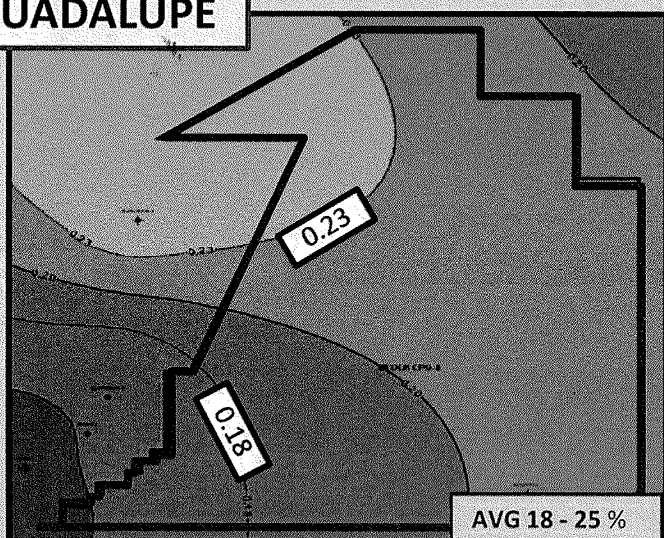


MIRADOR

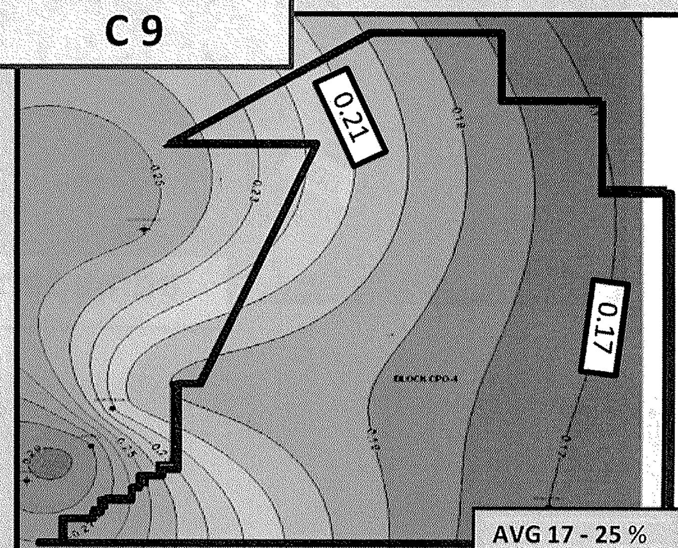


15~25%

GUADALUPE



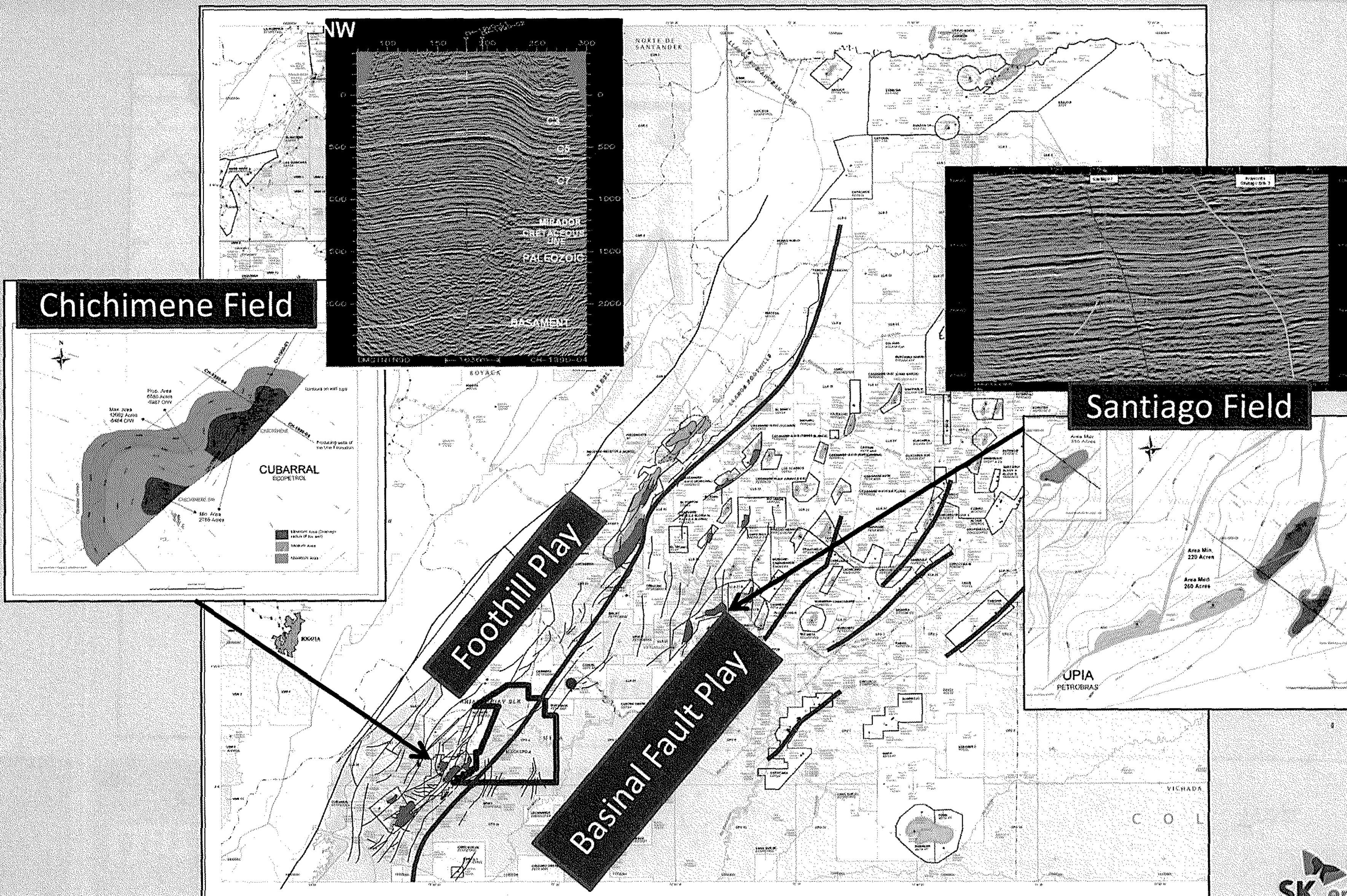
C 9



energy

On-trend of Discoveries

Trap

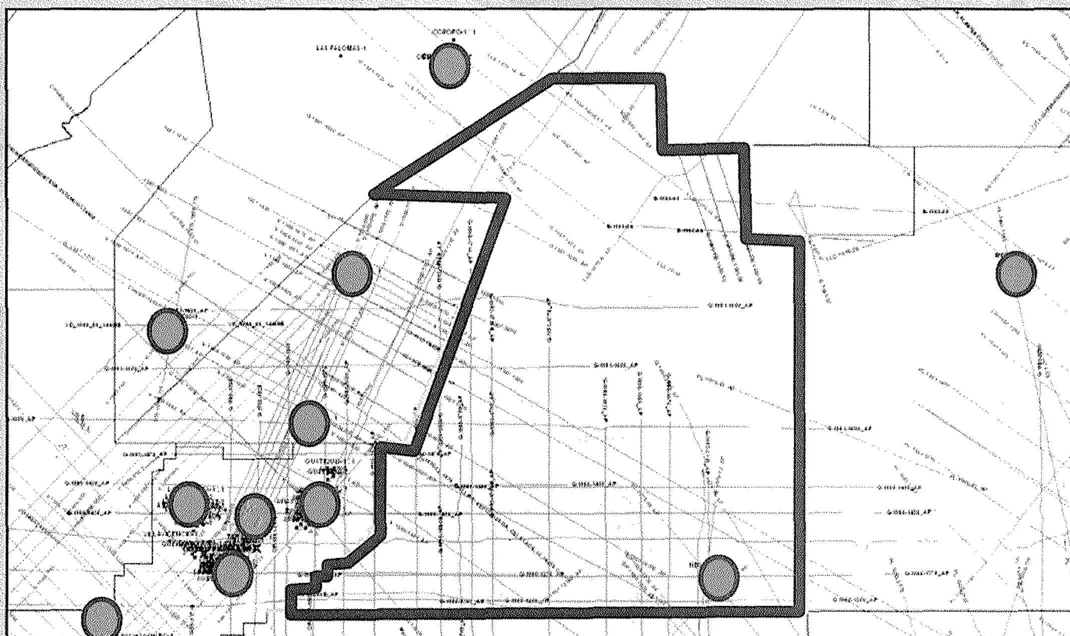


SK energy

Data Base

Trap

2 D Seismic : 1,825 Km ('70~'90)
15 Wells : 1 well inside of the block

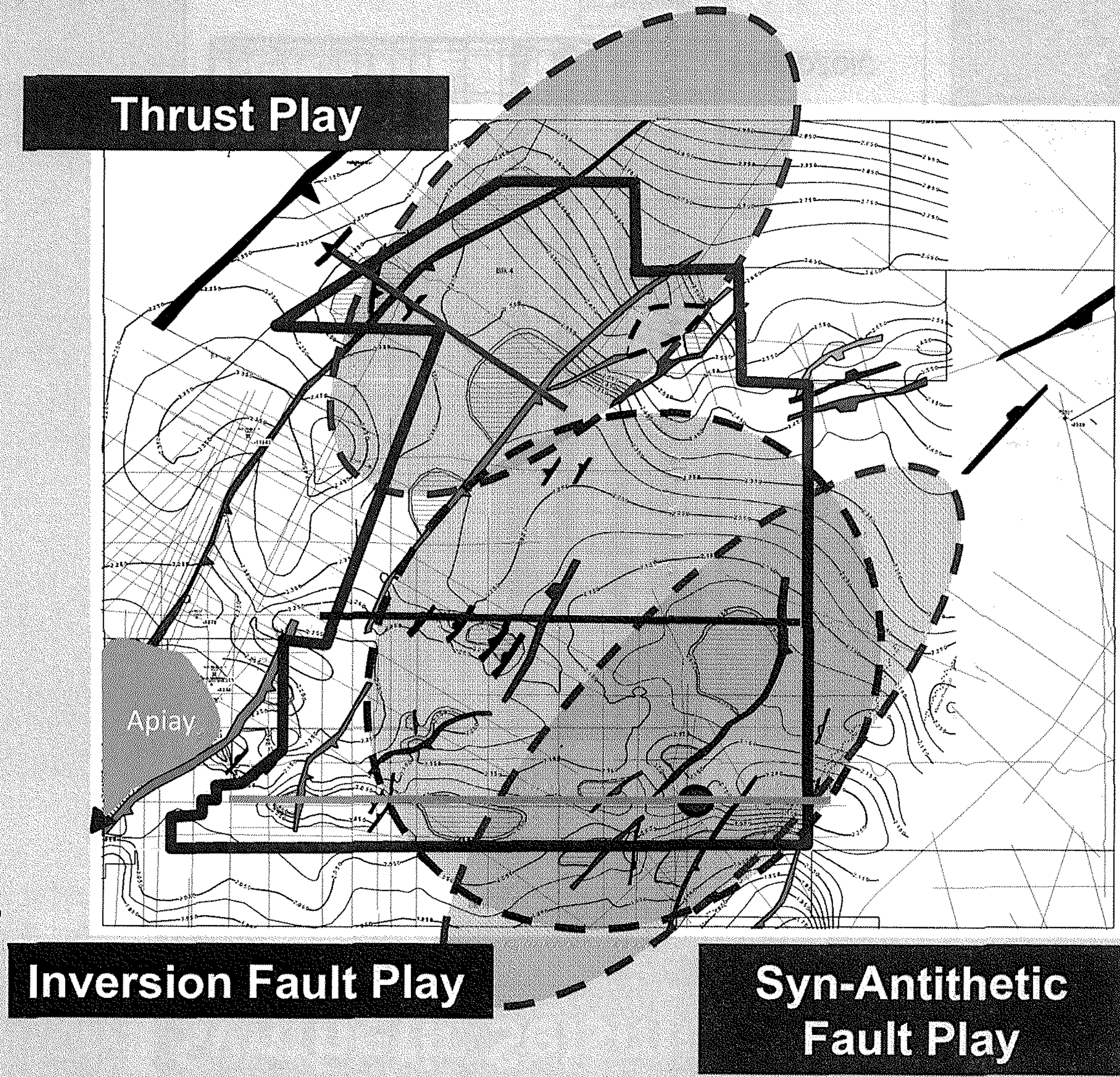


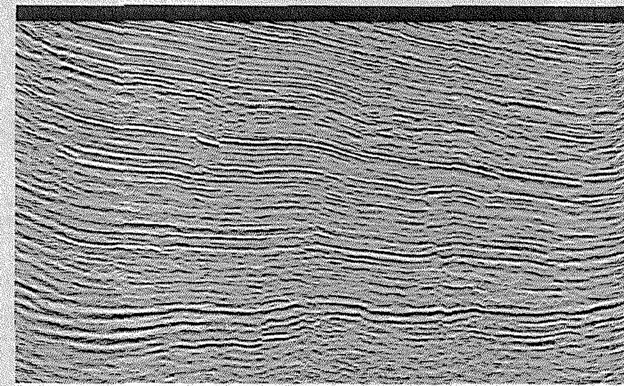
Vintage	Type		Km
	Tapes	Images	
1970	4	3	140
1972	4	4	157
1974	8		180
1975	6	3	98
1980	9	1	177
1981	10	1	289
1982	2	1	15
1983	1		35
1985	17		274
1987	12		35
1988	6		142
1992	11		158
1994	3		97
1994	1		28
Total	**94**	**14**	**1825**

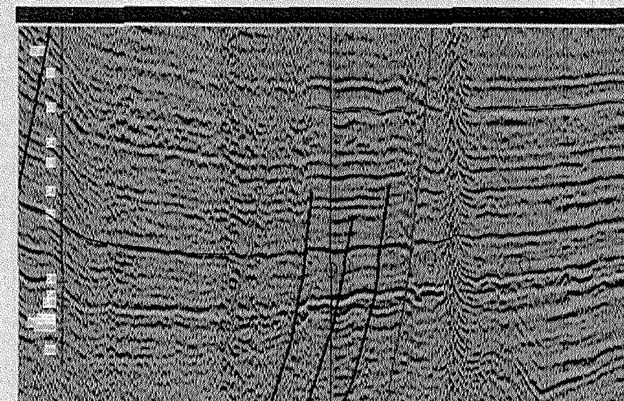
SK energy

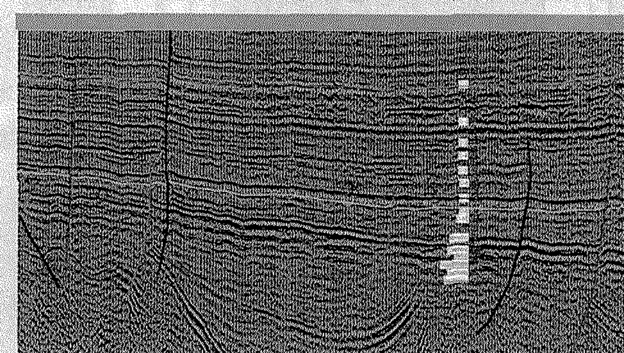
Structural Play

Trap



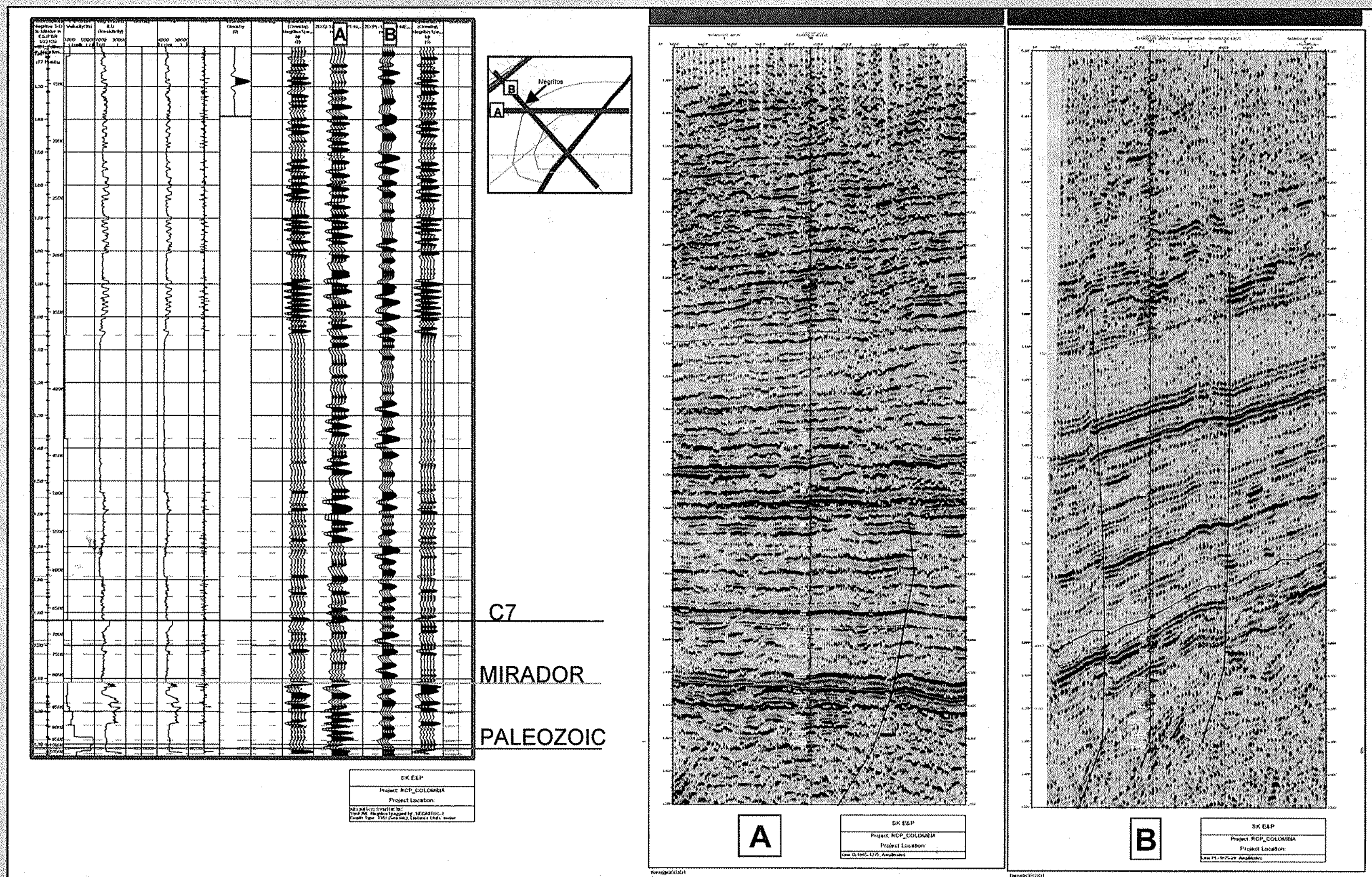






SK energy

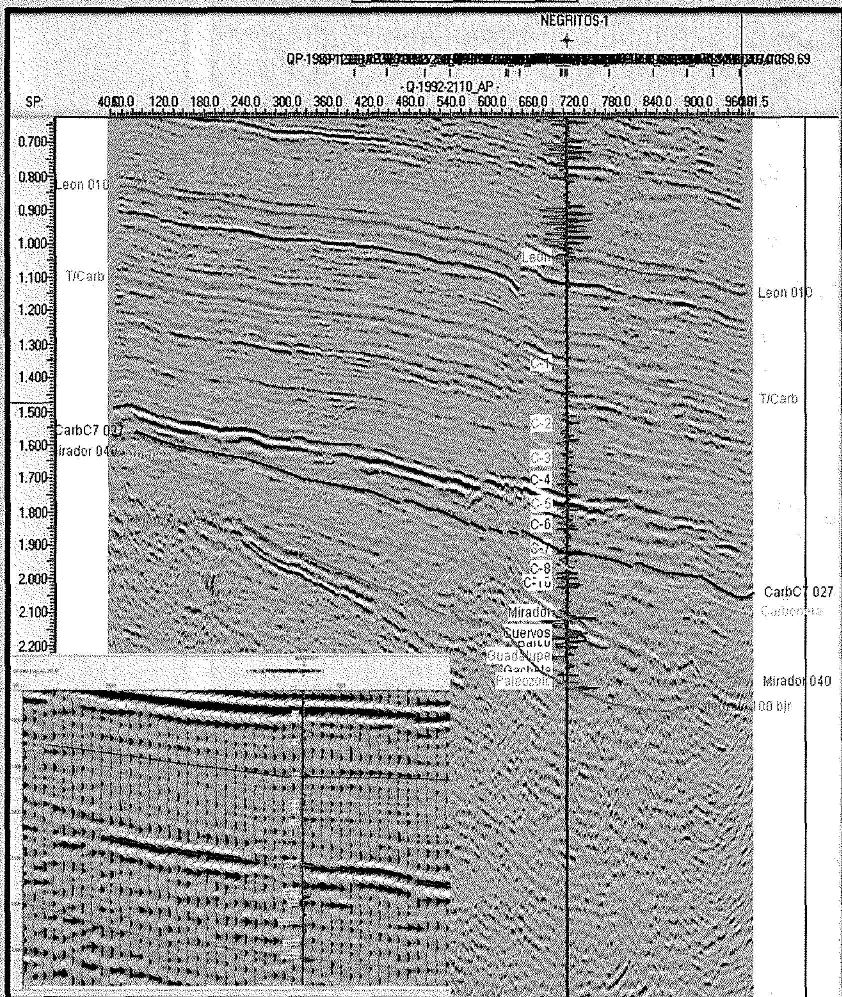
Synthetic Seismogram Negritos-1 Well



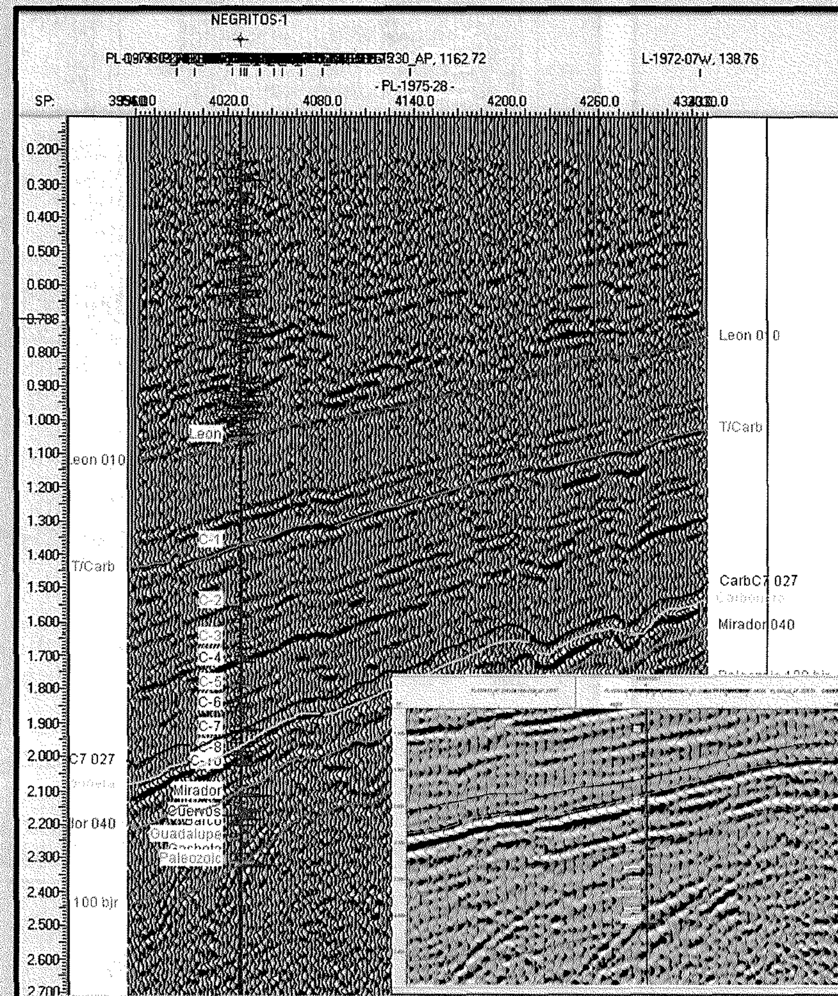
Synthetic Seismogram Negritos-1 Well

Trap

A

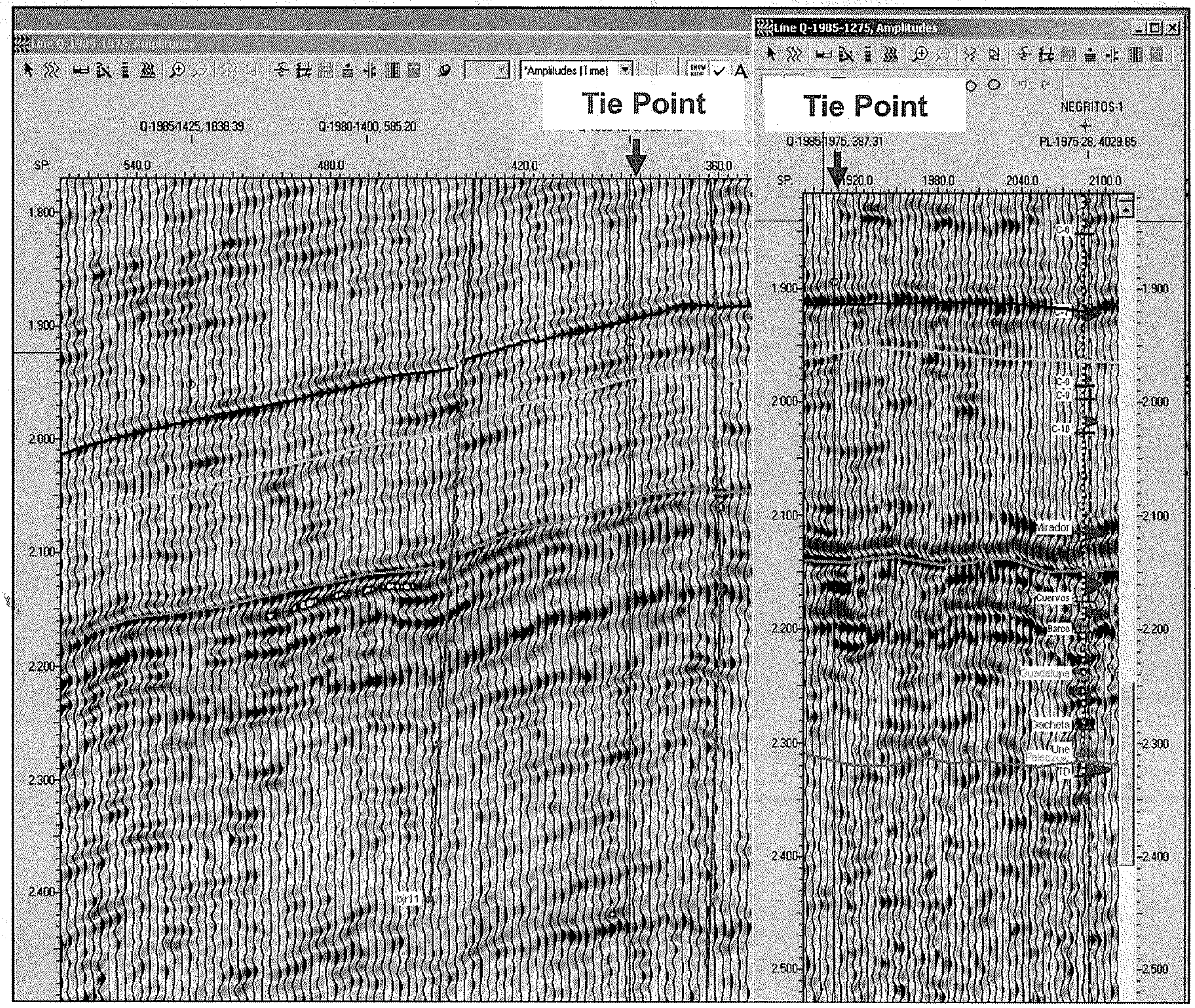


B



SK energy

Need Reprocessing

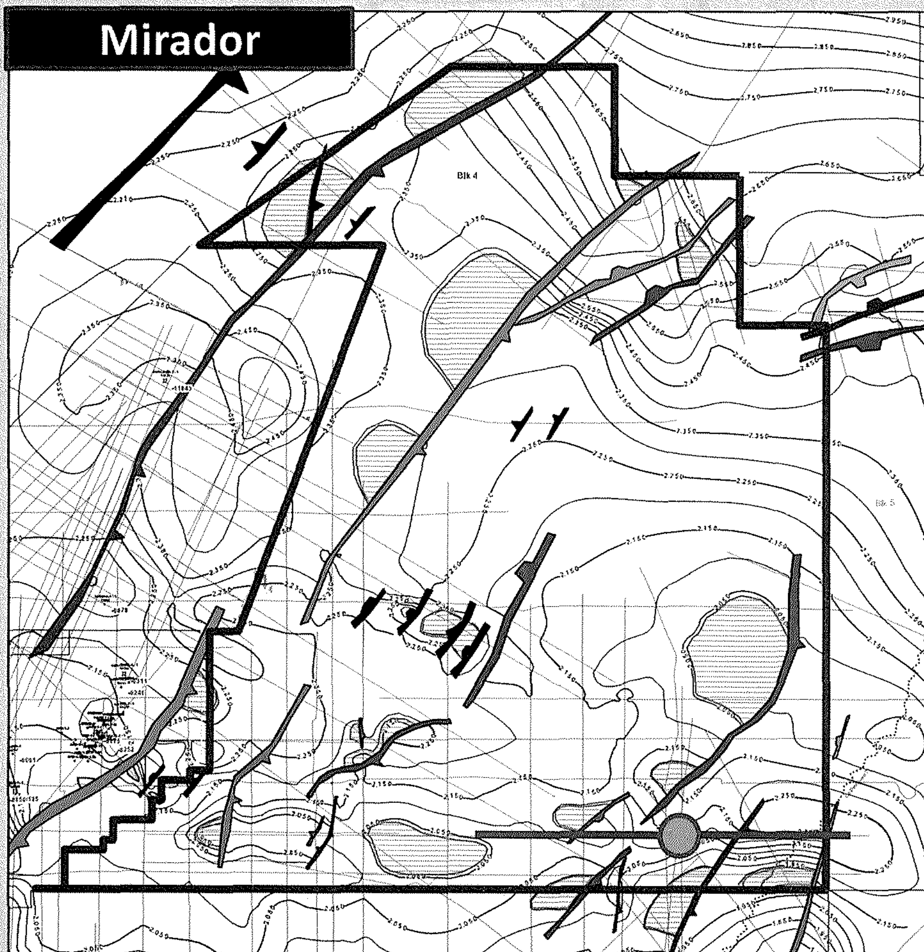


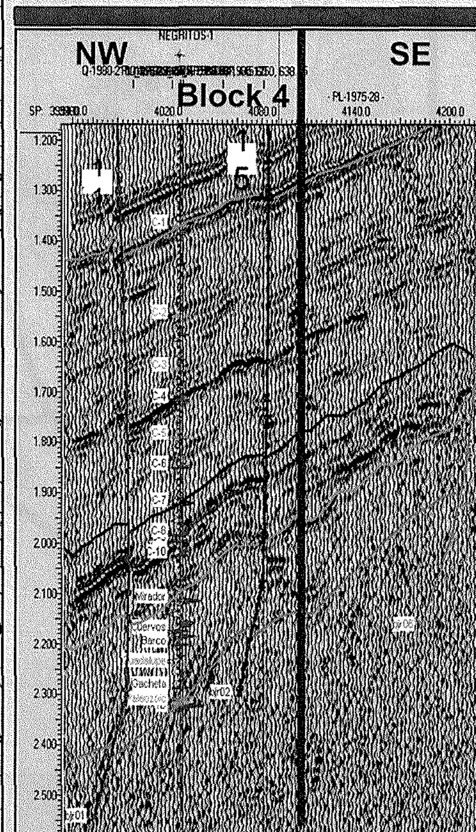
Differing velocity functions survey to survey

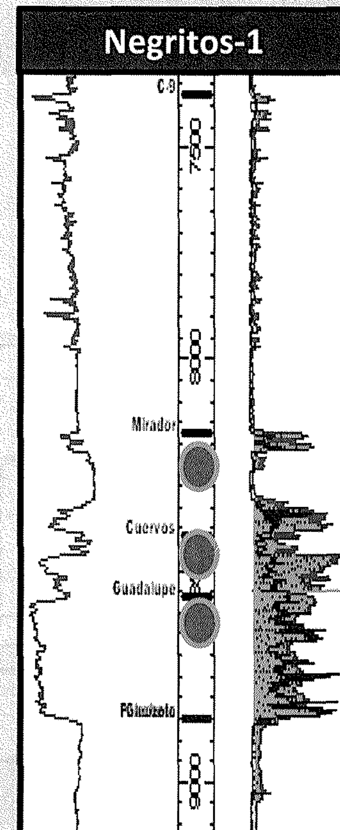
SK energy

Dry Well analysis : Negritos-1

- Downdip in K & T Structural Map ; Test Pz High
- Pz Section : all shale

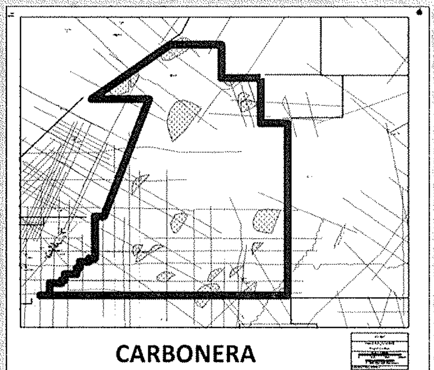


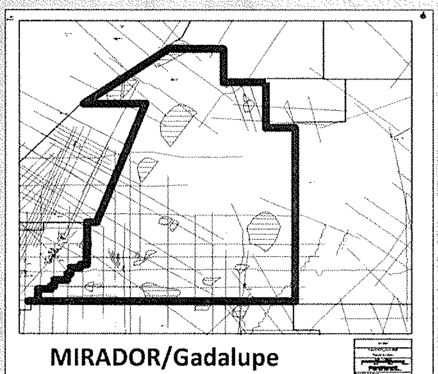


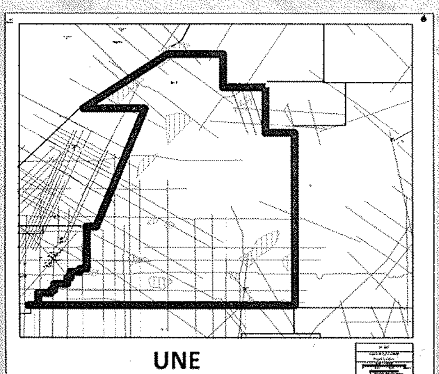


22 Structures with 58 Horizons

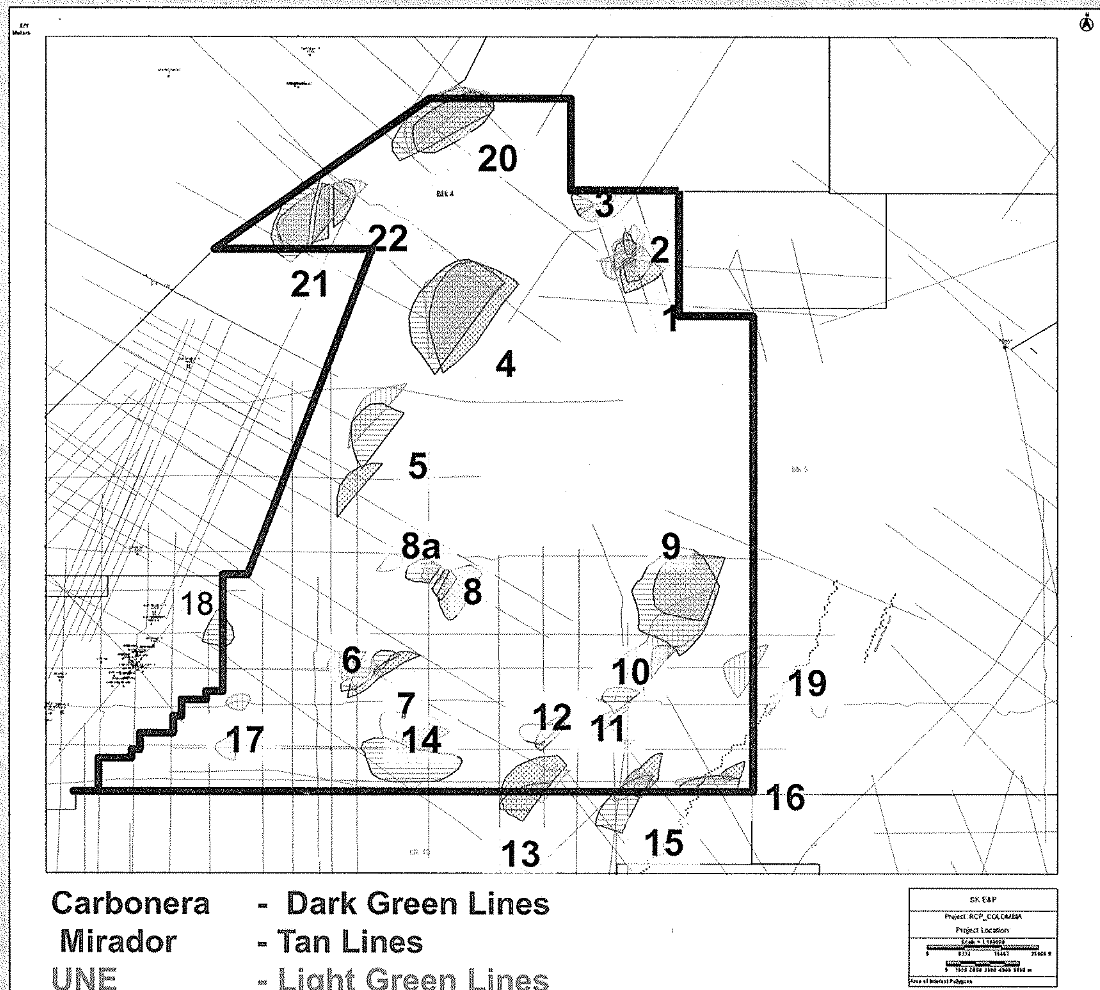
Trap







ALL Structures



SK energy

Total Potential

Lead	Acres			Unit R.R.	Net Pay (C9+M+U)	Recoverable Reserve (MMBO)	Remark
	C7	Mirador	Une				
1	1055	724	899	150	50'+100'+75'	29	Synthetic
2	556	212	417	150	50'+100'+75'	12	Synthetic
3	420	291	0	150	50'+100'+75'	8	Synthetic
4	6358	6506	3495	150	50'+100'+75'	185	Thrust
5	1018	2119	1435	150	50'+100'+75'	56	Thrust
6	531	114	388	150	50'+100'+75'	10	Inversion
7	1097	657	311	150	50'+100'+75'	22	Inversion
8	1606	1074	694	150	50'+100'+75'	36	Inversion
9	3821	7037	420	150	50'+100'+75'	139	Inversion
10	469	0	0	150	50'+100'+75'	4	Inversion
11	447	622	509	150	50'+100'+75'	18	Inversion
12	664	659	0	150	50'+100'+75'	15	Inversion
13	2687	936	761	150	50'+100'+75'	43	Inversion
14	882	3399	1625	150	50'+100'+75'	76	Drapeover
15	993	1692	605	150	50'+100'+75'	40	Inversion
16	284	847	452	150	50'+100'+75'	20	Inversion
17	0	420	326	150	50'+100'+75'	10	Inversion
18	0	818	0	150	50'+100'+75'	12	Inversion
19	0	0	1247	150	50'+100'+75'	14	Inversion
20	3320	4029	2364	150	50'+100'+75'	112	Thrust
21	2510	2611	3162	150	50'+100'+75'	94	Thrust
22	790	1102	0	150	50'+100'+75'	22	Thrust
Total Potential						974	

Unit R.R.

- Porosity : 20 %
- So : 60%
- So/Bo : 0.9
- GF : 0.7
- RF : 30 %

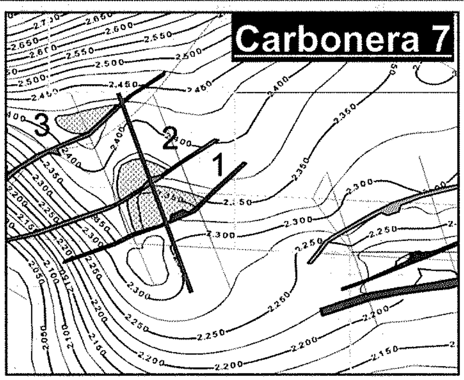
Net Pay

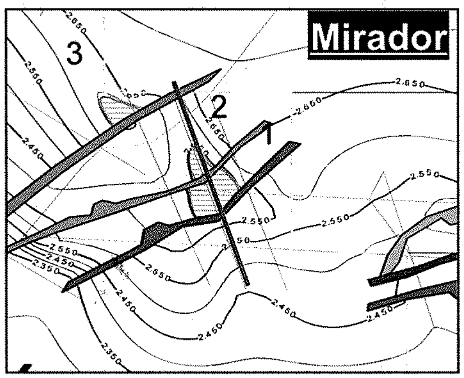
- Avg. Thickness
-From Net Sd Map

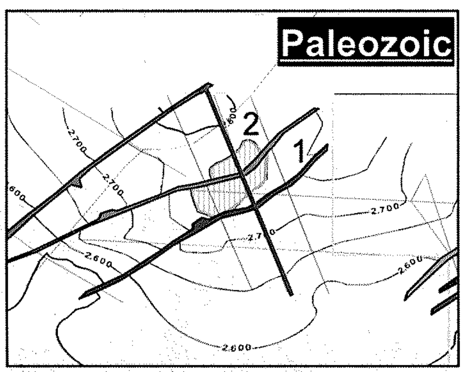
SK energy

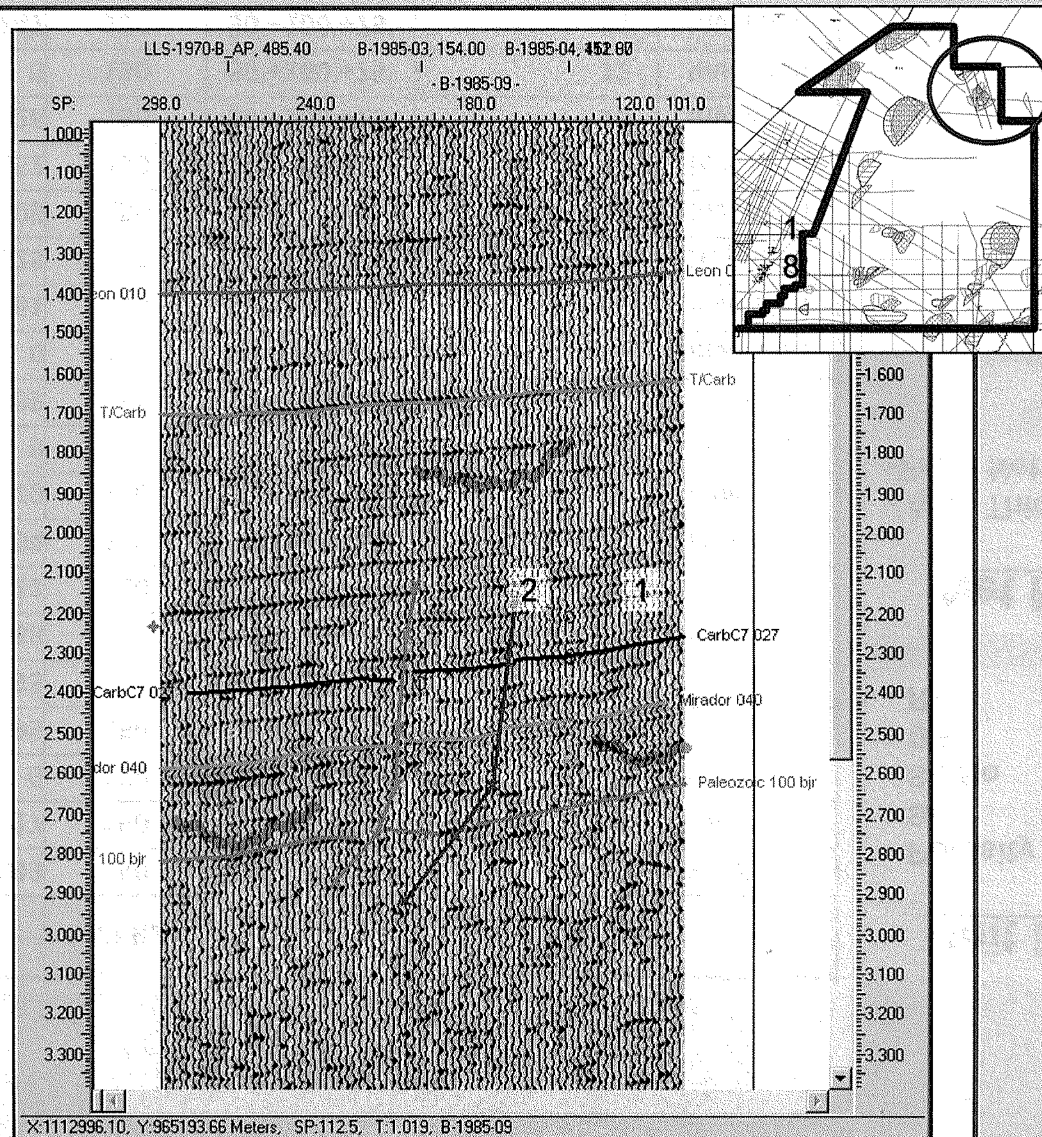
Lead 1,2 & 3

Trap





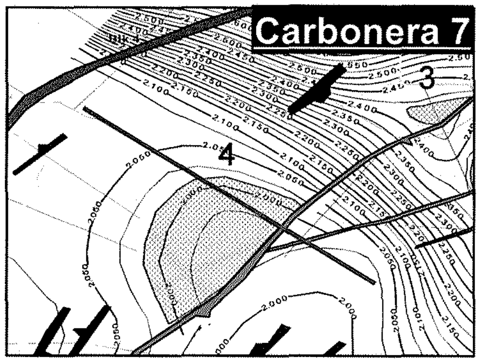


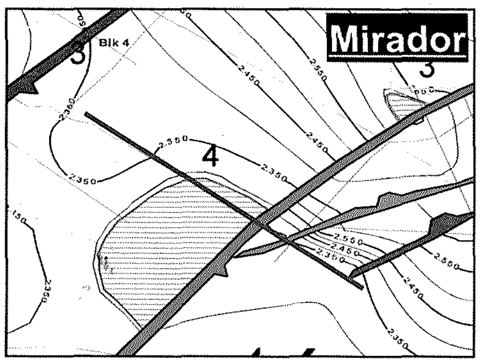


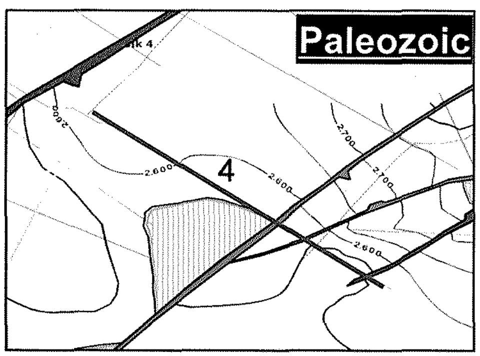
SK energy

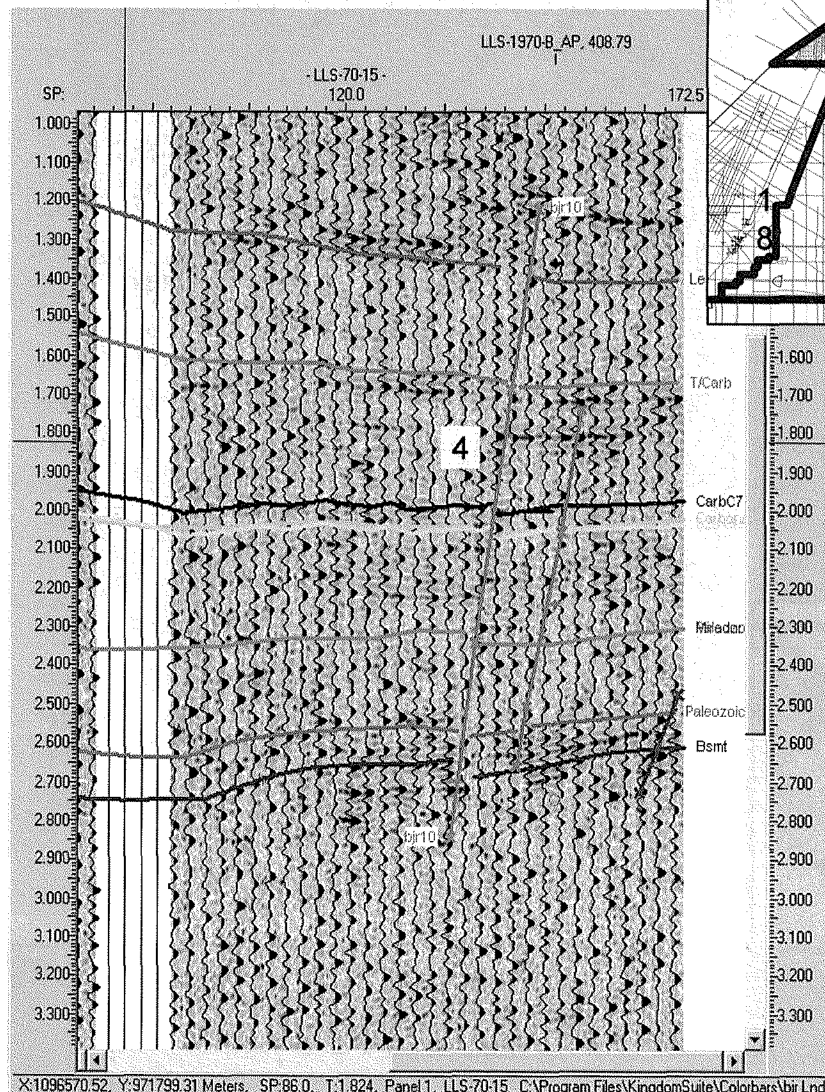
Lead 4

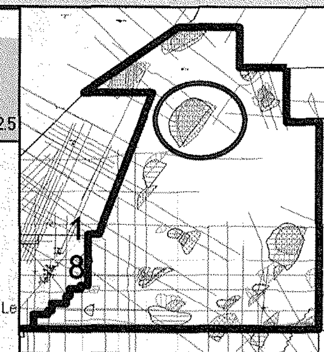
Trap







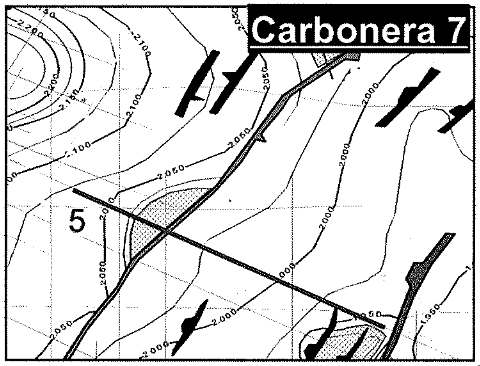


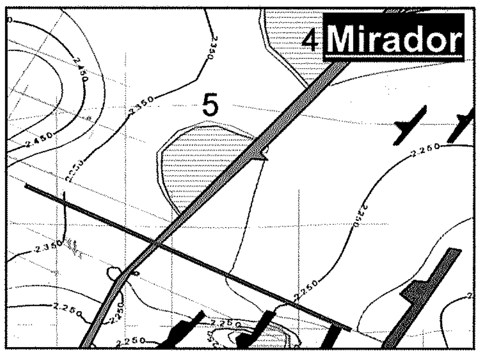


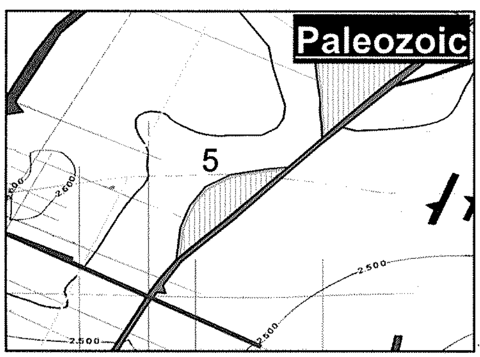
SK energy

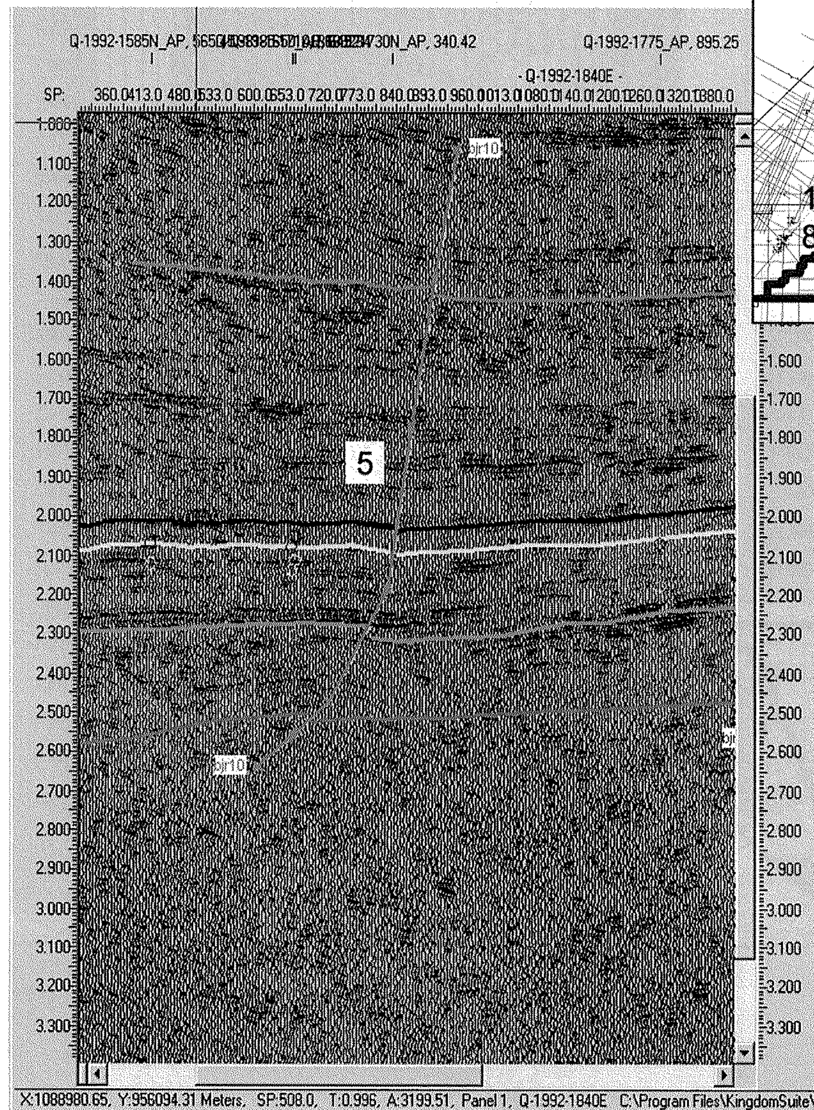
Lead 5

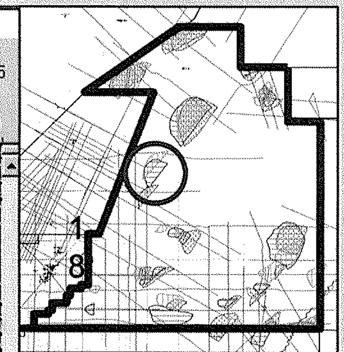
Trap







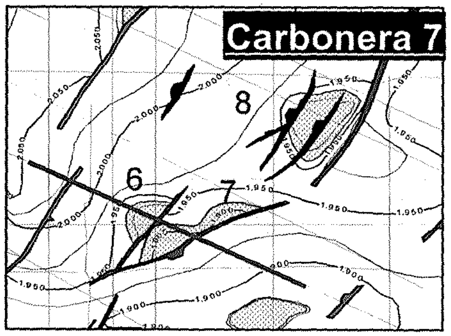


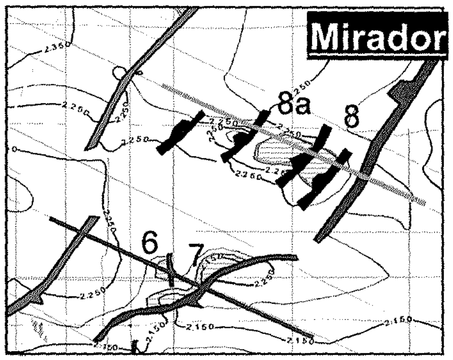


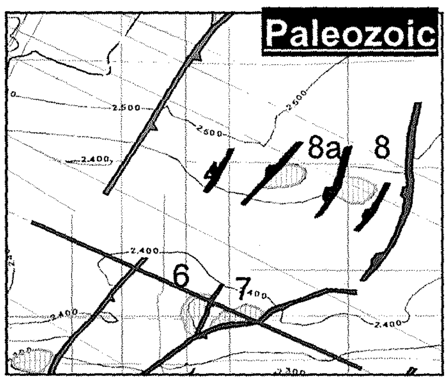
SK energy

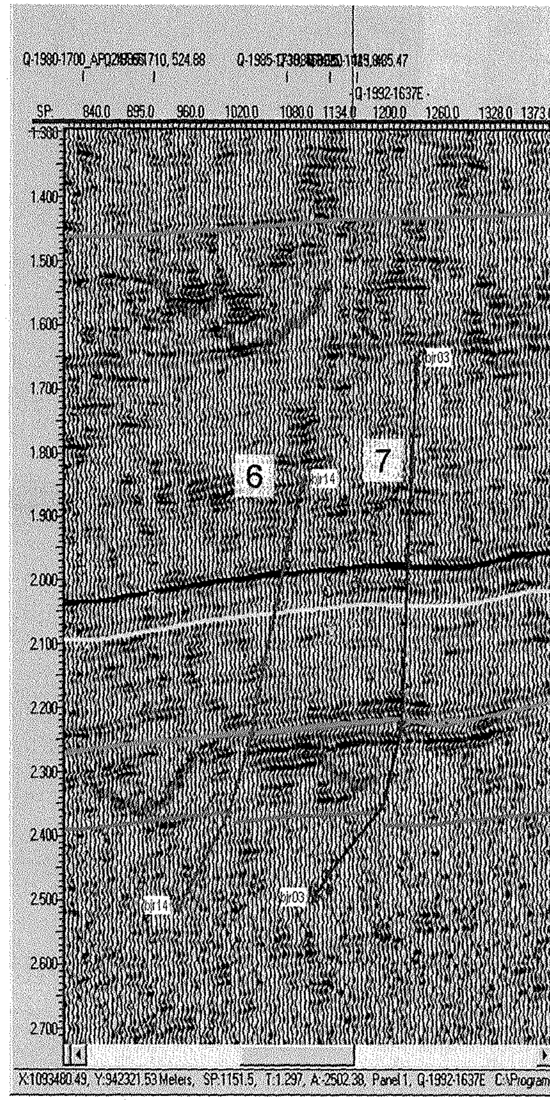
Lead 6,7,8

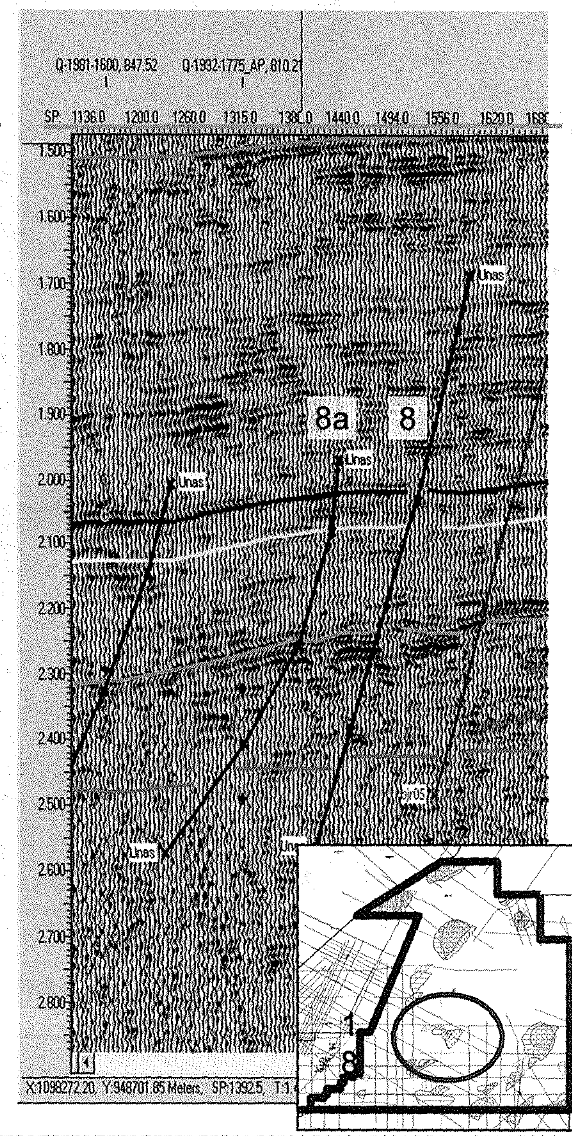
Trap





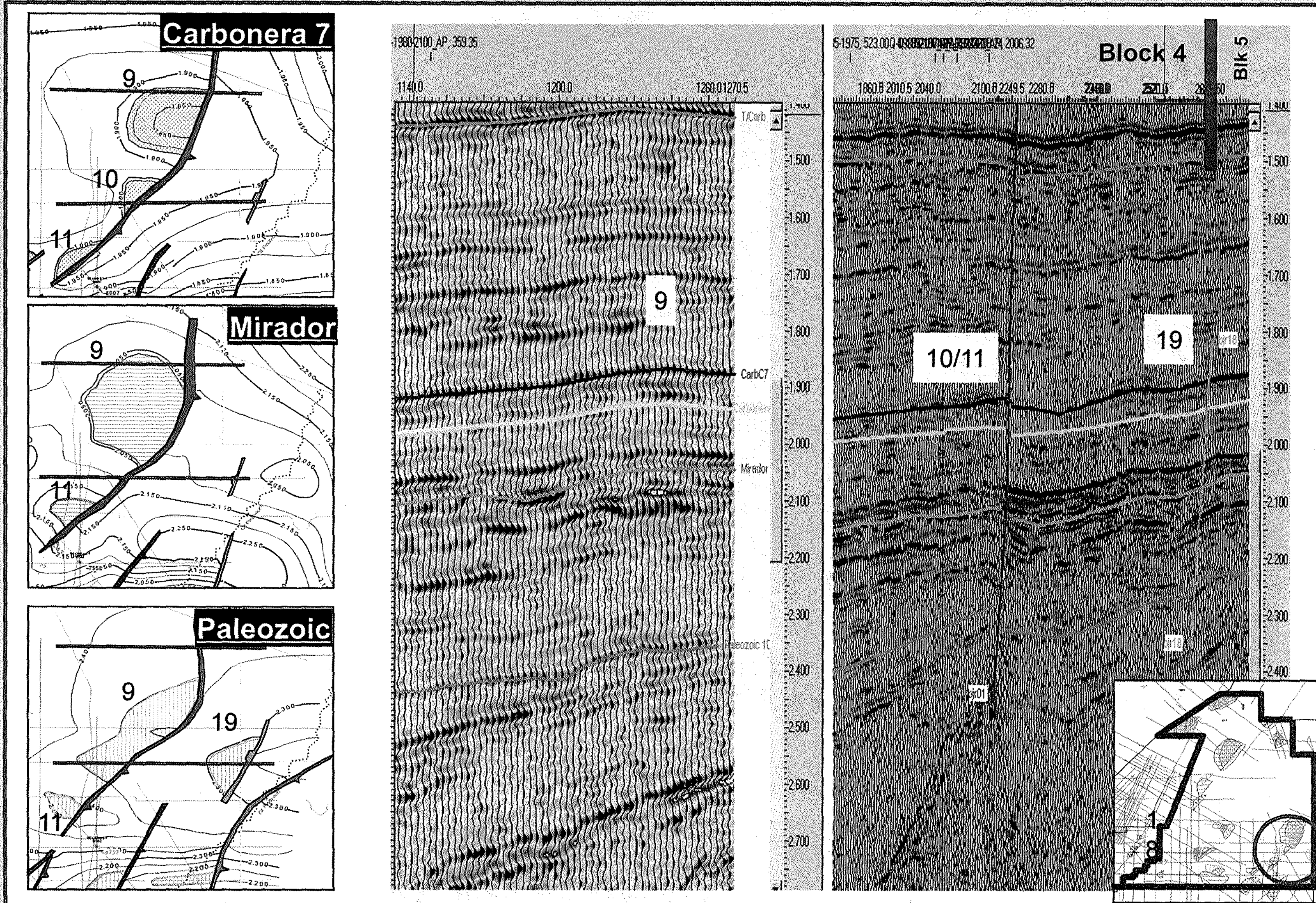






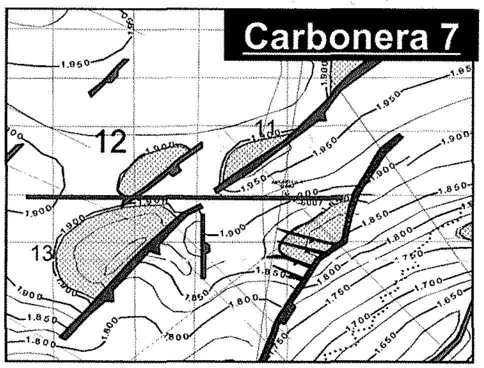
Lead 9, 10, 11, 19

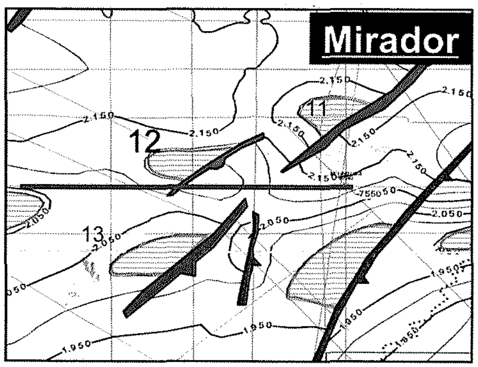
Trap

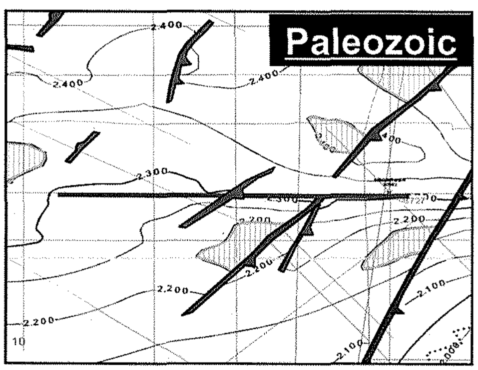


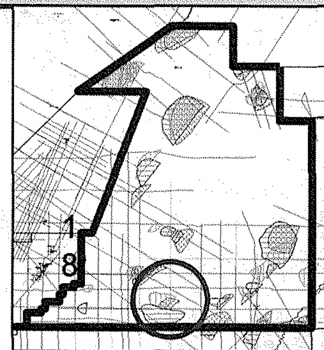
Lead 12

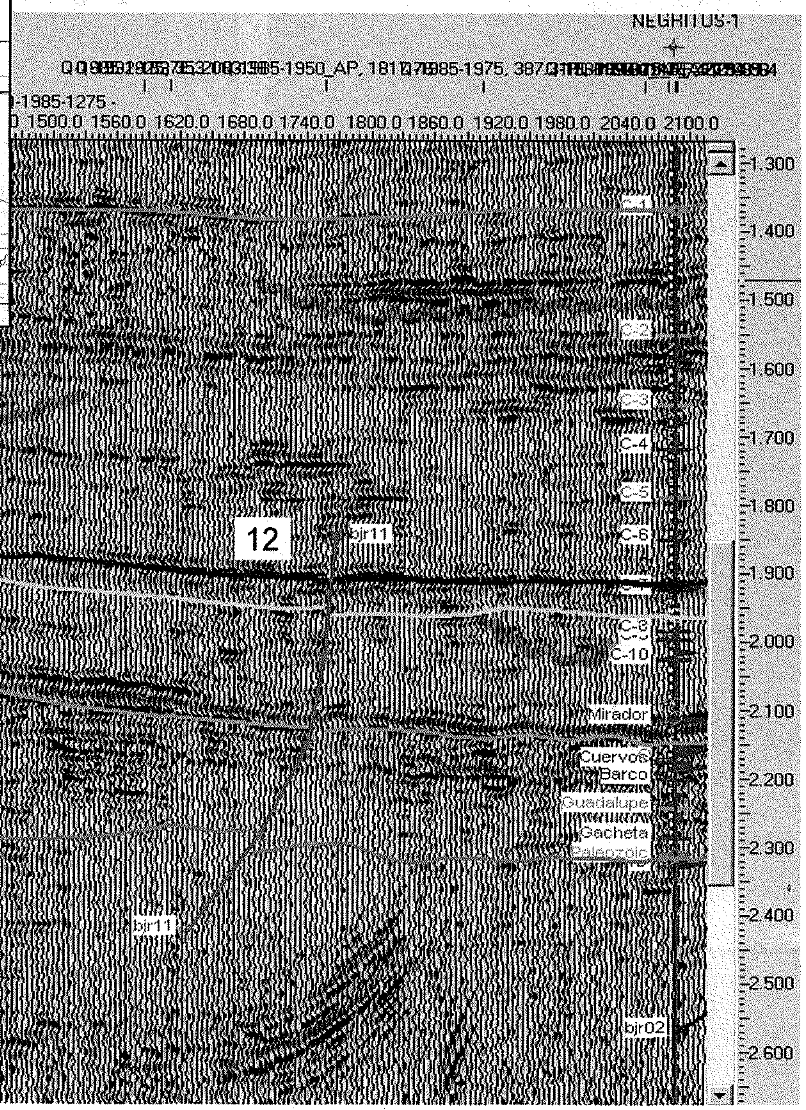
Trap







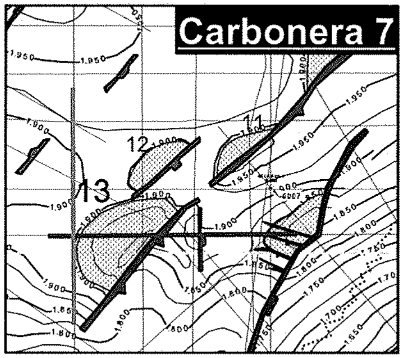


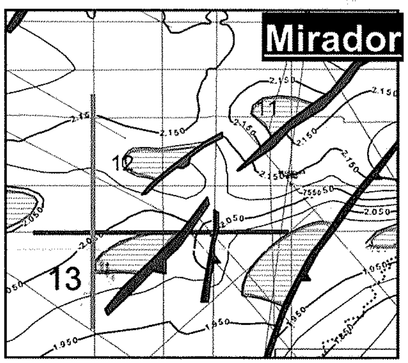


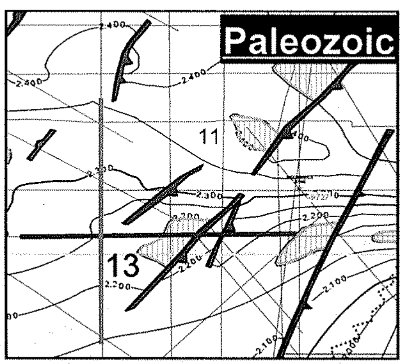
SK energy

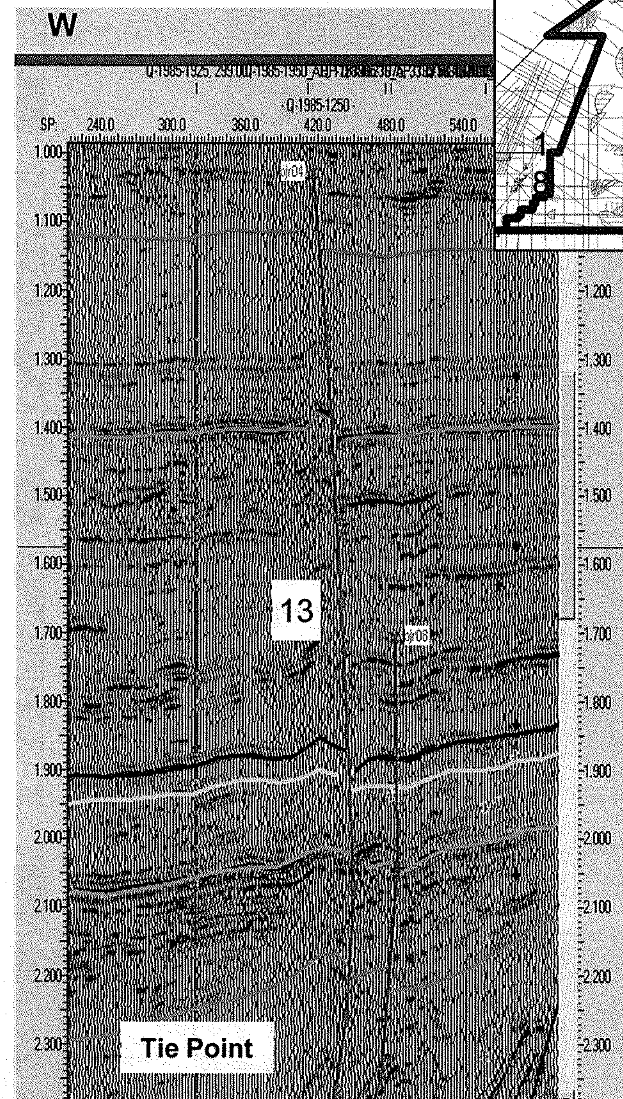
Lead 13

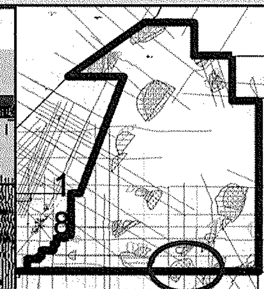
Trap

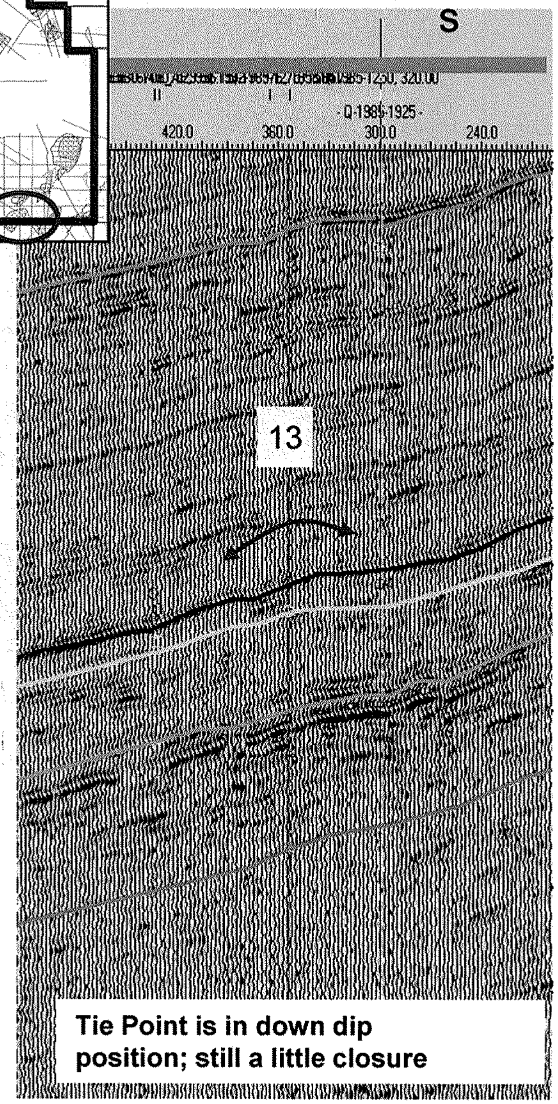








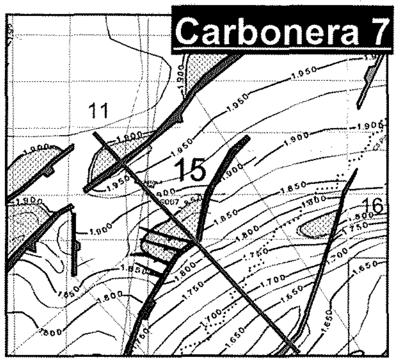


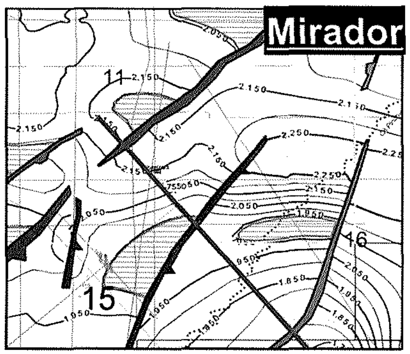


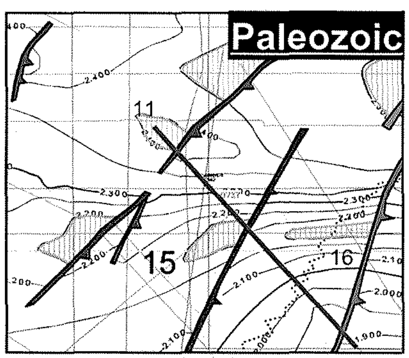
SK energy

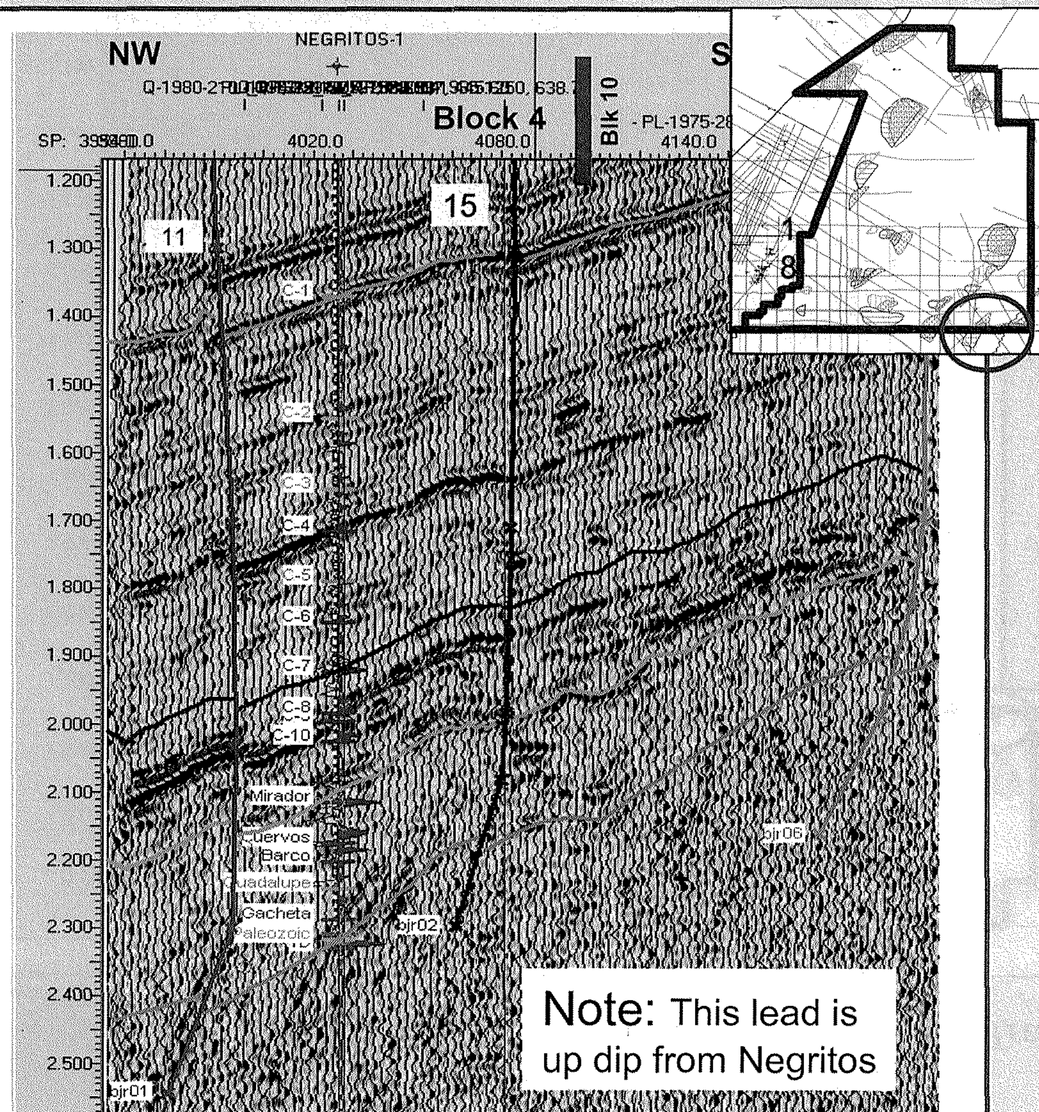
Lead 15

Trap





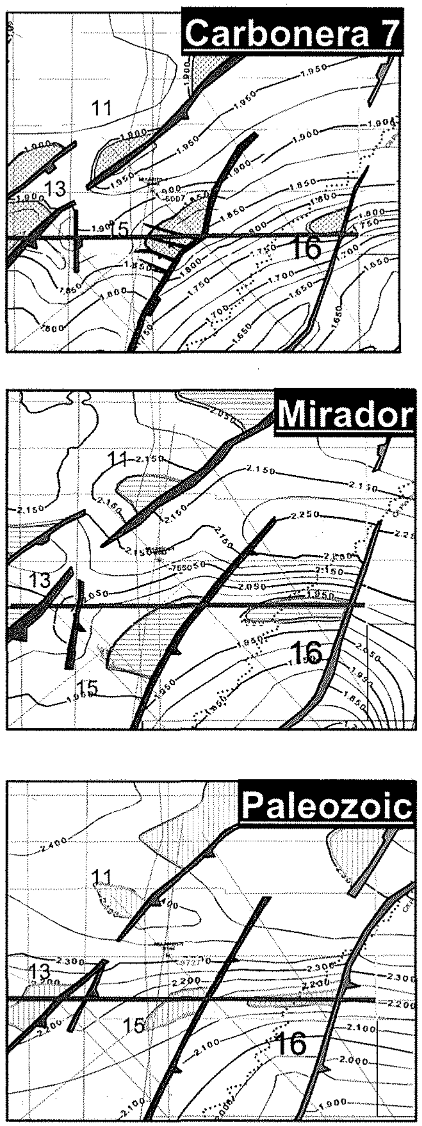


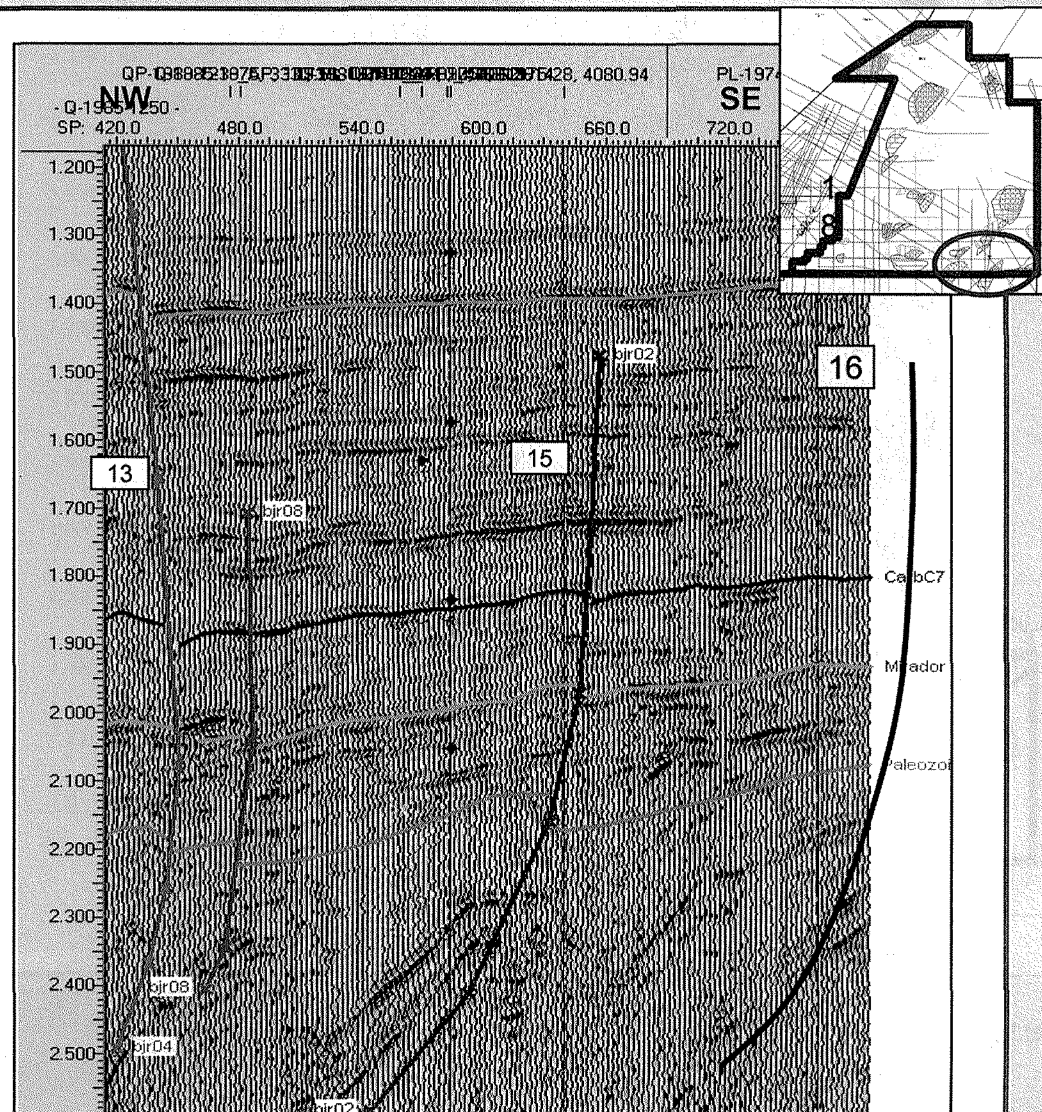


SK energy

Lead 13, 15, 16

Trap

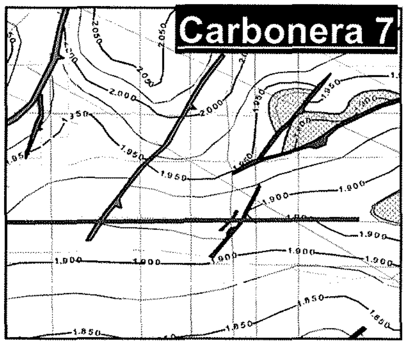


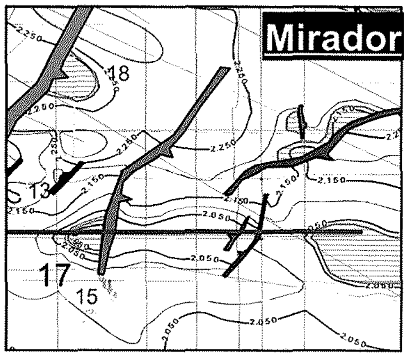


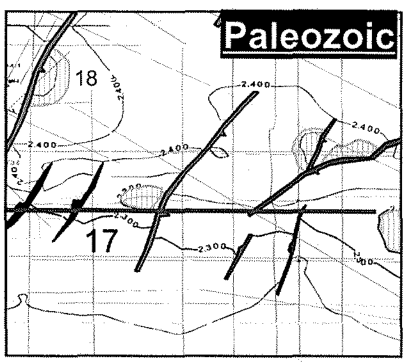
SK energy

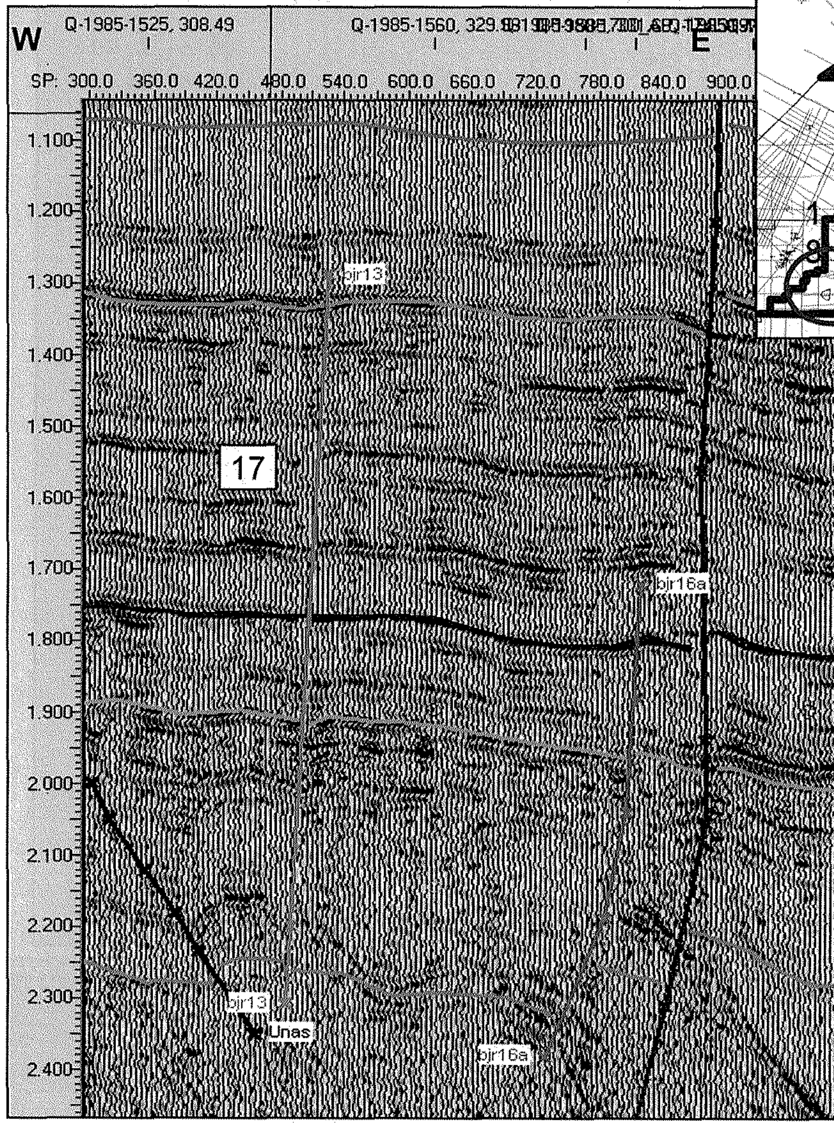
Lead 17

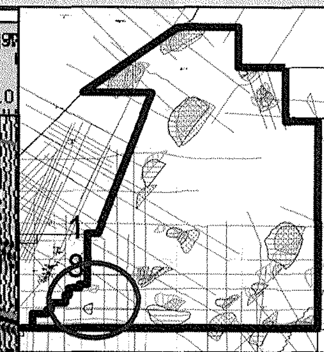
Trap







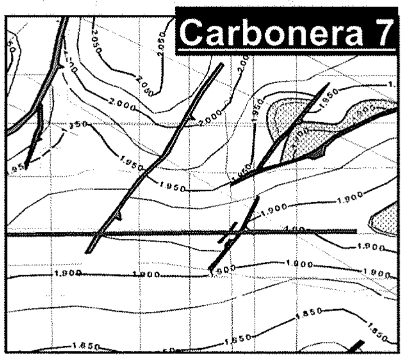


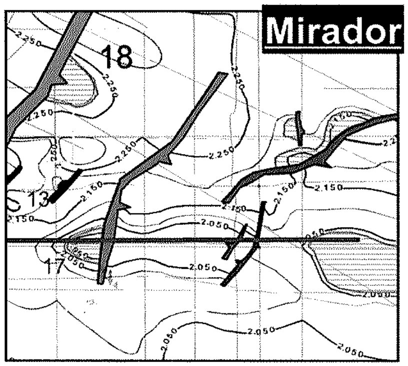


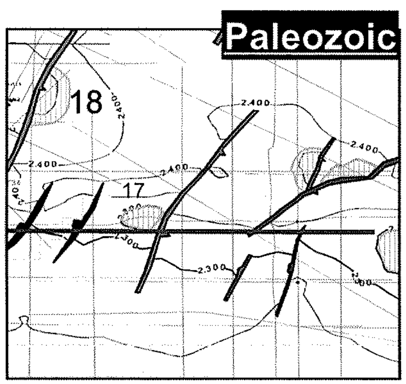
SK energy

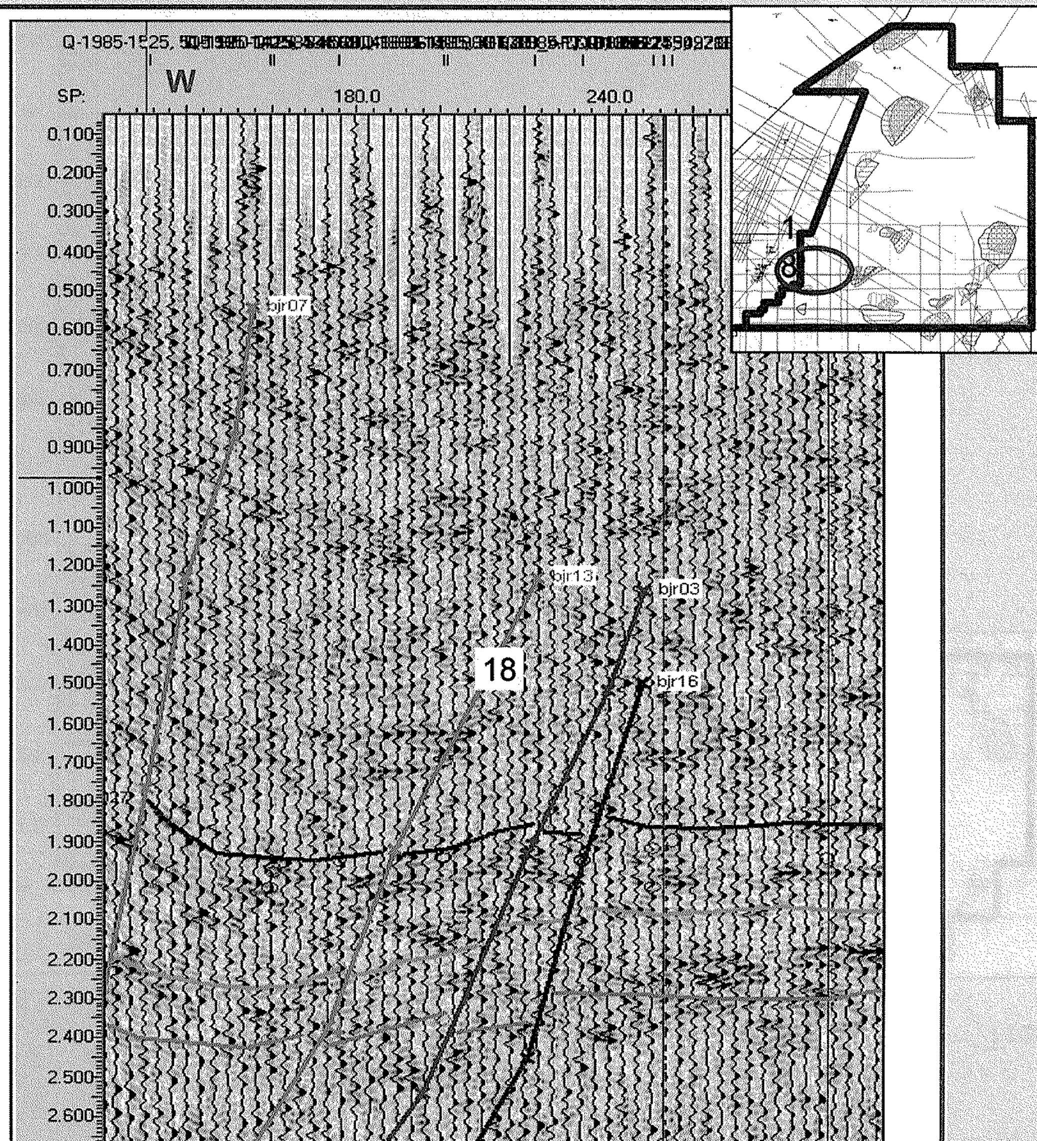
Lead 18

Trap









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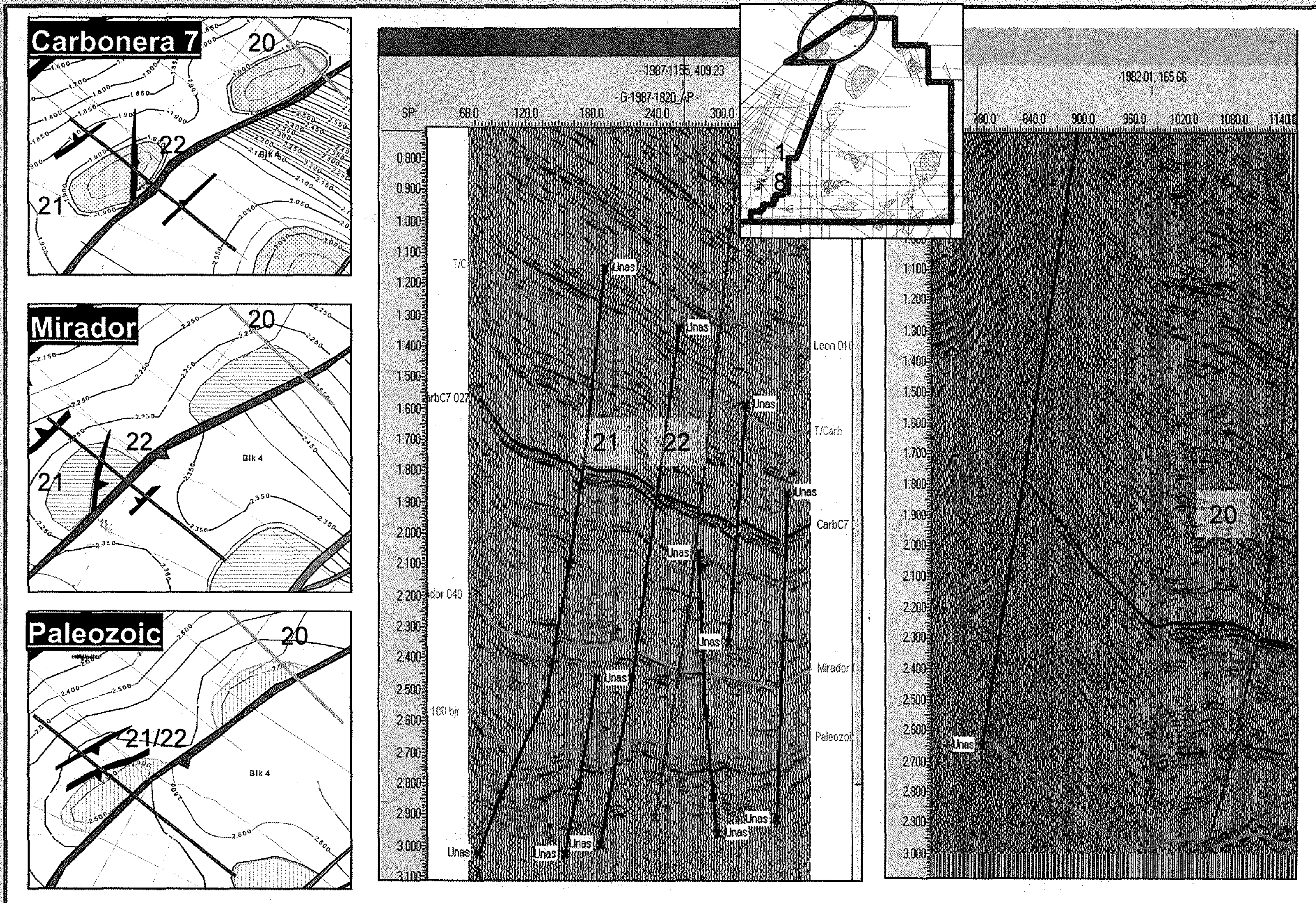
Lead 20, 21, 22

Trap



SK energy

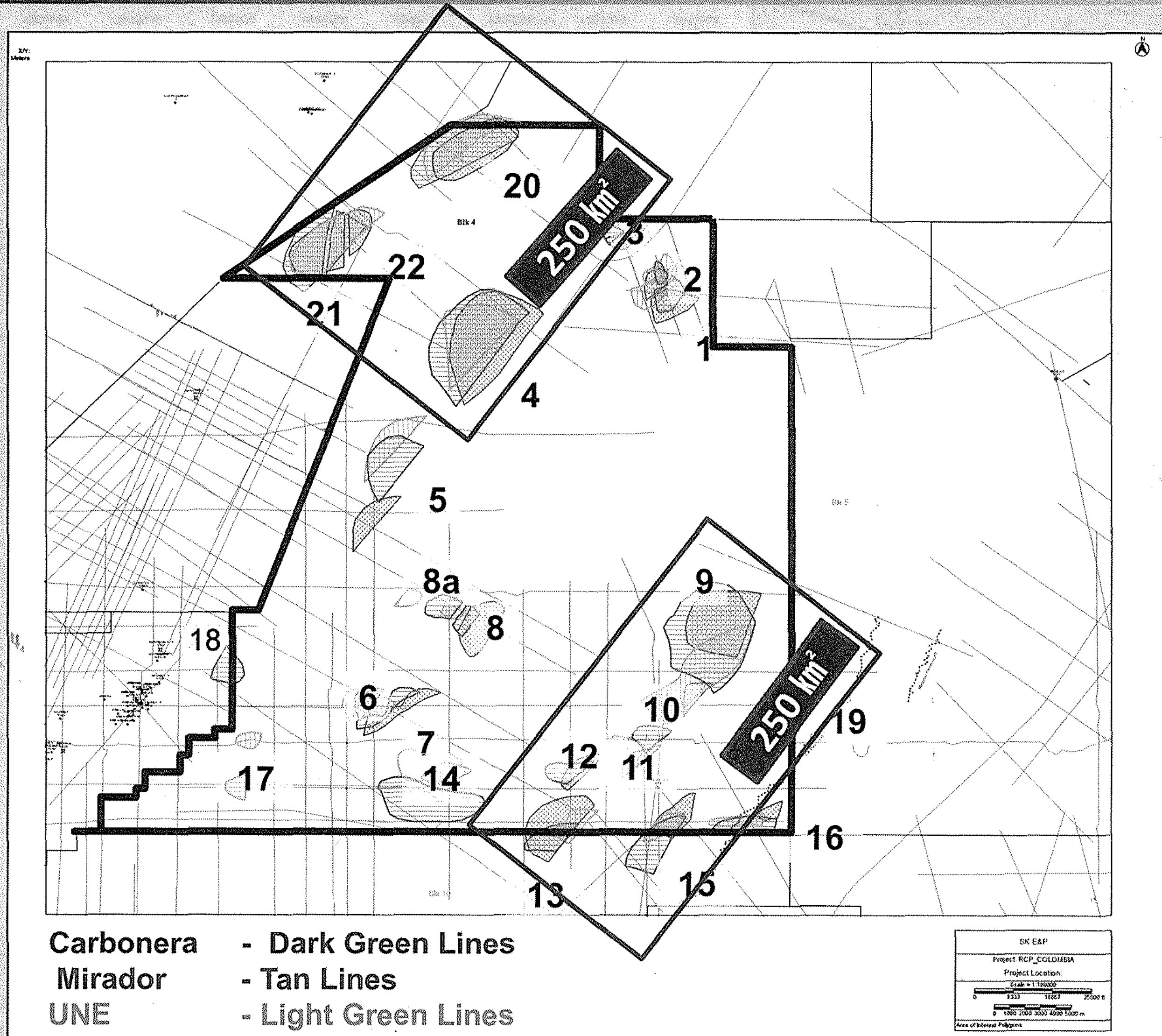
High Potential

Lead	Acres			Unit R.R.	Net Pay (C9+M+U)	Recoverable Reserve (MMBO)	Remark
	C7	Mirador	Une				
4	6358	6506	3495	150	50'+100'+75'	185	Thrust
8	1606	1074	694	150	50'+100'+75'	36	Inversion
9	3821	7037	420	150	50'+100'+75'	139	Inversion
13	2687	936	761	150	50'+100'+75'	43	Inversion
15	993	1692	605	150	50'+100'+75'	40	Inversion
20	3320	4029	2364	150	50'+100'+75'	112	Thrust
21	2510	2611	3162	150	50'+100'+75'	94	Thrust
Recoverable Reserve MMBO	160	358	121				
Total Potential						639	

SK energy

Possible Seismic Program

Trap



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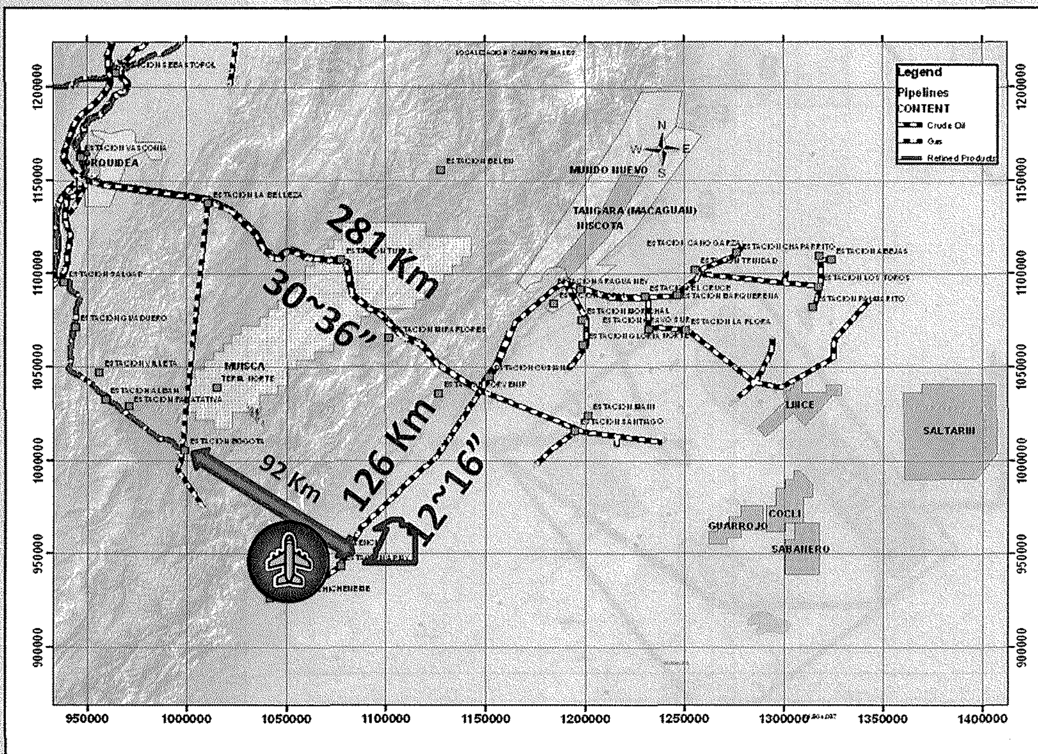
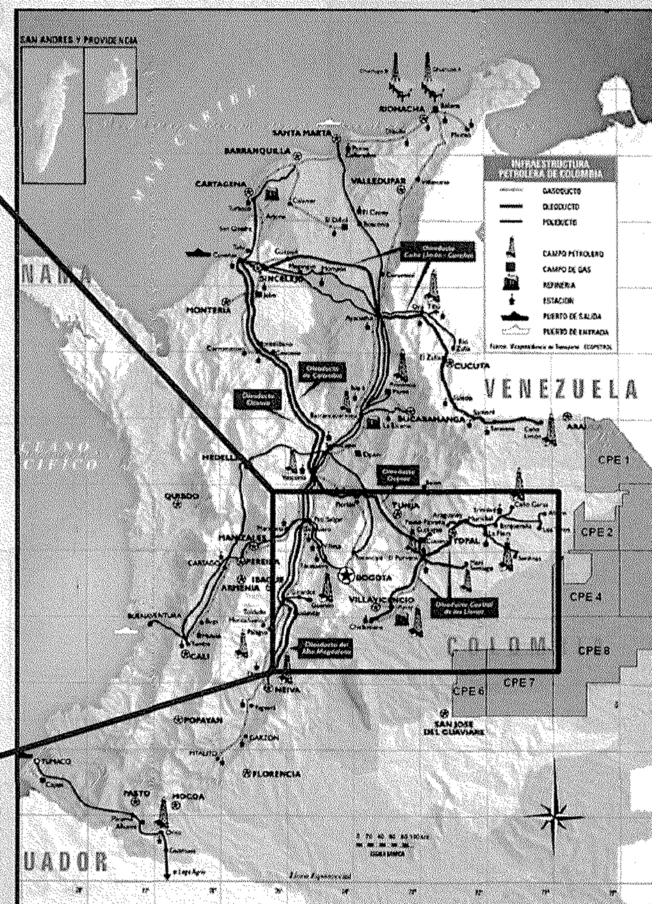
Excellent Infra Structure

Infra

12~16" P/L
Need Light Oil for Blending

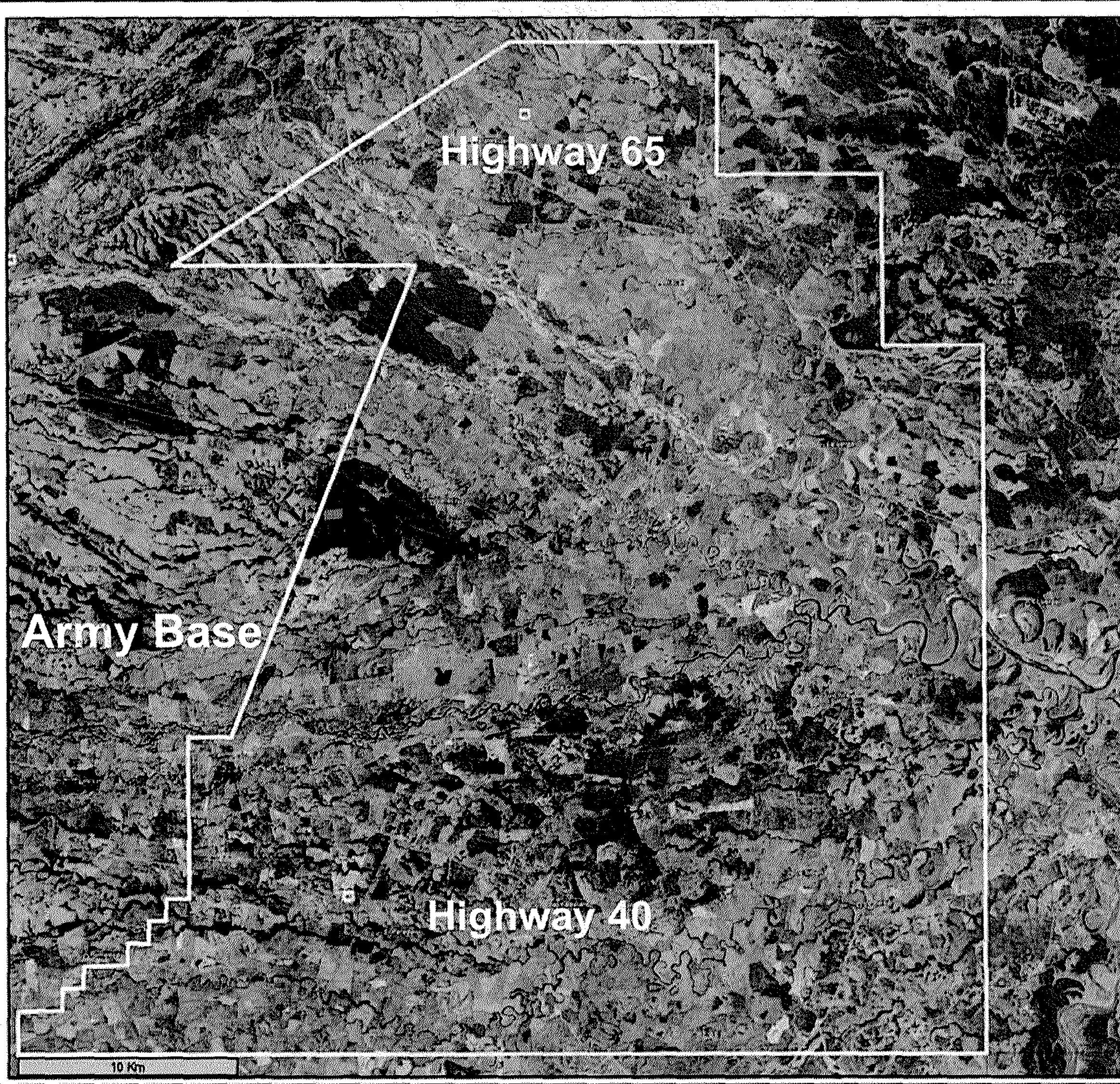


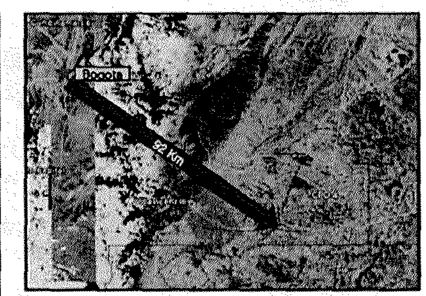


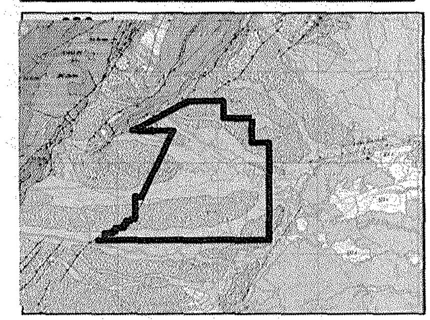
SK energy

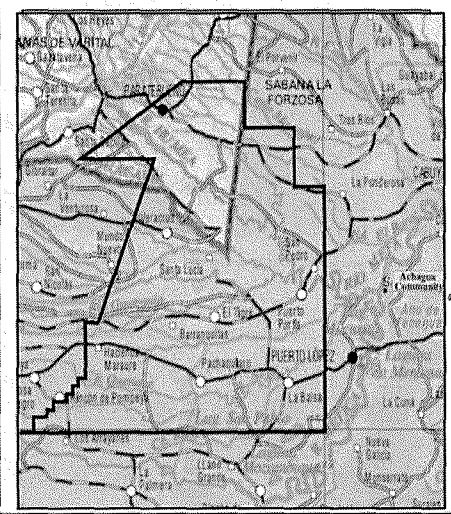
Excellent Working Environment

Working Environment









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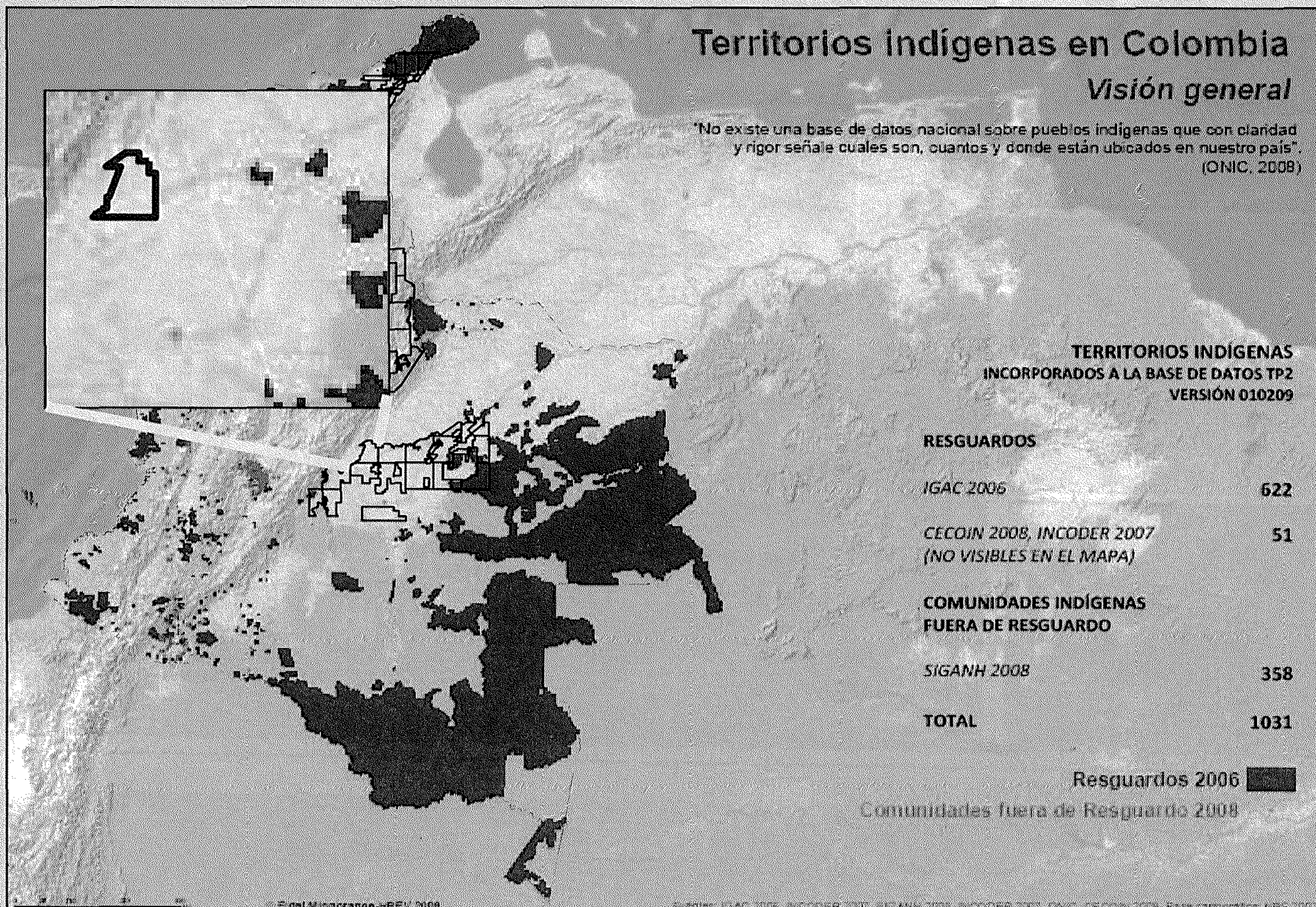
No Indian Reservation Area

Indigenous

No Indigenous Reservation

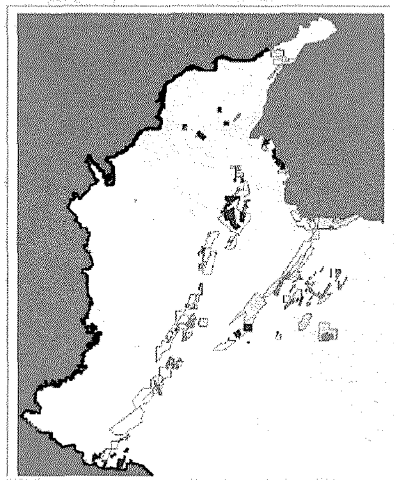


SK energy

Activity in Colombia

Activity

Áreas en E&P (2003)



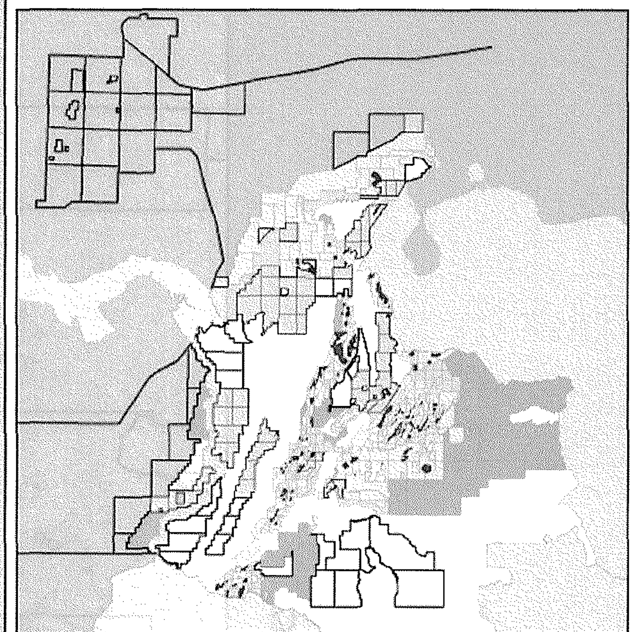
2008 Bid

152 ⇒ 80

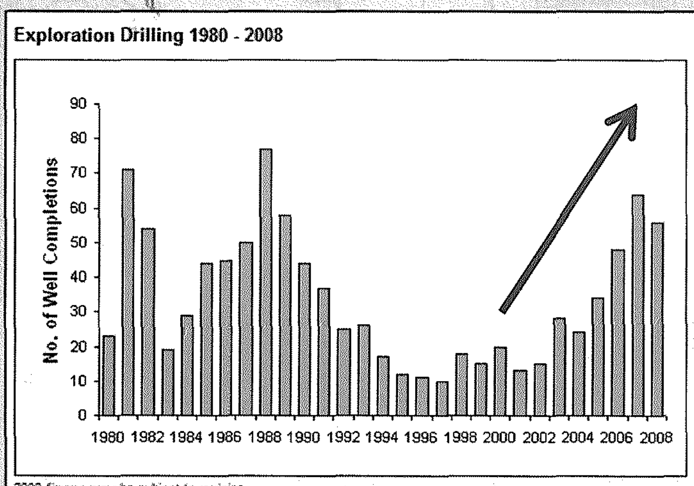
TEA : 8 ⇒ 8

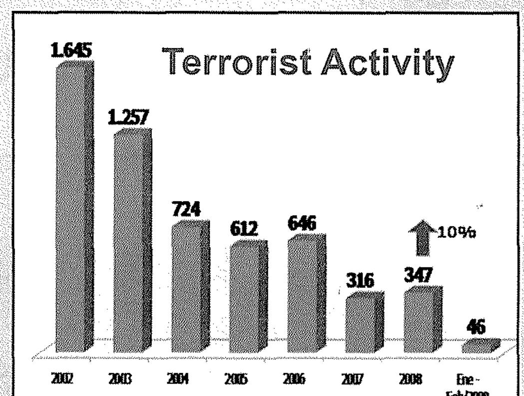
Regular : 42⇒ 22

Mini : 102⇒50



MARZO 26 DE 2009





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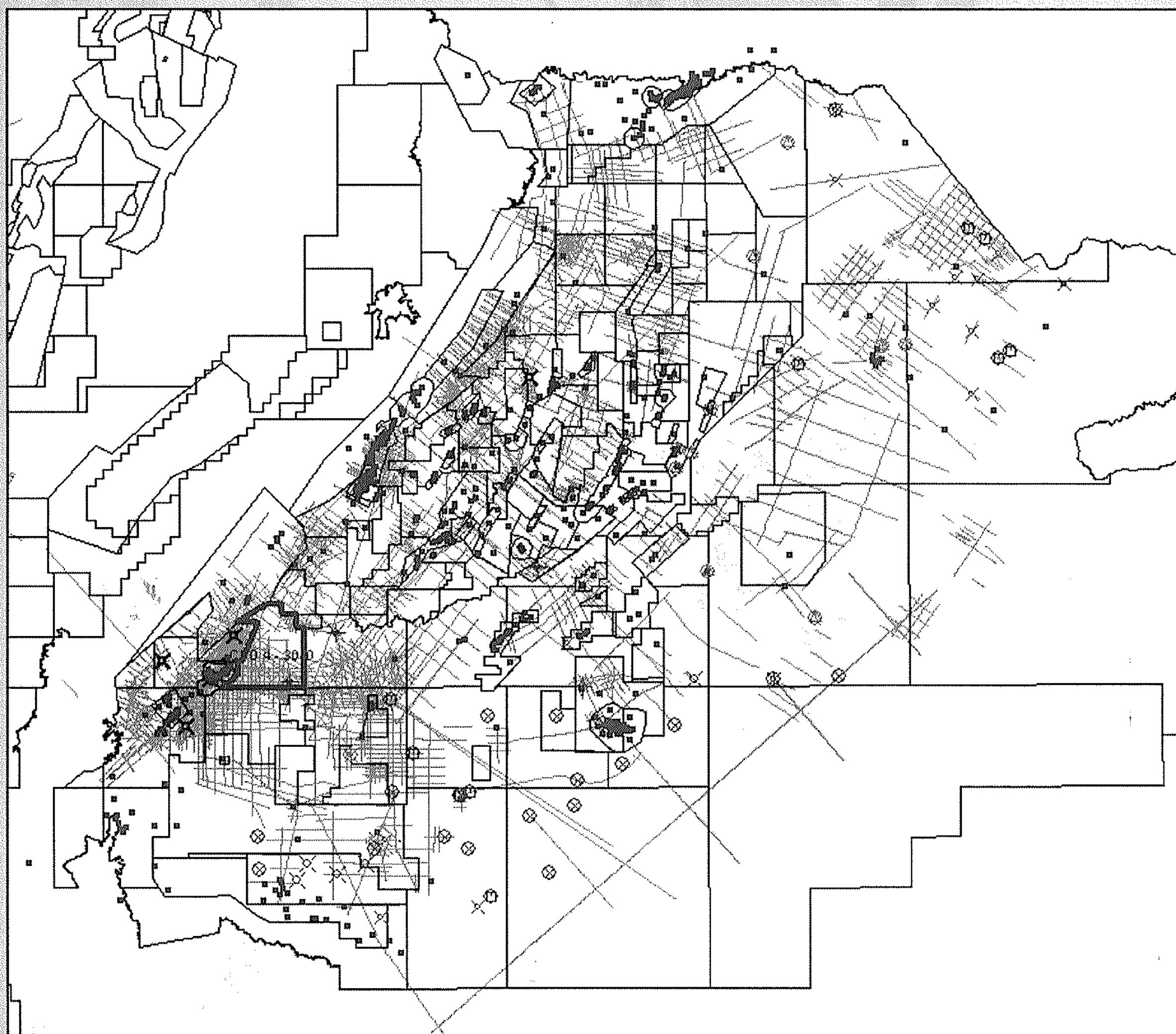
Under-explored Large Area

Potential



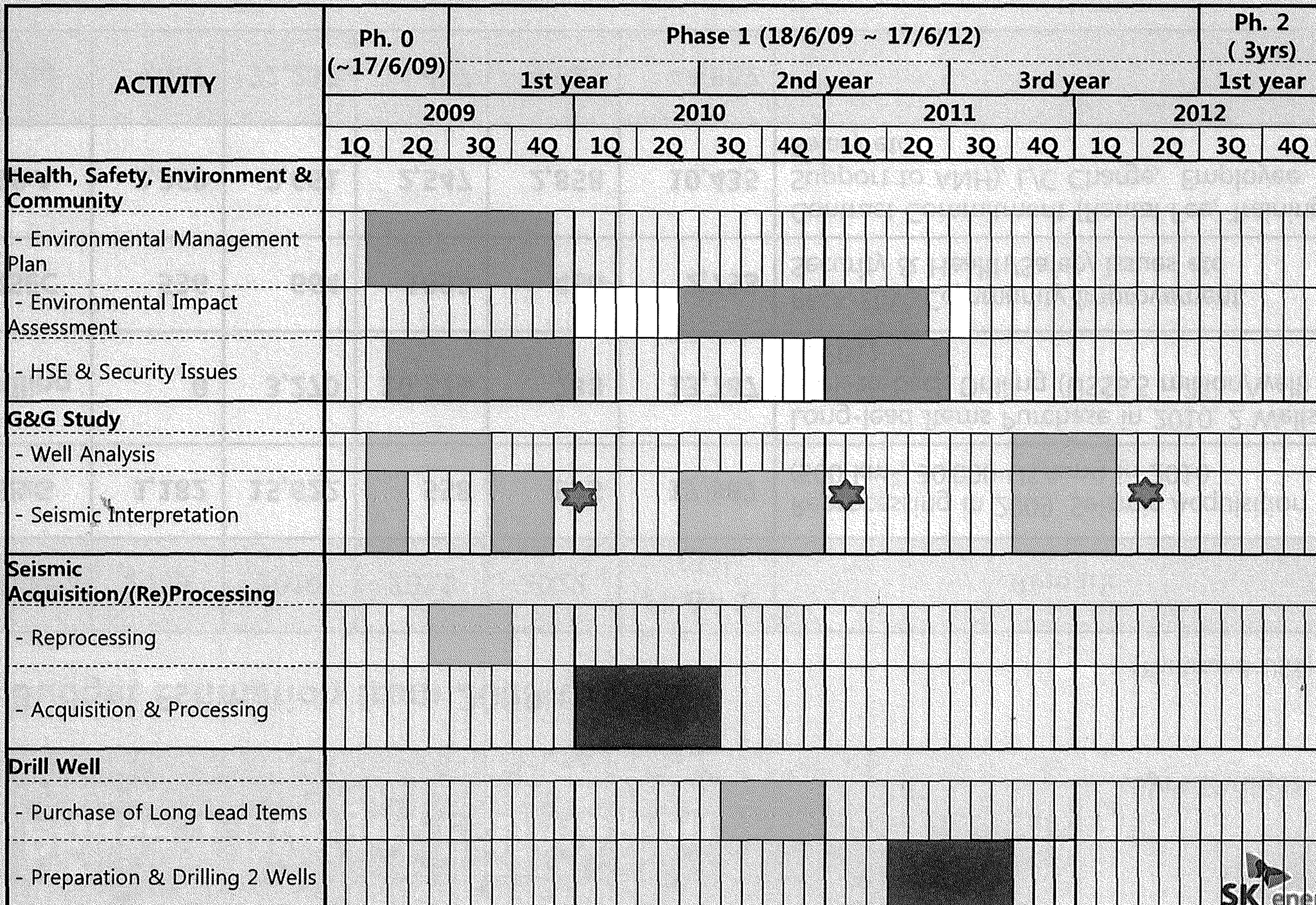
Area : 1.4 M km^2

Sparse 2D : 1825 Km

Only 1 well

Schedule

Schedule



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Phase 1 Budget Estimation

3yrs Budget

- **Budget Estimation from 2009 to 2012**

[Thousand US$]

ITEM	2009	2010	2011	2012	Phase 1 Total	Remark
G&G	1,182	15,622	558	525	17,887	Reprocessing in 2009, Seismic Acquisition (500 km^2, 30,000 U$/$km^2$) in 2010
Drilling	0	3,270	10,279	238	13,787	Long-lead Items Purchase in 2010, 2 Wells back-to-back Drilling (US$6.5 million/well) in 2011
HSEC	536	664	1093	460	2,753	PMA/EIA , Community Improvement, Security & Health/Safety Issues etc
G&A	2,369	2,661	2,547	2,858	10,435	Contract Commitment (Rental Fee, Training Support to ANH), L/C Charge, Employee Salary etc
Total	4,087	22,217	14,477	4,081	44,862	

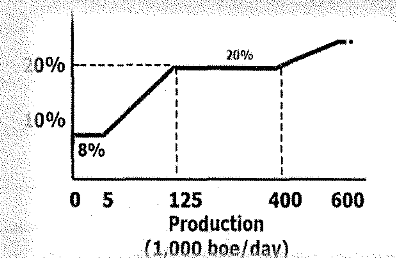
SK energy

E&P Contract Summary

- **Letter of Credit: 50% of the Phase one (1) Investment ($8.15 MM)**

  (Additional Investment was the 2nd bid parameter and the tie-breaker of Colombia Round 2008)
- **Economic Rights (Rentals): Each Phase US$470,177**
- **Royalties: 8~25%**

  (Gross/According to Monthly Avg. Production Rate)



- **Colombian Government Participation Fee: 31%**

  (After Royalty/The 1st bid parameter of Colombia Round 2008)
- **High Price Tax:** ***(Price @delivery point)x(Production Volume)x{(P-Po)/P} x S***

  P: Benchmark Price (WTI)

  Po: Reference Base Price (If API gravity of liquid is 22°~29°, Po is US$30.22/B)

  S: Percentage of Share (If $30.22/B≤P<$60.44/B, S is 30%)

  (Will be applied after accumulative 5 million Bbls oil production)
- **Colombian Income Tax (From 2008) : 33%**
- **Applicable Law: The Colombian law**
- **Language: Spanish**

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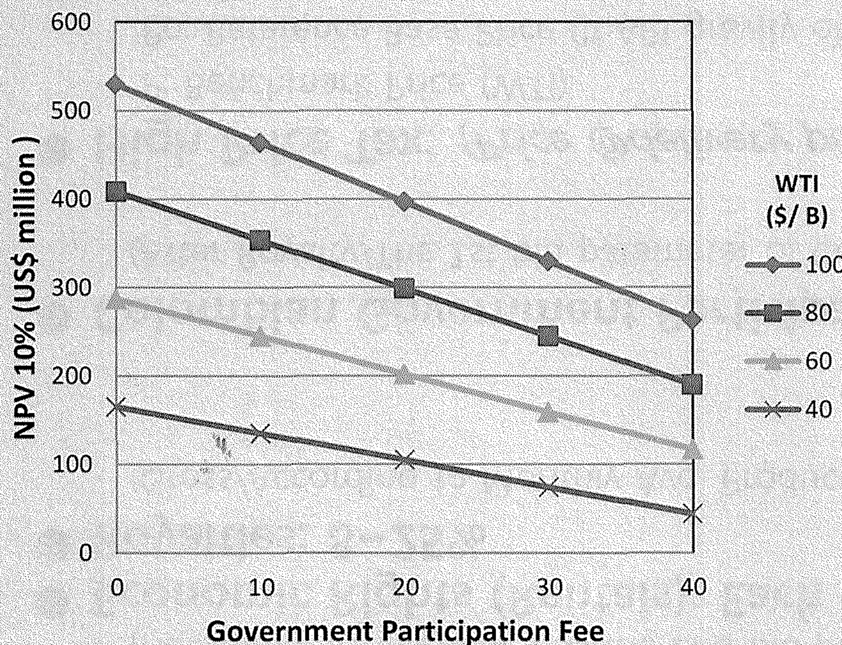
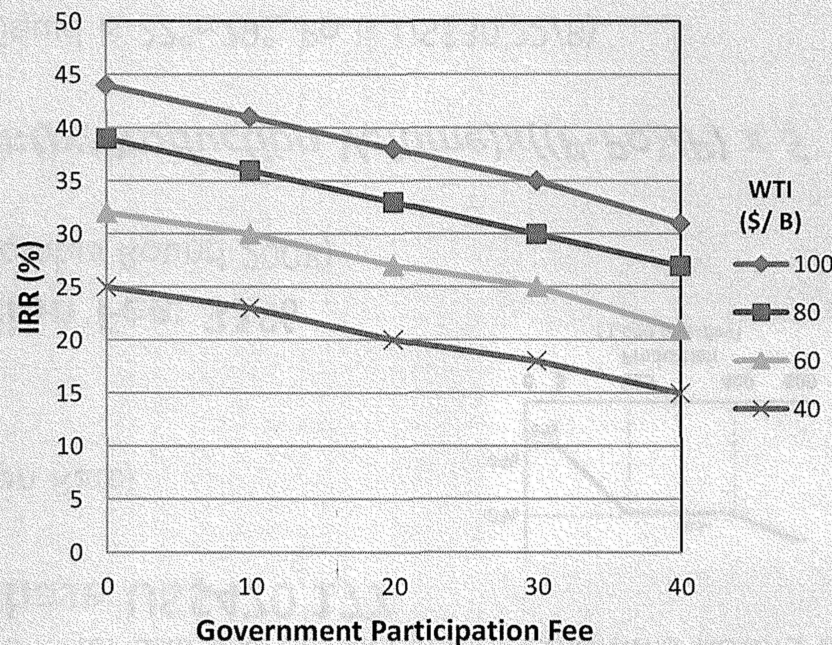
Sensitivity

● NPV Sensitivity



● IRR Sensitivity



※ Assumption: Oil Sale Price (20% Discount from WTI)/ Reserves 52.4 MM Bo/ API 25°
Production Facility & Pipeline to tie-in the existing pipeline (35 km)

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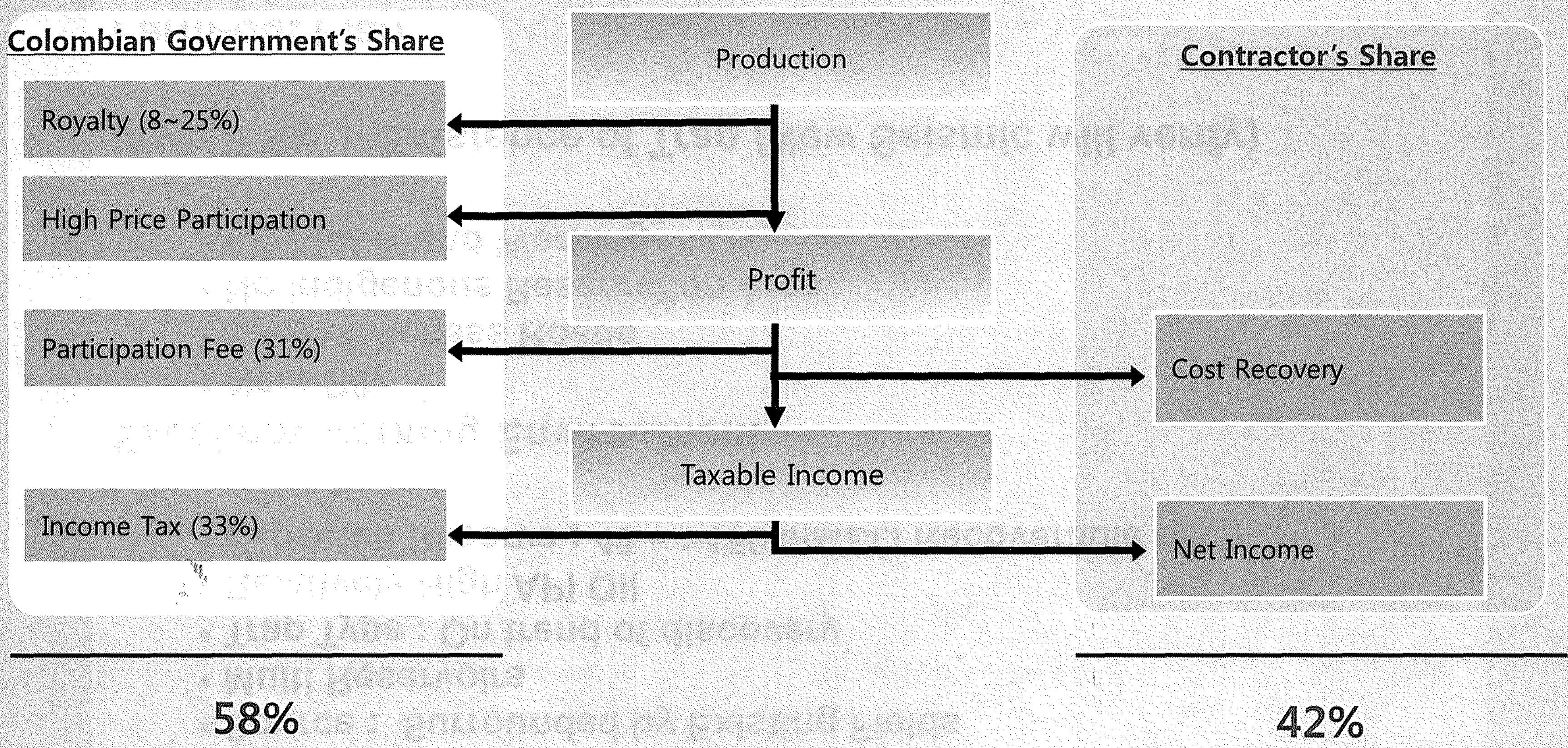
Fiscal Term Structure



※ Assumption: WTI Price is $60/B and the accumulative production is over 5.0 million Bbls

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Summary

Proven Area

- Source : Surrounded by Existing Fields
- Multi Reservoirs
- Trap Type : On trend of discovery
- Relatively High API Oil
- Expected Reserve : 40 ~ >150 MMBO Recoverable each

Excellent working Environment

- Near P/L
- Ease of Access Roads
- No Indigenous Reservation Area
- All year round Working

Main Risk : Existence of Trap (New Seismic will verify)

Farm-out Plan

- Looking for Technical Partner : First come First served
- Up to 50% (2 Parties)
- FO Terms & Conditions : Open
- Data Room : From middle of April

Thank you !!

John Terwilliger

From: John Terwilliger [jft@houstonamericanenergy.com]
Sent: Friday, April 17, 2009 10:30 AM
To: jjj@houstonamercianenergy.com
Subject: Fw: Colombia Block CPO-4
Attachments: Farm-out Flyer of Colombia CPO-4_20090417.pdf

These are the Koreans. I am seeing them on Monday as they are looking for partners to exploit this block. May work for us.

----- Original Message -----
From: Jim Fluker
To: 'John Terwilliger'
Sent: Friday, April 17, 2009 9:43 AM
Subject: RE: Colombia Block CPO-4

John,

Attached is our information flyer on the block. See you on Monday.

Best regards,

Jim Fluker
SK E & P Company USA
Senior Mgr New Business Development
1300 Post Oak Blvd, Suite 910
Houston, Texas 77056
Tel: +1-713-341-5827
Fax: +1-713-871-1580
jim@sk-houston.com

From: John Terwilliger [mailto:jft@houstonamericanenergy.com]
Sent: Thursday, April 16, 2009 3:25 PM
To: jim@sk-houston.com
Subject: Re: Colombia Block CPO-4

Jim:

I have an interest and want to come by but have been really tied up. I would like to see the summary.

Thanks,

John

----- Original Message -----
From: Jim Fluker
To: jft@houstonamericanenergy.com
Sent: Thursday, April 16, 2009 3:21 PM
Subject: Colombia Block CPO-4

PLAINTIFF'S EXHIBIT
PX-013

Good afternoon John,

I wanted to follow up on the CA I sent you earlier. We are preparing a brief summary flyer of the potential of the block. Do you have any interest in this? How is the process looking as far as your interest in the block?

EXHIBIT
92
3/14/12

HA279

Best regards,

Jim Fluker

SK E & P Company USA

Senior Mgr New Business Development

1300 Post Oak Blvd, Suite 910

Houston, Texas 77056

Tel: +1-713-341-5827

Fax: +1-713-871-1580

jim@sk-houston.com

HA28C

Farm-in Opportunity
Block CPO-4, Llanos Basin in Colombia

1. OPPORTUNITY DESCRIPTION

SK energy offers up to 50% working interests of CPO-4 block in Colombia onshore. SK Energy currently has 100% interest.

▪Physical Data Room

Upon signing of a Confidentiality Agreement with SK Energy, access to a data room will be available to the interested parties in Houston, Texas and Bogota, Colombia

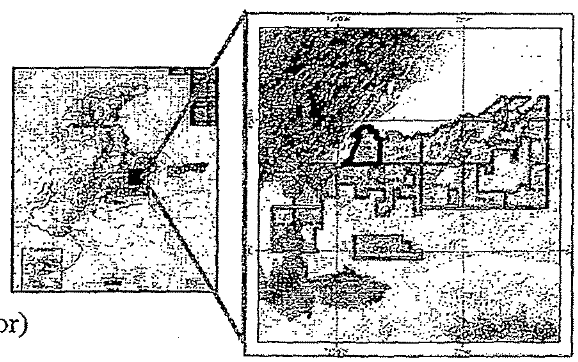
▪Preliminary Timeline

- Physical Data Room: from now to May 31st in Houston and Bogota (2 months)
- Terms and Conditions Negotiation: . Jun. 1st ~ Jun. 30th (1 month)
  * First Come First Served

▪ Contact Information

- Mr. Jim Fluker/Mr. Howard Jung
  SK E&P Company
  1300 Post Oak Blvd., Suite 910, Houston, Texas
  Telephone : 1-713-341-5820
  Email : Jim@sk-houston.com, hwjung@skenergy.com

2. CPO-4 BLOCK OVERVIEW



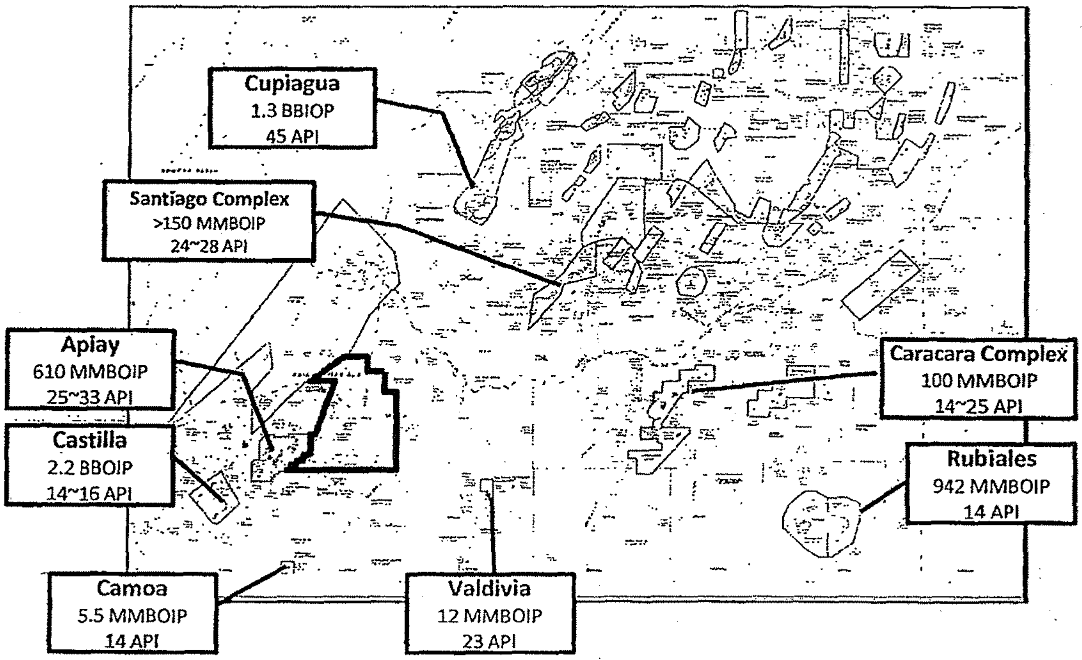
- ▪ Location: Onshore, Central Colombia
- ▪ Basin: Western Llanos Basin
- ▪ Area: 139,859 ha
- ▪ Effective Date: December 18, 2009
- ▪ Contract Type: E&P Contract
- ▪ Participant: SK Energy 100% (Operator)

Phase	Period	Work Obligation
Phase 0	'08.12.18~'09.06.17 (6 months)	-
Phase 1	'09.06.18~'12.06.17 (3 yrs)	2D Acquisition 620 Km 2D Seismic Reprocessing 400 Km 2 Exploration Wells
Phase 2	'12.06.18~'15.06.17 (3 yrs)	2D Seismic Reprocessing 400 Km 3 Exploration Wells

Supp 2
HA 279-280 ATTACH.

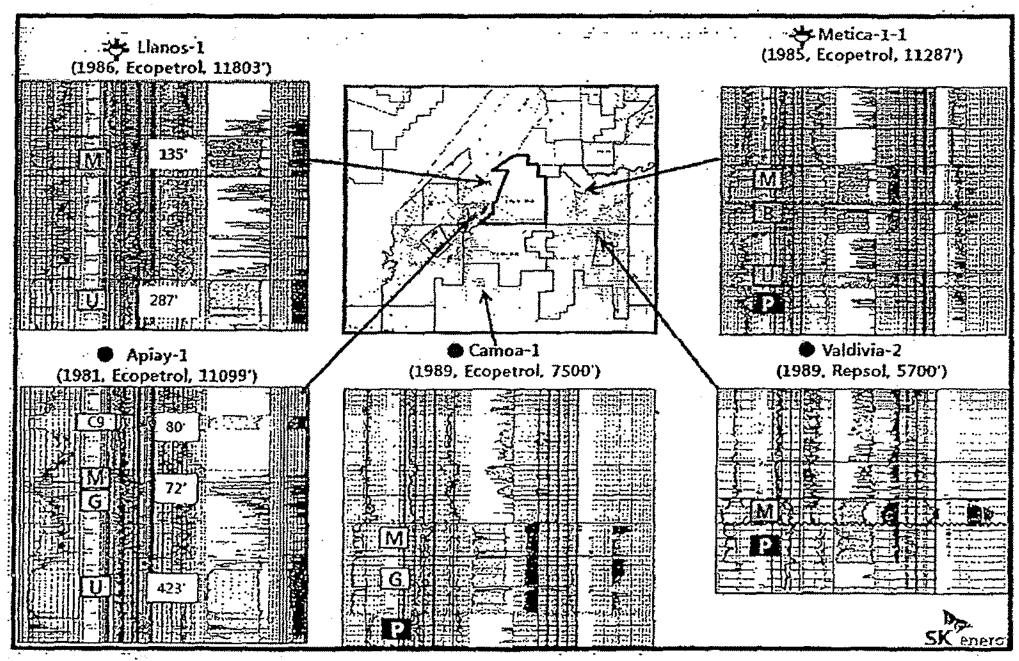
3. Hydrocarbon Potential

A. Proven Area : Surrounded by existing fields



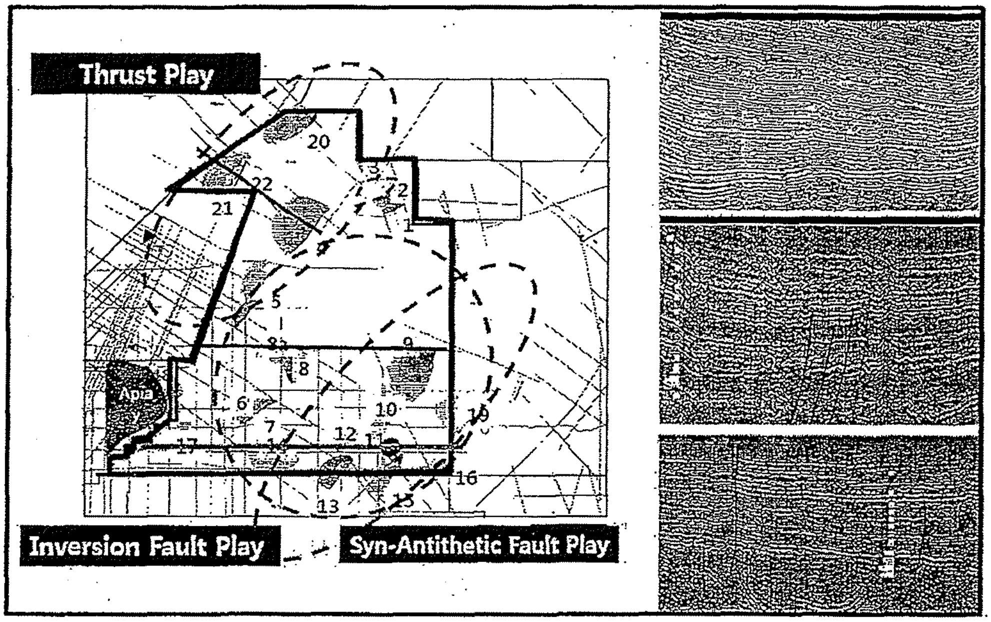
B. Multi Reservoir

- **UNE/Guadalupe/Barco/Mirador/C9 : 50~400' each**

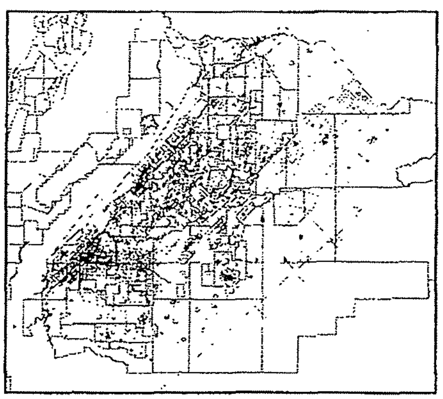


C. Multi Hydrocarbon Plays / Multi Structures

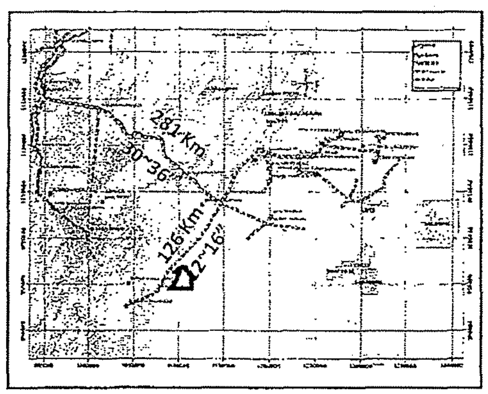
- 3 Hydorcarbon Play
- 22 Structures / More Than 3 Reservoir Horizons in each structure
- Total 1 Billion BO Potential : 300 MMBO Risked Reserve Potential



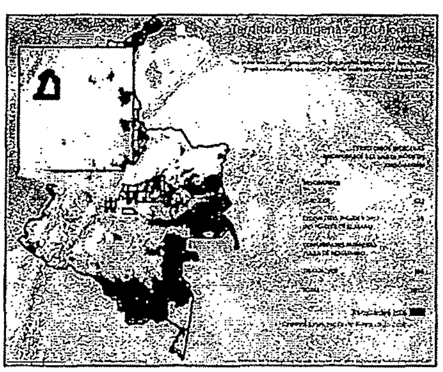
D. Under Explored Large block



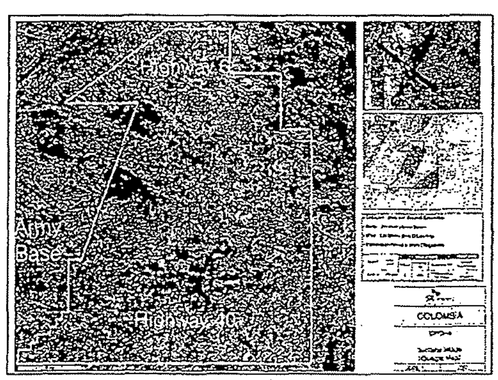
E. Excellent Infra Structure



F. No Indigeneous Reservation



F. All year Round Working Area



SK energy

HOUSTON AMERICAN

Minutes from the Block CPO-4 Technical Committee Meeting
September 11, 2009

Bogota, Colombia

---

1. **Introduction**
M.H. Lee opened the meeting, welcomed Houston American and thanked them for their attendance.

The attendees of the meeting were confirmed to be:

Houston American	SK Energy Co Ltd
John F. Terwilliger CEO	**Dong Soo Choi** Vice President Houston Office
	Myung Hwan Lee General Manager
	JiYeol Choi General Manager Exploration Technical Group
	James C. Fluker Sr. Manager New Business Development
	Bo-Seong Seo Financial Manager
	Barry Rava Consultant
	Carolina Azcuenaga Operation Coordinator
	Sandra Marin HSE Coordinator
	Patricia Pinzon Legal Advisor

PLAINTIFF'S EXHIBIT
PX-018

Exhibit # 155
HUSA
Date: 12-3-12
Linda Rayburn, CSR, RPR, CLR

2. **Joint Venture Issues – Presented by: Patricia Pinzon, Legal Advisor**

Operator explained that the ANH has given a preliminary approval of the assignment to Houston American ("HA"). However it has required that HA establish a branch in Colombia. Once we provide proof of the incorporation of the branch the ANH will give its final approval.

Regarding the JOA, the Operator commented that both parties are reviewing the Draft of the Agreement and that the Agreement will be signed as soon as the conditions for the closing date set out within the farm out Agreement are met. Also, the Operator informed that the 2010 WP&B will be presented for review and approval at the end of October, 2009.

The parties designated their representatives for the OCM and TCM as follows:

Company	Representative	Alternate
OCM		
SK Energy	C. Kim	M.H. Lee
HAE	John F. Terwilliger	Jay Jacobs
TCM		
SK Energy	M.H. Lee	—
HAE	John F. Terwilliger	Jay Jacobs

Block Overview – Presented by: Jim Fluker

Operator presented the general information of the block, the conditions of the E&P contract and the main exploration obligations and work program. Then Operator presented the exploration plan for Phase 1 and the respective activities for HSE, seismic acquisition and drilling. Operator also presented the timetable of the JOA activities.

3. **Summary of G&G Studies**

- **Seismic Reprocessing Results – Presented by: Jim Fluker,**

Operator mentioned that the main objective of the reprocessing works was to eliminate the mis-ties at intersecting points caused by the different datums in each vintage survey, and at the same time improve the quality of the images.

Operator presented the highlights of the processing, a map illustrating the reprocessed seismic lines and afterwards Operator showed several examples of the different problems found in the data and how the reprocessing carried out helped to improve the quality of the images. Operator presented several 'before' and 'after' images for comparison.

In conclusion, the mis-ties were removed by using a common fixed datum and replacement velocity. The Zero-phase conversion of dynamite lines further improved the tie between the dynamite and vibroseis lines. And the statics and Kirchhoff PSTM improved the quality of the images. There is a significant improvement in the image quality.

- **Geological Interpretation – Presented by: D.S. Choi**

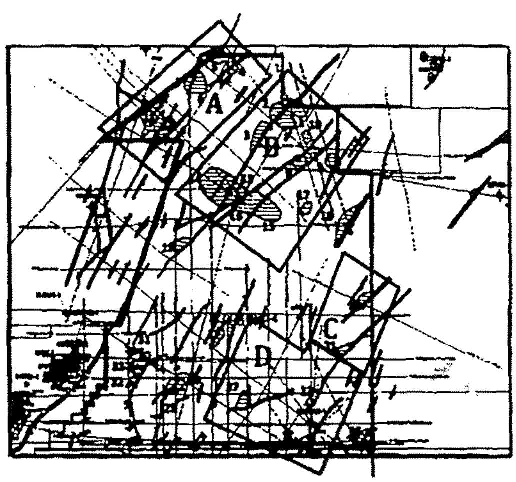
Operator mentioned that they updated the general geology based on new data. Operator presented information about the Corcel Block and the Corcel-1 well drilled by Petrominerales, northeast of the CPO-4 Block, showing the high potential of the area. Operator also presented the API updated information based on the Corcel oil discovery. Operator presented the correlation of wells and the reservoir distribution.

- **Seismic Interpretation – Presented by: Barry Rava,**

Operator presented the synthetic well ties for Negritos-1 and Metica-1 wells and then the interpretation plan. Due to the new processing, Operator identified 33 structures, most of them match the original mapped structures, but there were also differences caused by the mis-ties.

Operator presented the amount of reprocessed lines vs. the amount of available seismic lines, showing that most of the information was reprocessed. The majority of the lines that were not reprocessed were due to a lack of data.

Operator presented a map with 33 structures and their respective sizes, and afterwards detailed each one of them briefly. On conclusion, Operator presented a map with the possible 3D areas and commented that the acquisition plan includes approximately 500 Km2.



Partner asked; which of the areas marked up in the map were the recommended ones to carry out the seismic acquisition survey. Barry Rava considers that areas A and an enlarged B, including structure 18, will be an appropriate plan. Partner agreed with that recommendation and emphasized that areas A and B are a good selection. D.S. Choi recommended areas A and D because these are totally different plays. Partner thinks that D is far from the Corcel discovery.

4. **Socio-environmental status – Presented by: Sandra Marin, HSE Coordinator**

Operator presented the main conclusions of the due diligence and scouting carried out during the first semester of the year, aimed mainly to define if there were ethnic communities in the block. The study concluded that there were no communities in the area, therefore it is not necessary to do the prior consultation process. Operator also presented other social and environmental conclusions from the study.

Partner asked if the weather is consistent throughout the block. Operator confirmed that it is. Partner raised the issue that sometimes, even if no indigenous communities were found, they can move as soon as they know about an oil exploration project. Partner emphasized the importance of the social investment and the difficulties of dealing with communities.

Partner suggested, based on his experience, to take the necessary time to work with communities and negotiate with them to facilitate the operation and save significant resources afterwards.

Operator showed information about the Environmental Management Plan (PMA), currently in execution, necessary to obtain the environmental permits for the seismic acquisition survey. The company SIPAC was selected after a bid process and the respective evaluation. Operator expects to have the PMA by September 30th, 2009.

Based on the possible 3D areas mentioned before, Operator agreed to discuss with SIPAC the possibility of enlarging the PMA area.

5. **2009 Work Program & Budget – Presented by: B.S. Seo, Financial Manager**

Operator presented the total 2009 WP&B, the costs through May and the projected costs until December. Operator also presented the reason for the increase and decrease of some items.

	Budget (A)	'09.1~5	'09.6~8	'09.9~12 (E)	'09 YE Estimate (B)	B-A	
Drilling	-		-	-	-	-	
G&G	1,229	201	233	695	1,129	- 100	Decrease of technical data acquisition and G&G study costs
G&A	1,629	322	319	704	1,345	- 284	SBLC Commission Fee Decrease (Rate: 5% → 2.25%, Full payment → Installment) Legal Fee Decrease
HSEC	536		14	188	202	-334	EIA Cost postponed to next year No Prior Consultation
Contract Commitment	570		599	-	599	+ 29	Education fee to ANH & Labor Insurance
TOTAL Expenditure	3,964	523	1,165	1,587	3,275	- 689	

* After execution of JOA, HQ Overhead will be charged

** When the cash call is calculated, the amount of USD 130,638 will be credited to HAE (USD 522,550 * 25% = USD 130,638)

7. Partner's feedback

- Partner agreed with the WP&B and affirmed that the work being done well
- Partner suggested to take advantage of the Corcel discovery and follow the structure. Therefore he proposed to shoot the seismic in the top half of the block and leave the south part for later.

8. Various

- Operator commented that another company approached SK for a farm out possibility. The company will give answer to Operator by the end of September.

APPROVED

For SK Energy – Bogota Office

Name: Myung Hwan LEE

Myung Hwan Lee

Title: General Manager

Date: 9/16/09

For Houston American

Name: John F. Terwilliger

J F Terwilliger

Title: Chairman

Date: 9/16/09

1st Technical Committee Meeting
CPO-4 Block, Colombia

SK Energy - Bogota Office
Bogota, Colombia
September, 2009

SK energy

HOUSTON AMERICAN

Agenda

CPO-4

1. Welcome & Introduction
2. Joint Venture Issues
3. Block Overview
4. Summary of G&G Studies
5. Seismic Reprocessing Results & Interpretation
6. New Seismic Acquisition Plan
7. Socio-environmental status
8. 2009 Work Program & Budget
9. Partner's feedback

SK energy

Joint Venture Issues - Status

Assignment

- HAE is establishing a branch in Colombia.
- ANH will give approval after receiving the documents proving the incorporation of the branch.

JOA

- Partners are reviewing the draft JOA.
- 2010 WP&B will be presented at the end of October 2009.
- The Agreement will be signed when the conditions of the FA are met.

OCM & TCM

- Meetings once or twice a year, or upon request of any party.
- Designation of OCM & TCM representatives.

Joint Venture Issues - Representation

CPO-4

Company	Representative	Alternate
<u>OCM</u>		
SK Energy	C. Kim	M.H. Lee
HAE	John F. Terwilliger	Jay Jacobs
<u>TCM</u>		
SK Energy	M.H. Lee	---
HAE	John F. Terwilliger	Jay Jacobs

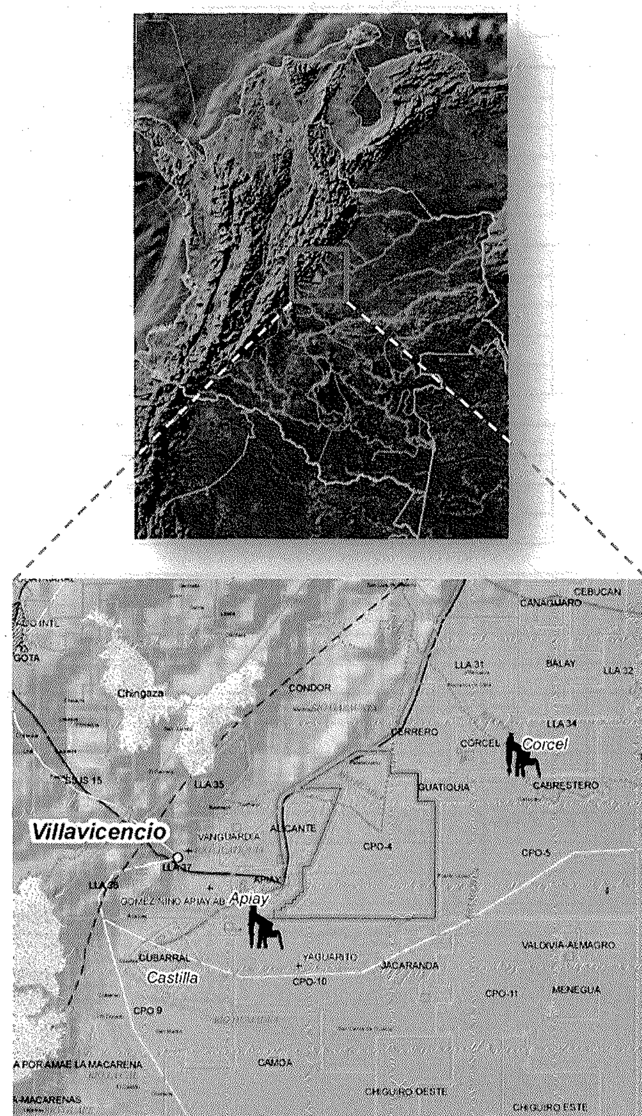
SK energy

Block Overview

CPO-4

General information

- Location : Onshore, Central Colombia
- Basin : Western Llanos Basin
- Area : 139,859 ha (1,398.59 km2)
- Effective Date : December 18, 2008
- Contract Type : License Agreement (Royalty & Tax)
- Participant :
  - SK Energy : 75% (Operator)
  - Houston American Energy : 25%

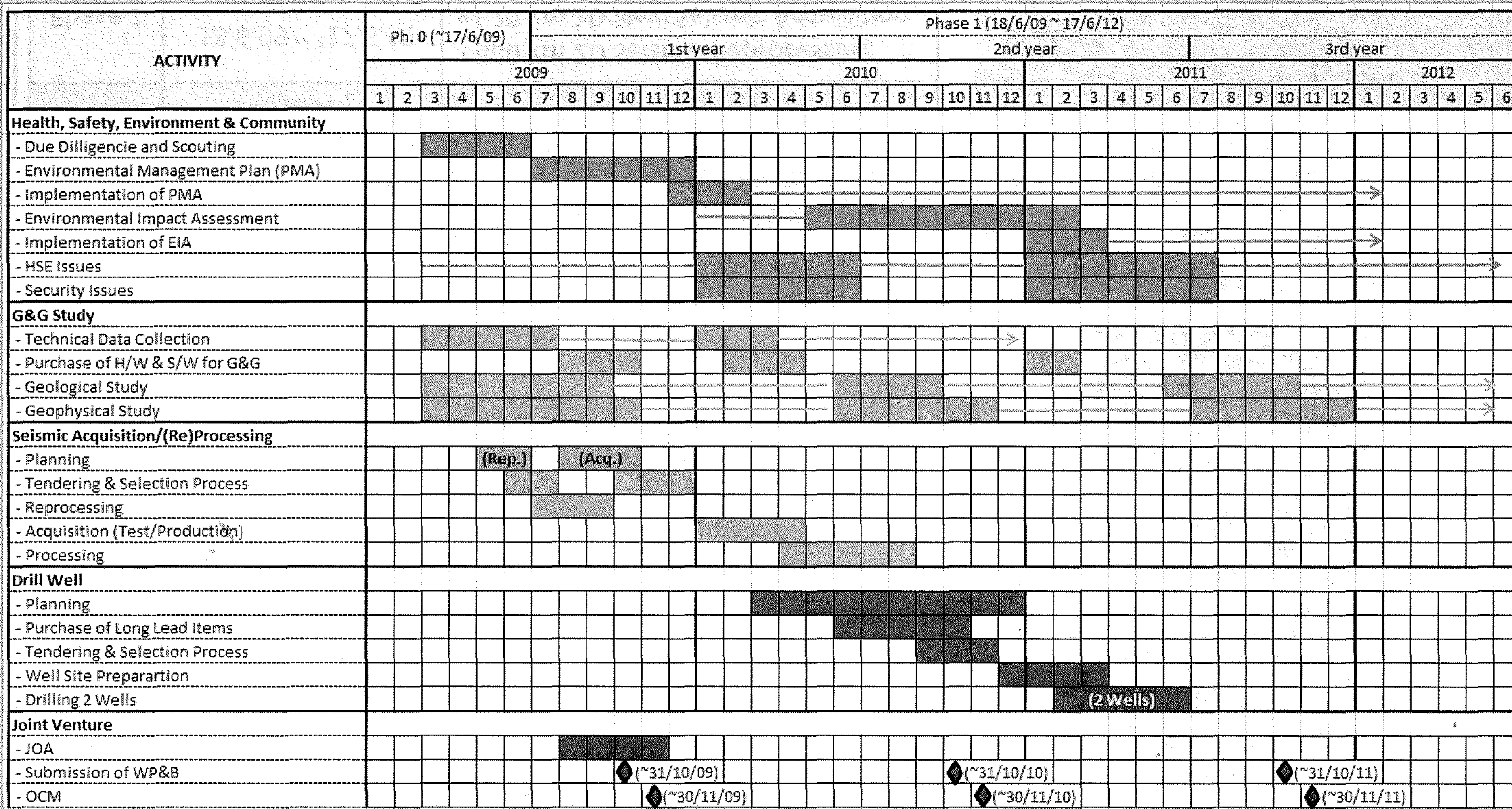


Exploration Period & Work Obligation

PHASE	PERIOD	WORK OBLIGATION
Phase 0	'18.12.08 ~ '17.6.09 (6 mos.)	Phase 0 Report (12.6.09)
Phase 1	'18.6.09 ~ '17.6.12 (3 yrs.)	• 400 km 2D Seismic Reprocessing • 620 km 2D New Seismic Acquisition • 2 Exploration Wells
Phase 2	'18.6.12 ~ '17.6.15 (3 yrs.)	• 400 km 2D Seismic Reprocessing • 3 Exploration Wells

Exploration Plan for Phase 1

CPO-4



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G&G Summary - Reprocessing

CPO-4

Outline

- Introduction
- Processing flow & test results
- Highlights of reprocessing
- Summary

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Objective

CPO-4

- To eliminate severe miss-ties at intersecting points.
  - Many different vintages were processed by different companies, resulting in severe miss-ties at intersecting points.
- To improve the image quality to:
  - Revise the leads, if necessary
  - Optimize 3-D acquisition

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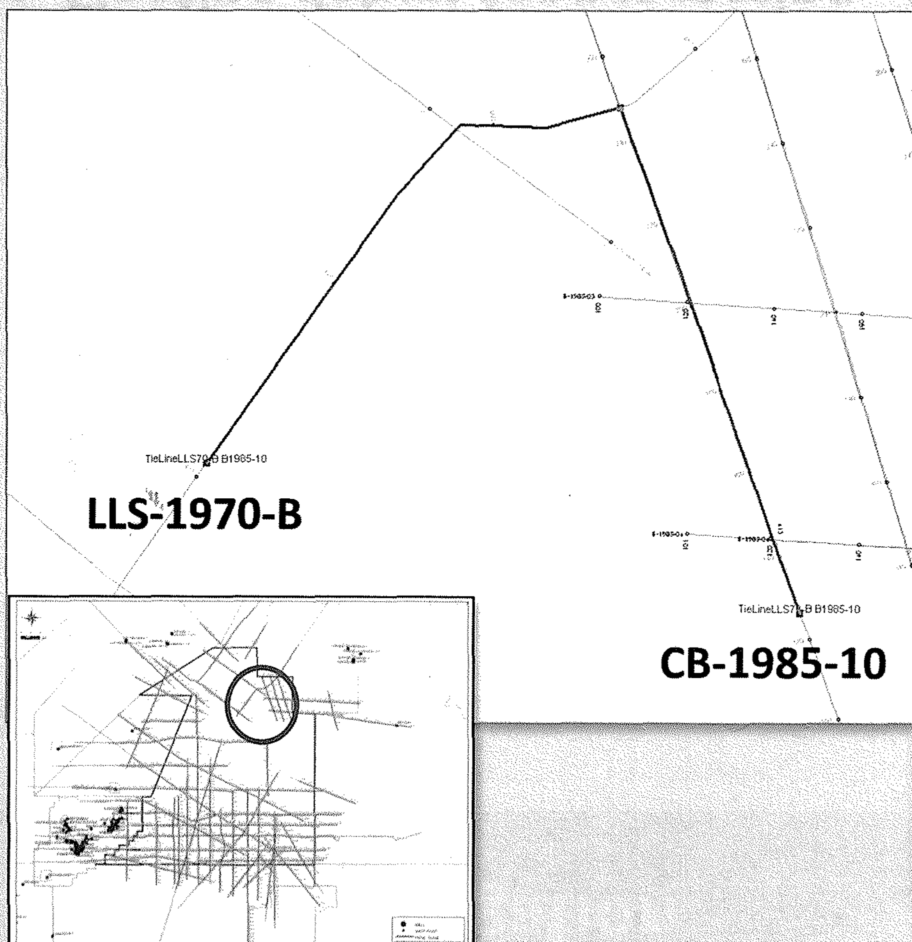
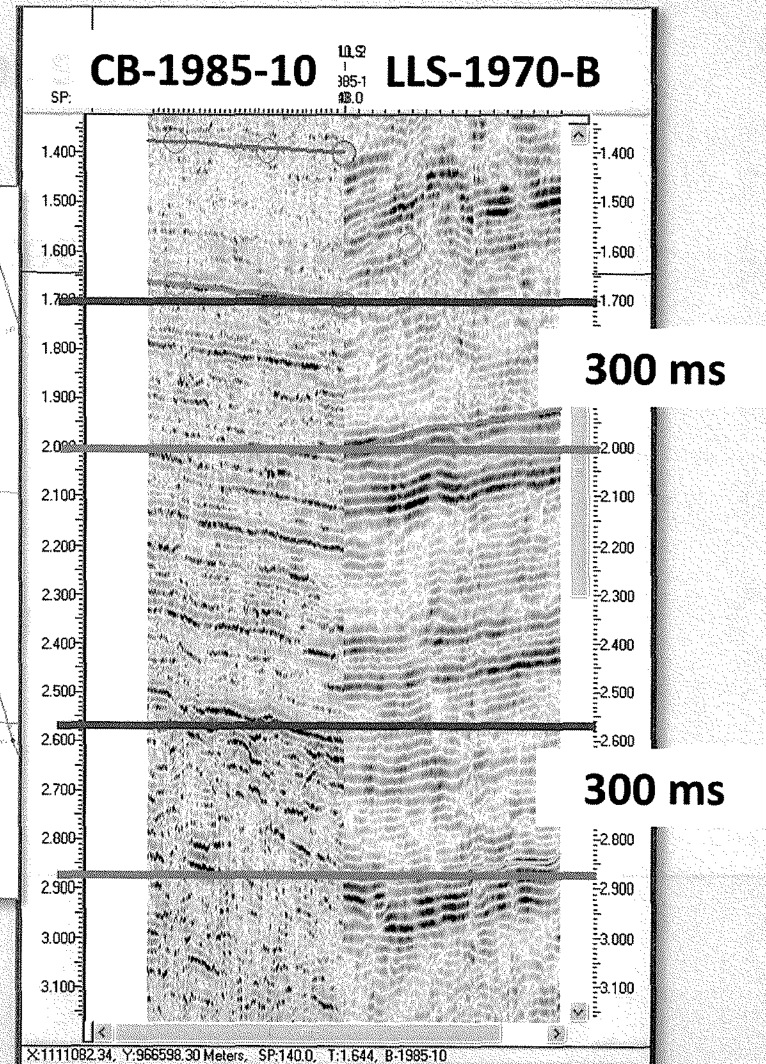
Miss-tie Example

CPO-4





Miss-tie Mitigation

CPO-4

Causes of miss-tie:

- **Different processing/final datum**
- **Various replacement velocities**

Mitigation:

- **A fixed final datum for all the lines (z = 300 m)**
- **Floating datum for processing**
- **V_R= 2,100 m/s; V_W=1,200 m/s for all lines**

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Processing Flow

CPO-4

- Trace edit & geometry
- Noise suppression
- Divergence correction
- Deconvolution
- Elevation statics
- Velocity analysis
- Residual statics

iteration

- Kirchhoff prestack time migration
- Stack
- Poststack enhancements
- Phase conversion of dynamite lines

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Processing Highlights

CPO-4

- Gapped decon for dynamite lines
- Zero-phase decon for vibroseis lines
- Residual statics based on maximizing stack power
- Ensured that the stacks tie at the intersecting points
- Kirchhoff prestack time migration with travel time computation using ray tracing
- Zero-phase conversion of dynamite lines based on maximizing kurtosis

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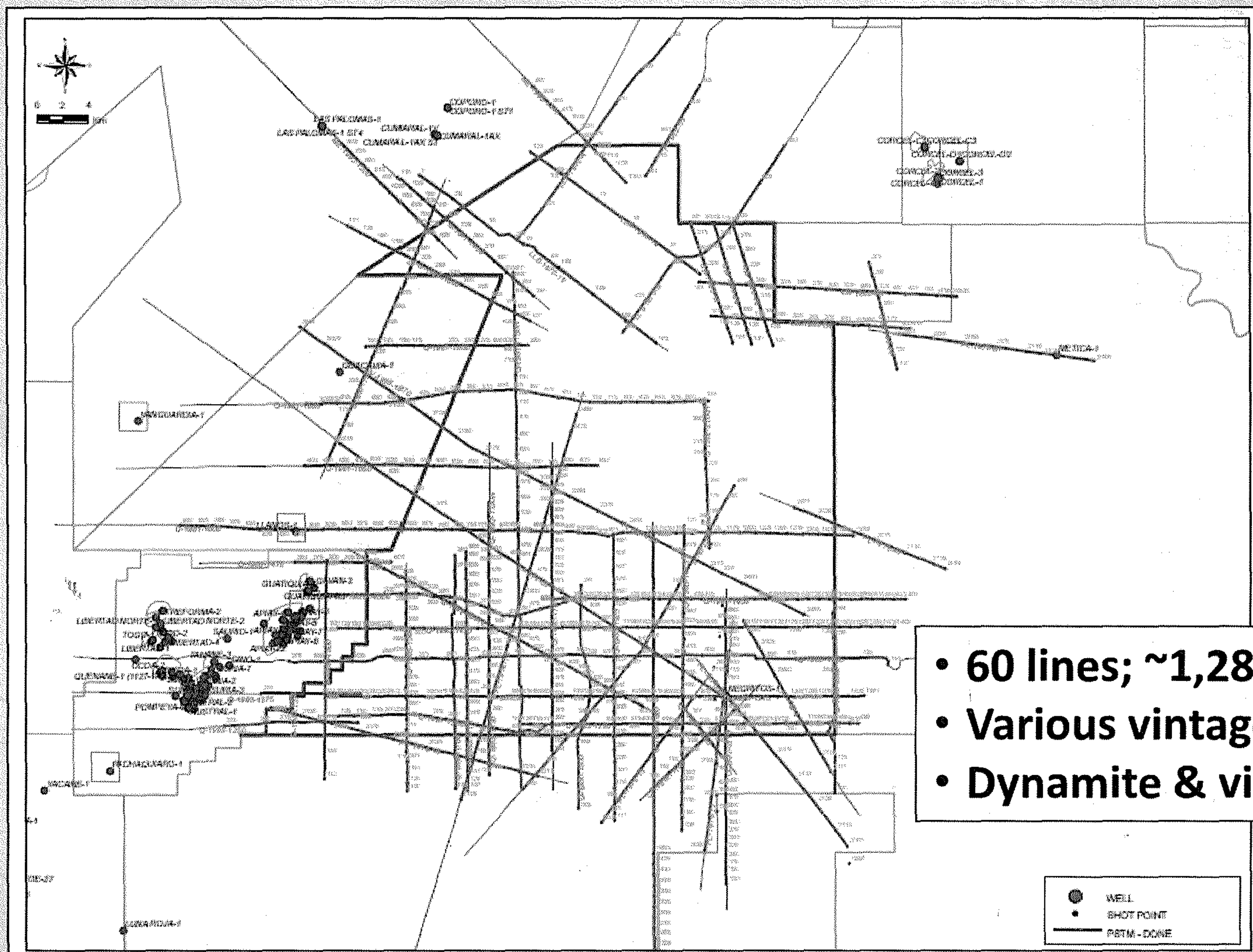
Reprocessed Lines

CPO-4



- 60 lines; ~1,289 km
- Various vintages
- Dynamite & vibrator

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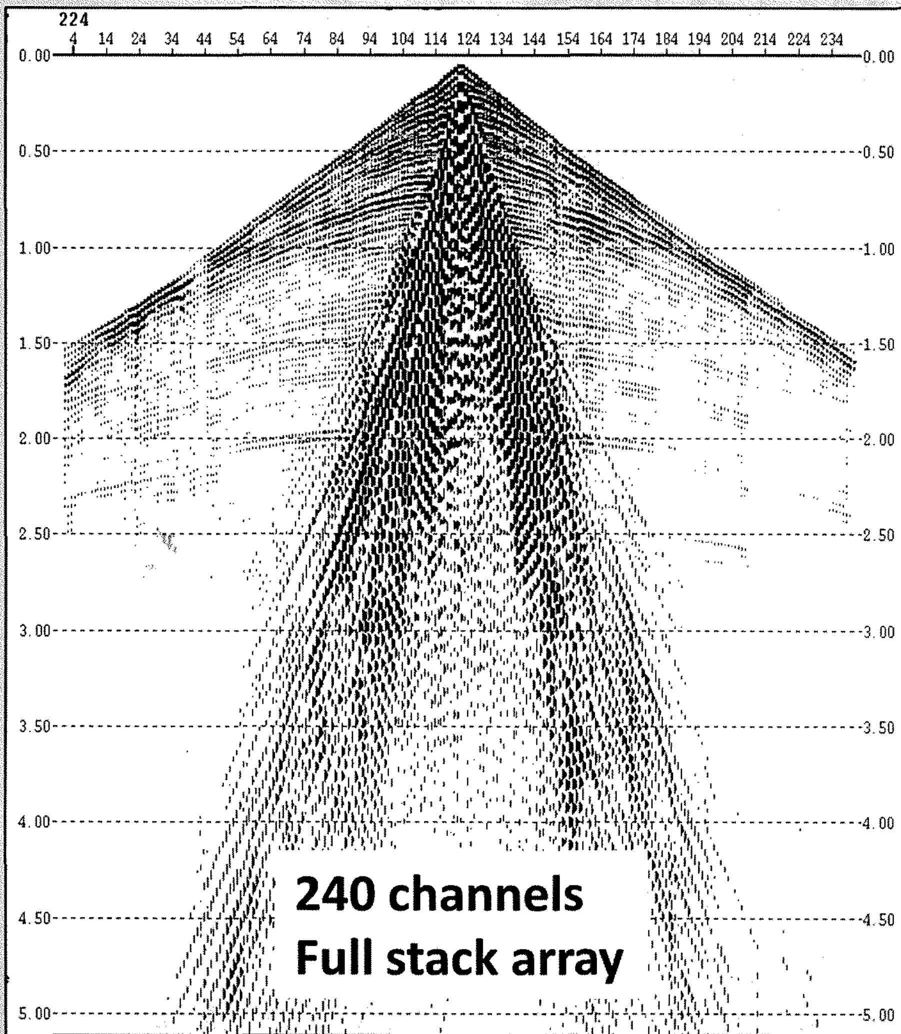
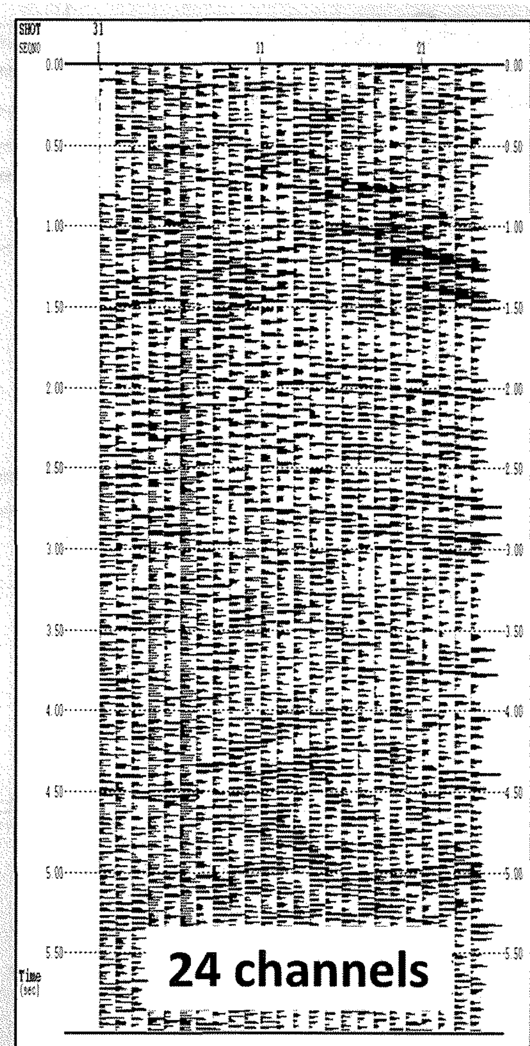
Sample Shot Gathers

CPO-4

Q-1992-2110: Dynamite

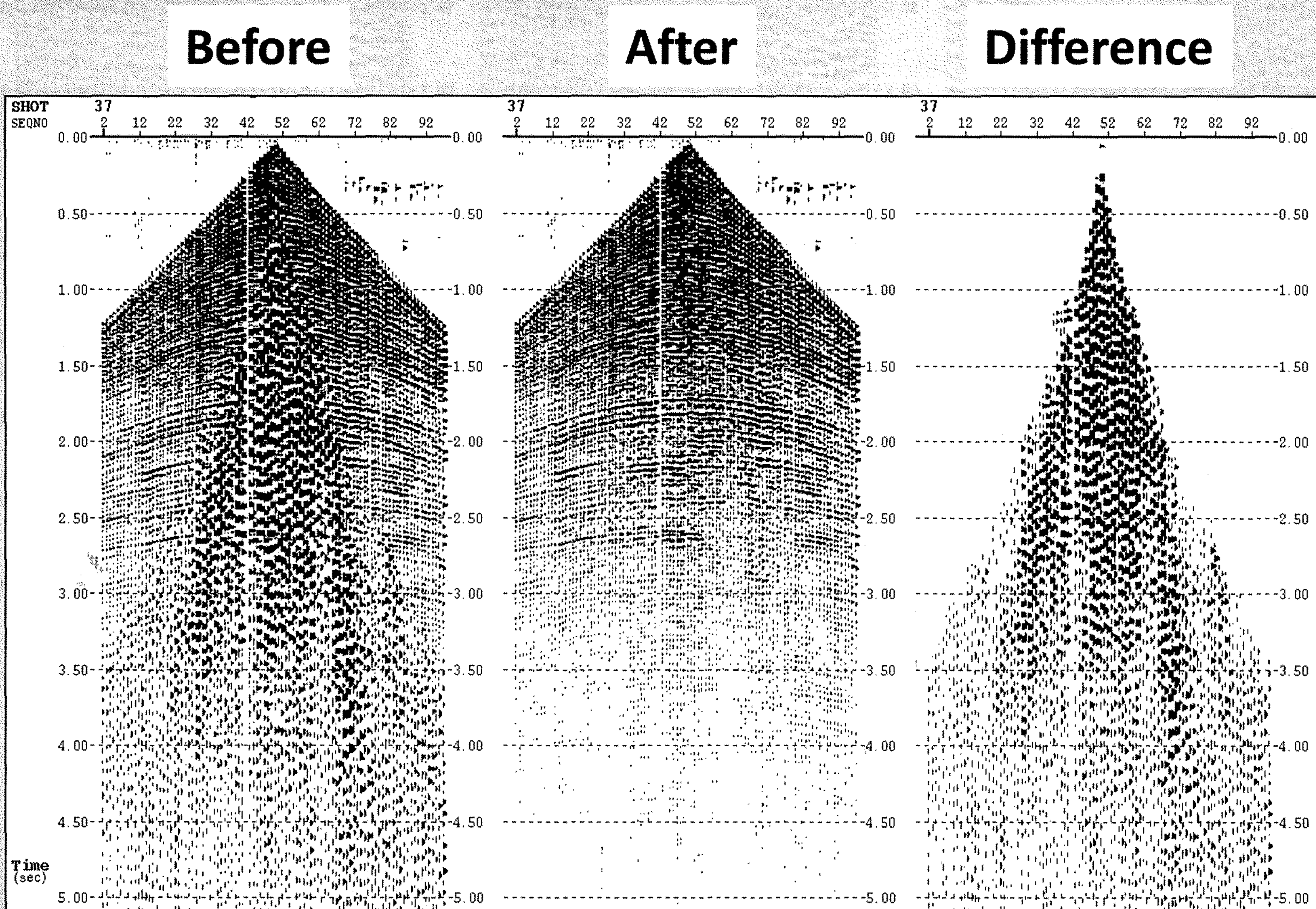


LLS-1970-14: Vibroseis



Ground-Roll Noise Removal

CPO-4



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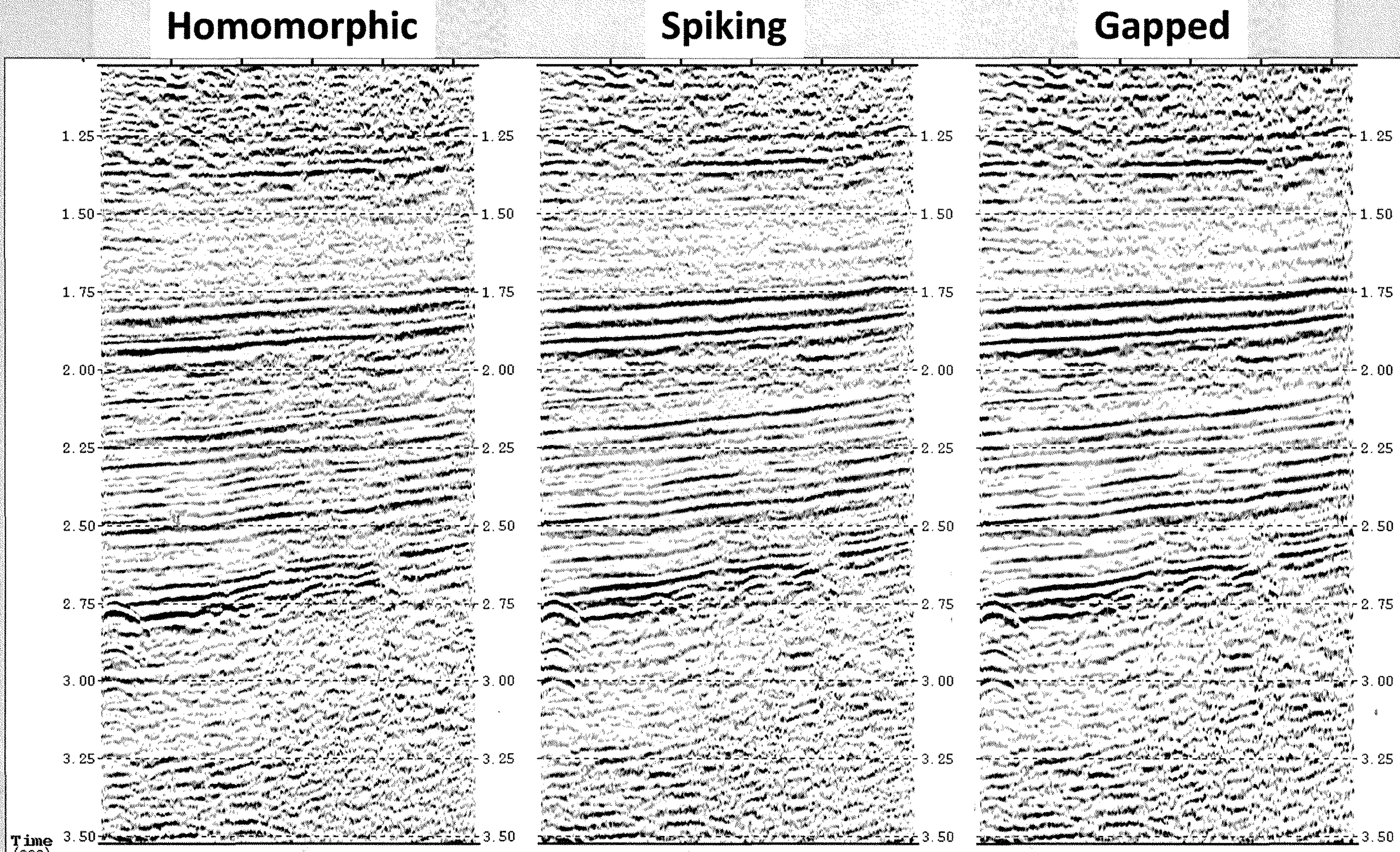
Decon Tests - Dynamite

CPO-4



CB-1985-10

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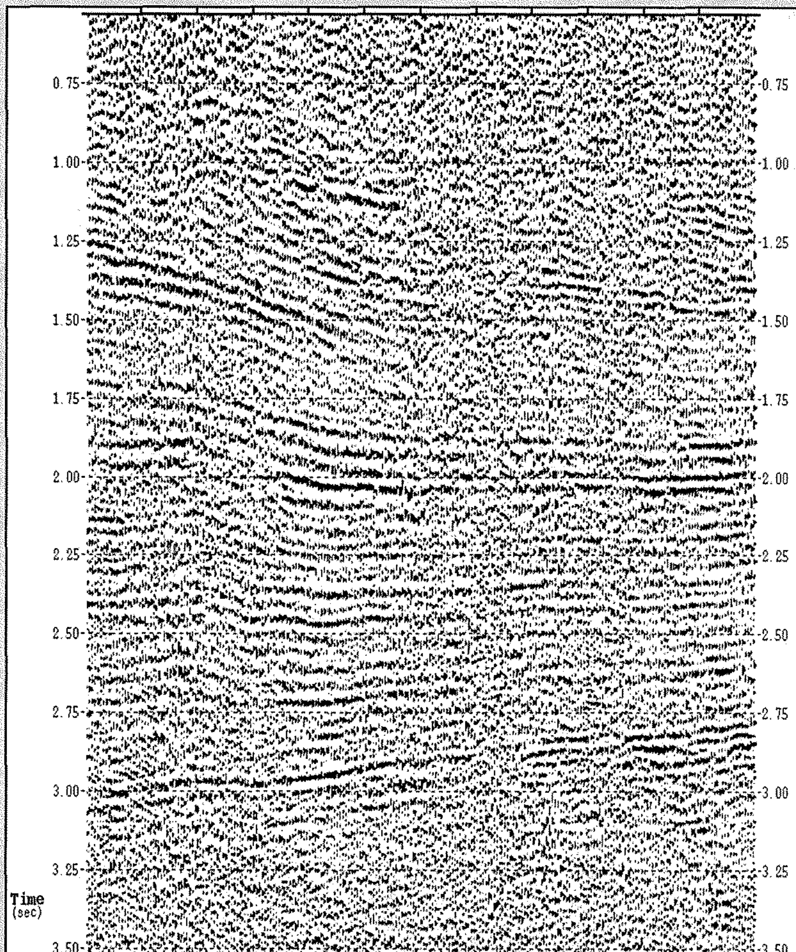
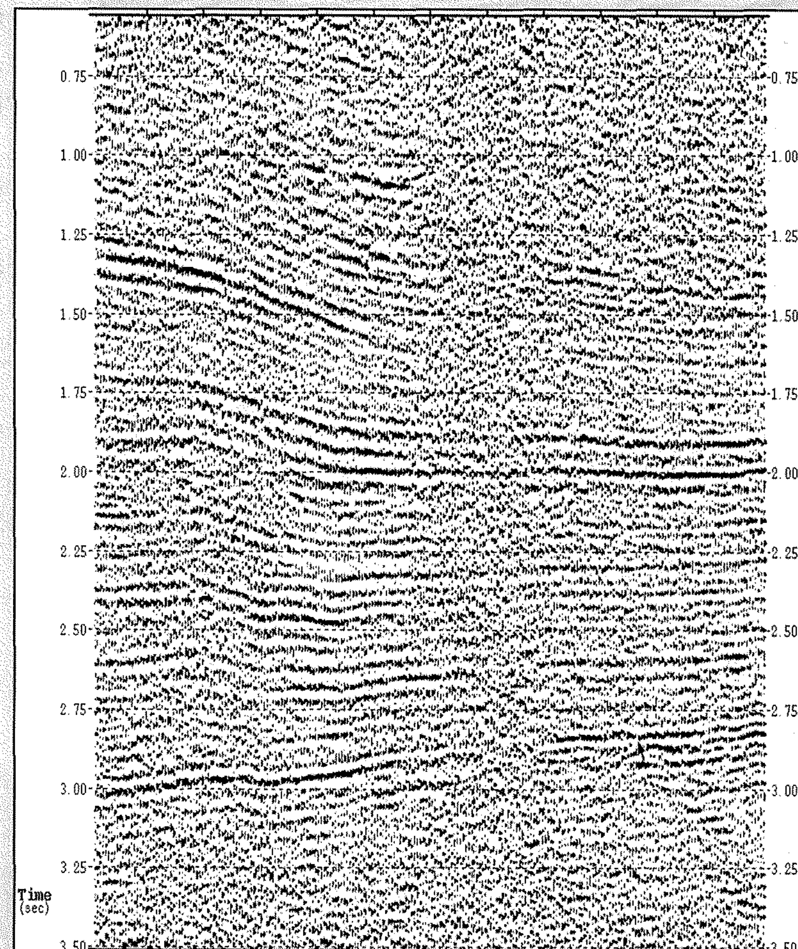
Decon Tests - Vibroseis

CPO-4

Homomorphic



Zero-phase decon



LLS-1970-14

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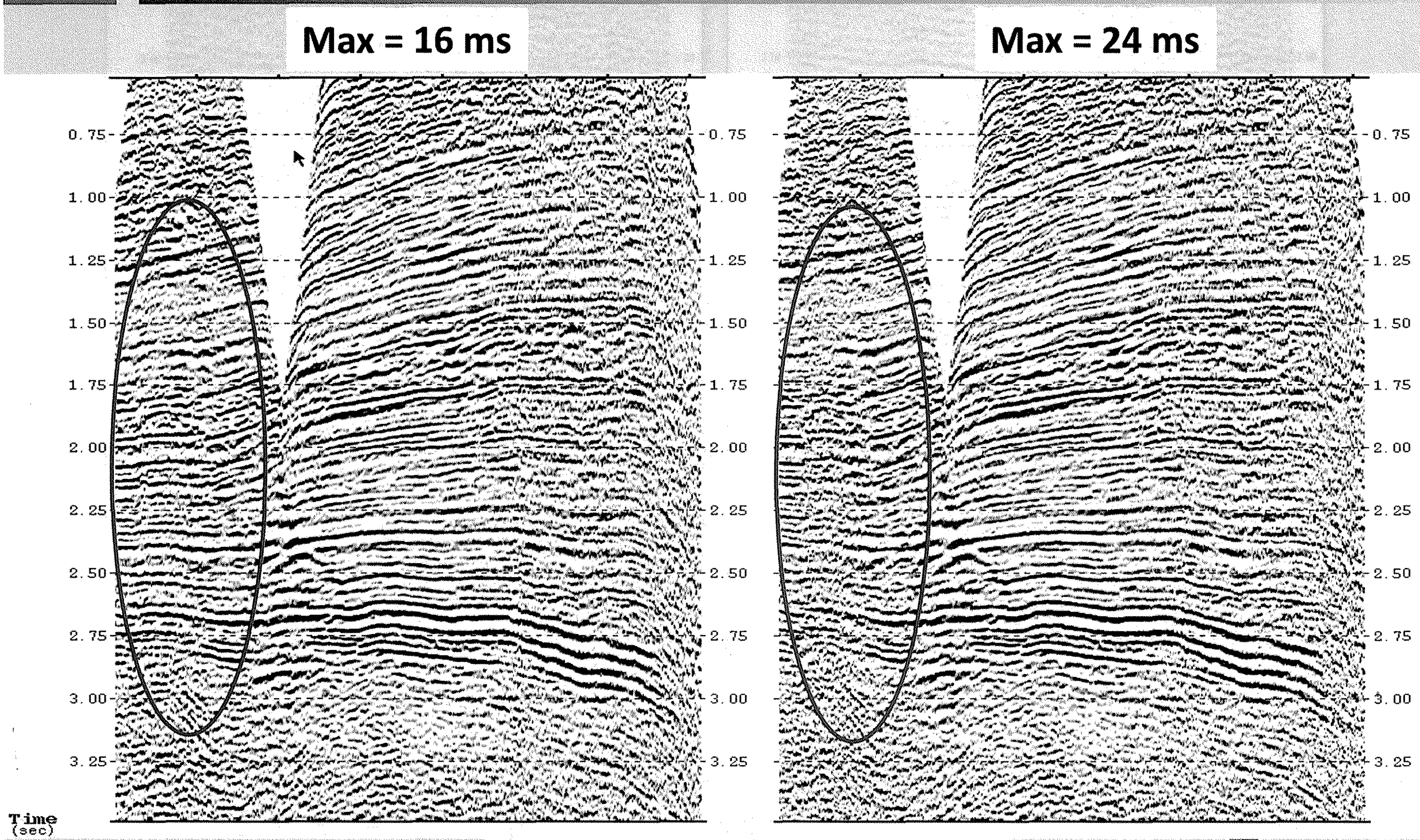
Residual Statics Tests

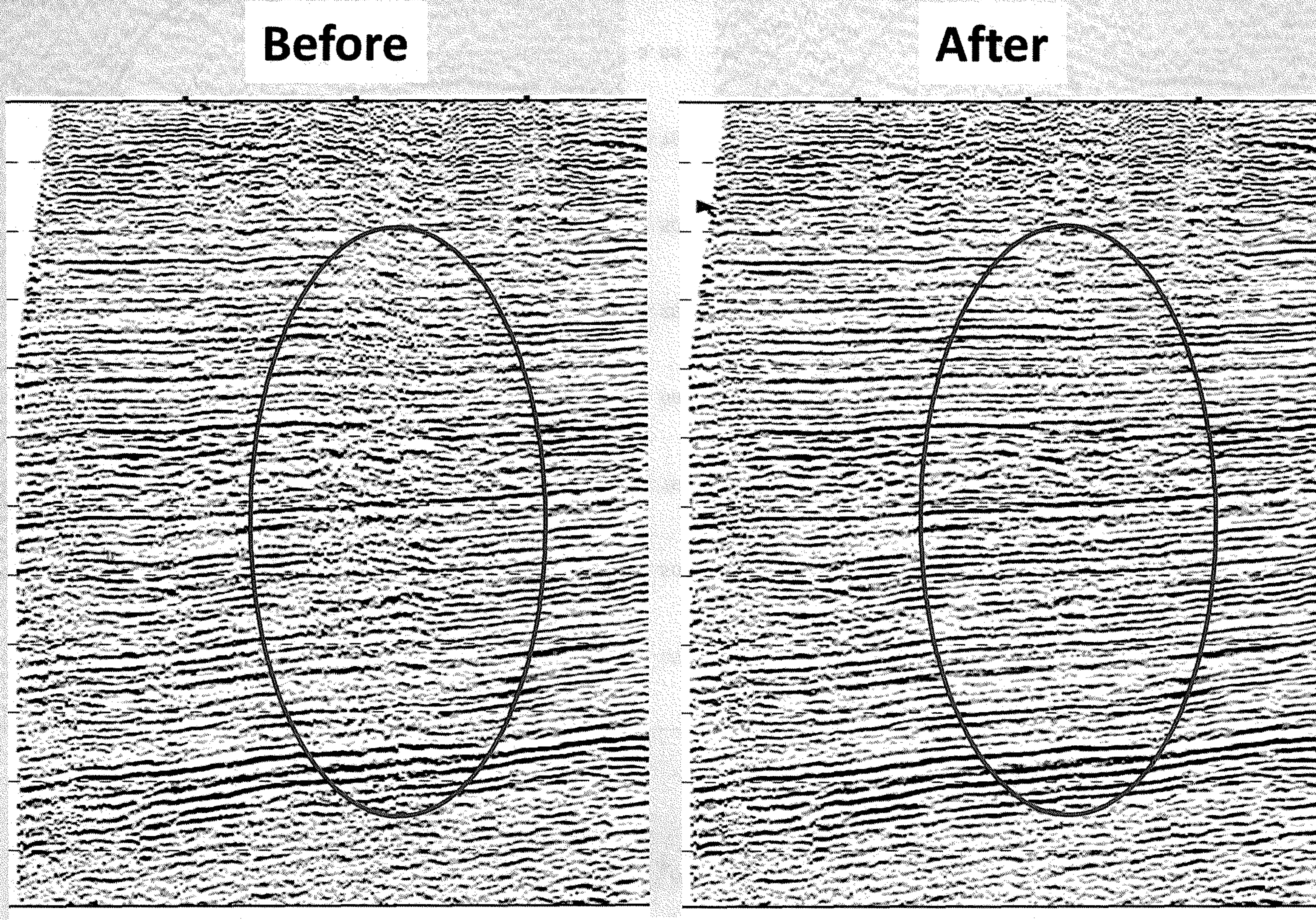
CPO-4



G-1987-1660 (Dynamite)

SK energy

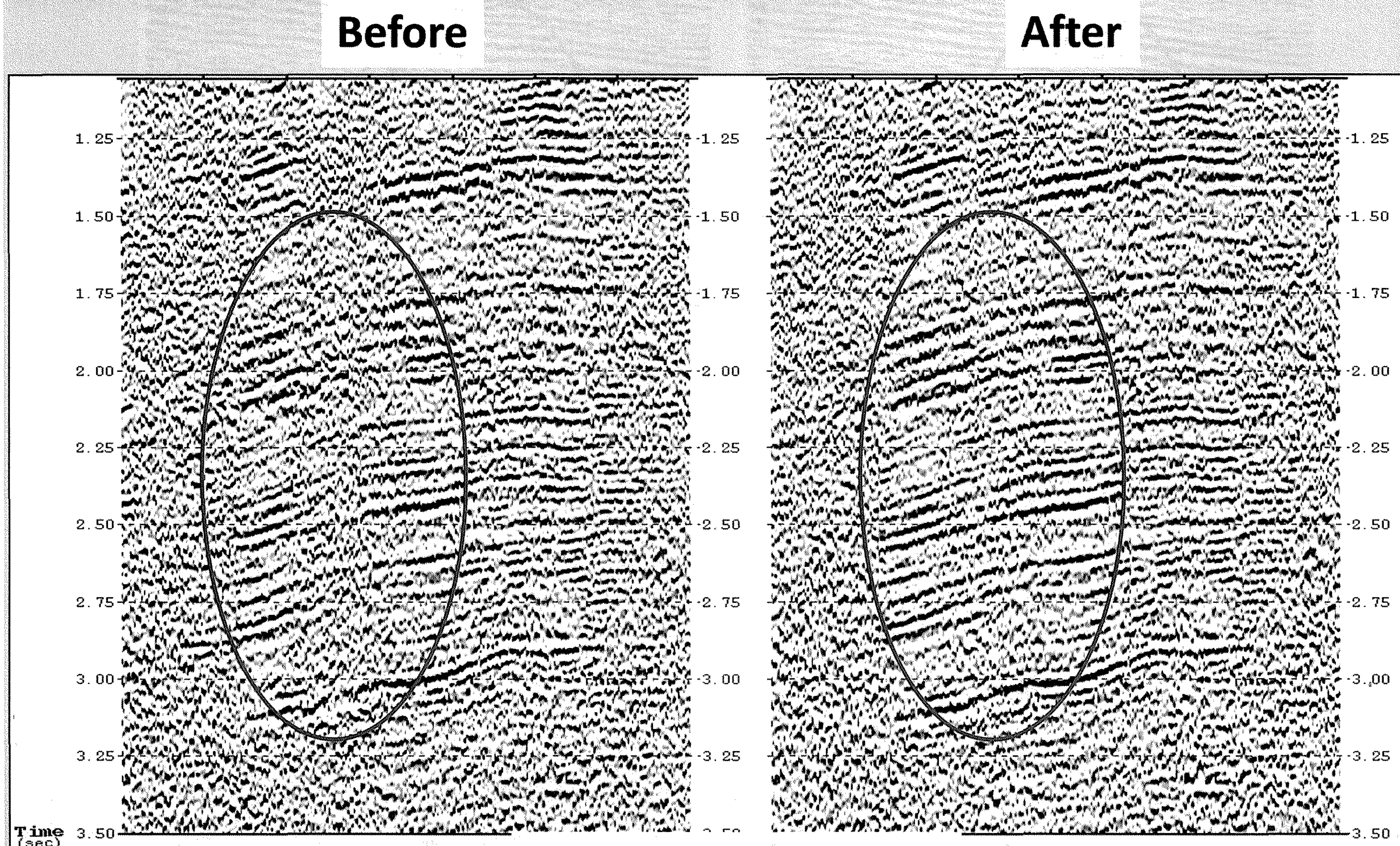
Residual Statics Example



G-1987-1120

Residual Statics Example

CPO-4



LLS-1970-A (vibrator)

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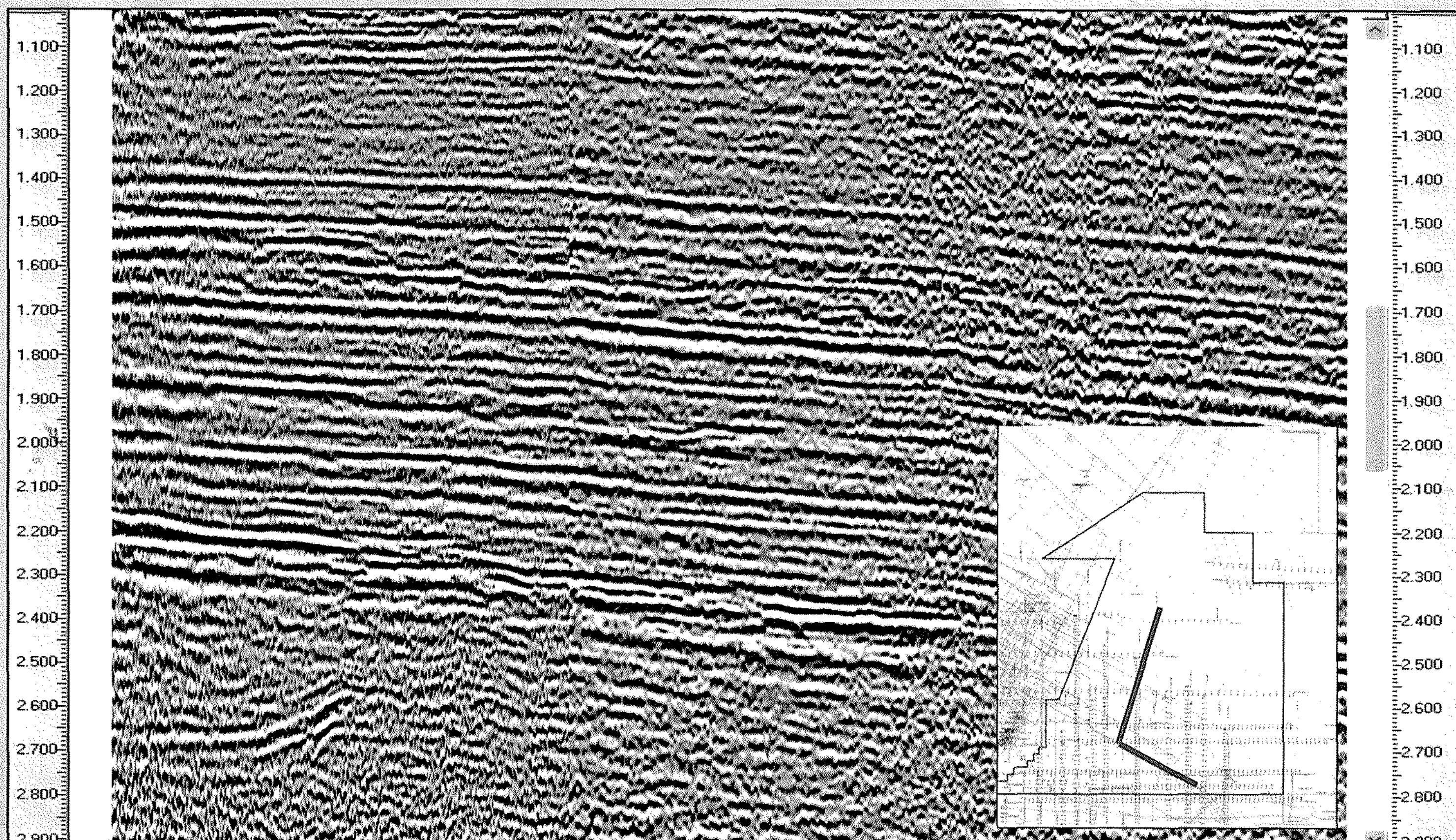
Two Intersecting Stacks

CPO-4

PL-1974-15 **Q-1992-1637E**

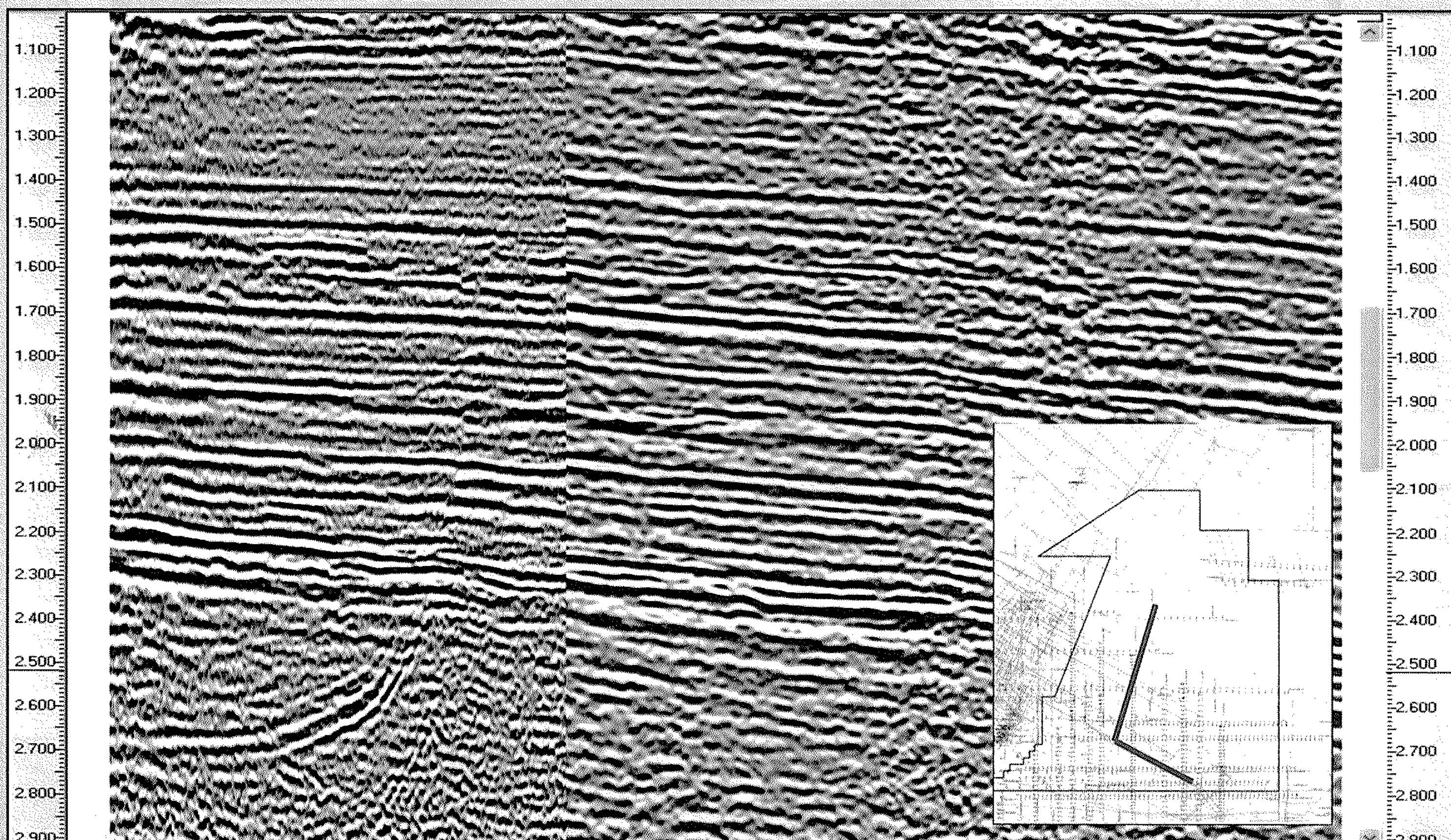


Two Intersecting PSTM Images

CPO-4

PL-1974-15

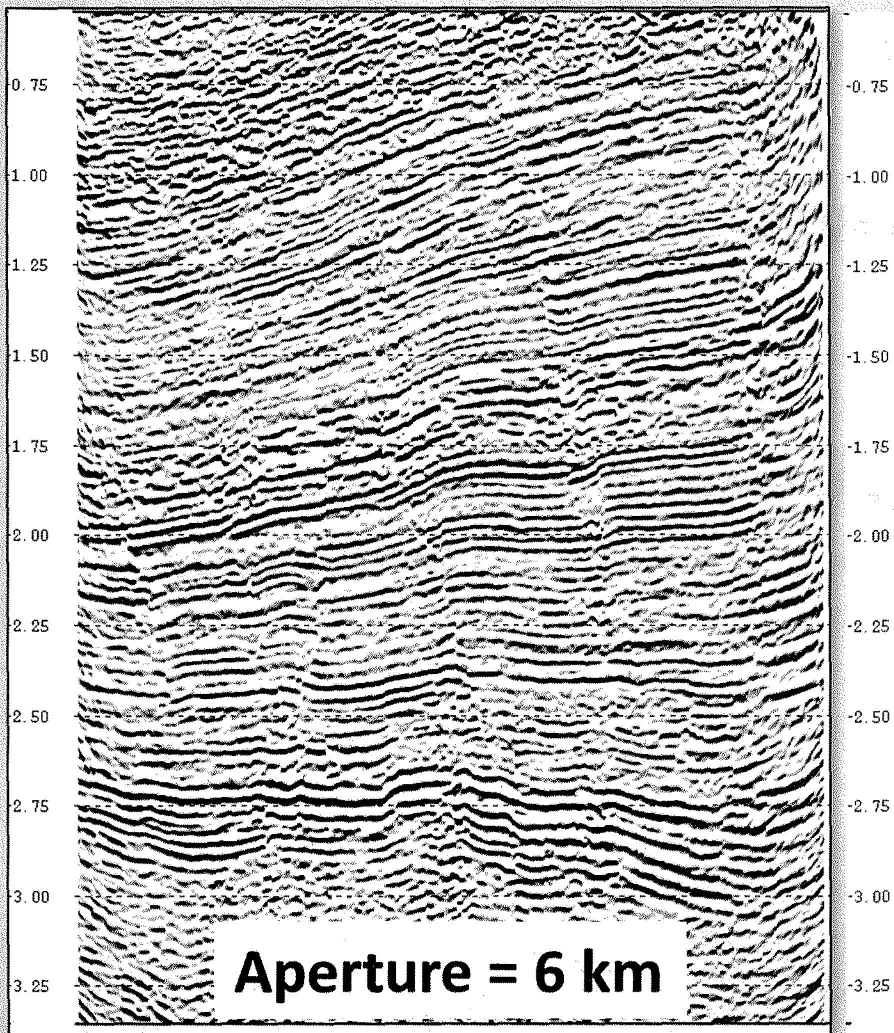
Q-1992-1637E

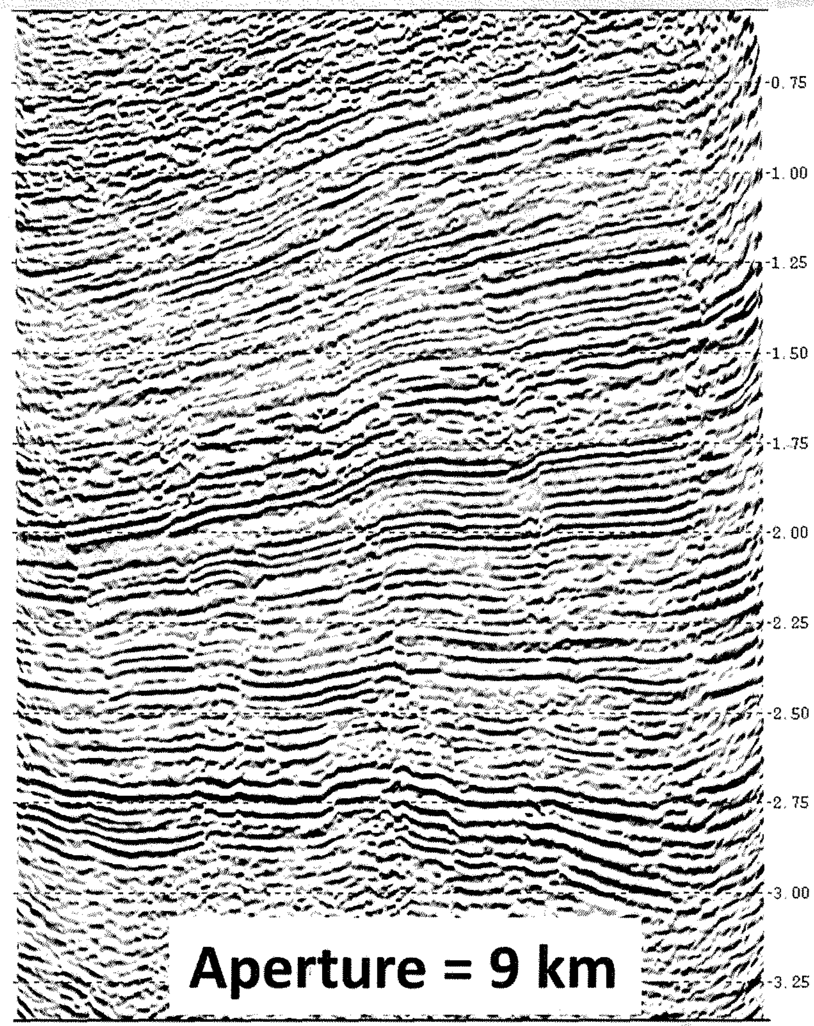


SK energy

Migration Aperture

CPO-4





G-1987-1820

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Highlights of Reprocessing

CPO-4

- Miss-ties removed
- Zero-phase conversion of dynamite lines further improved the tie between the dynamite and vibroseis lines
- Statics and Kirchhoff PSTM improved the quality of the images
  - Better continuity & fault definition
  - Preserved structural integrity

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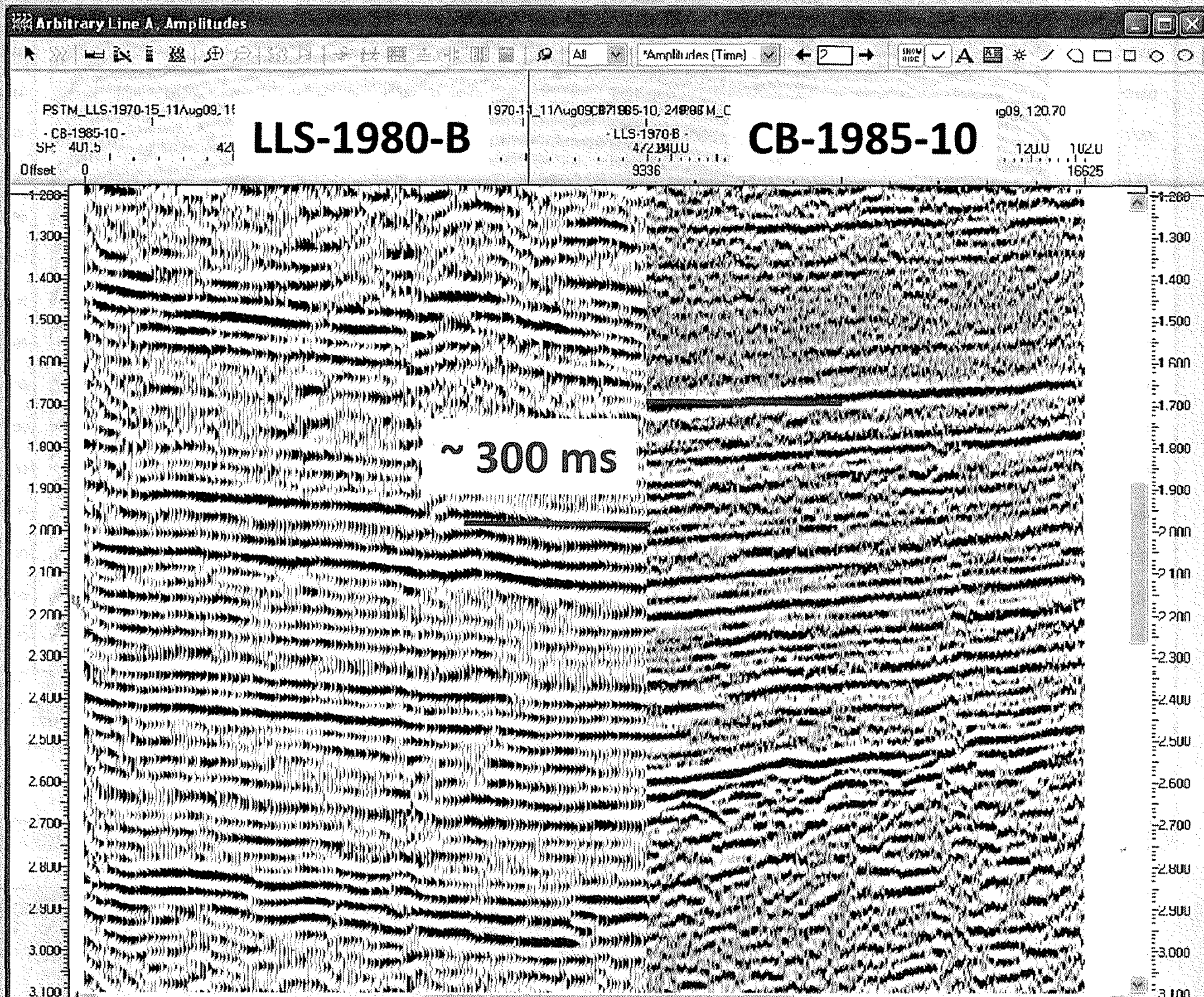
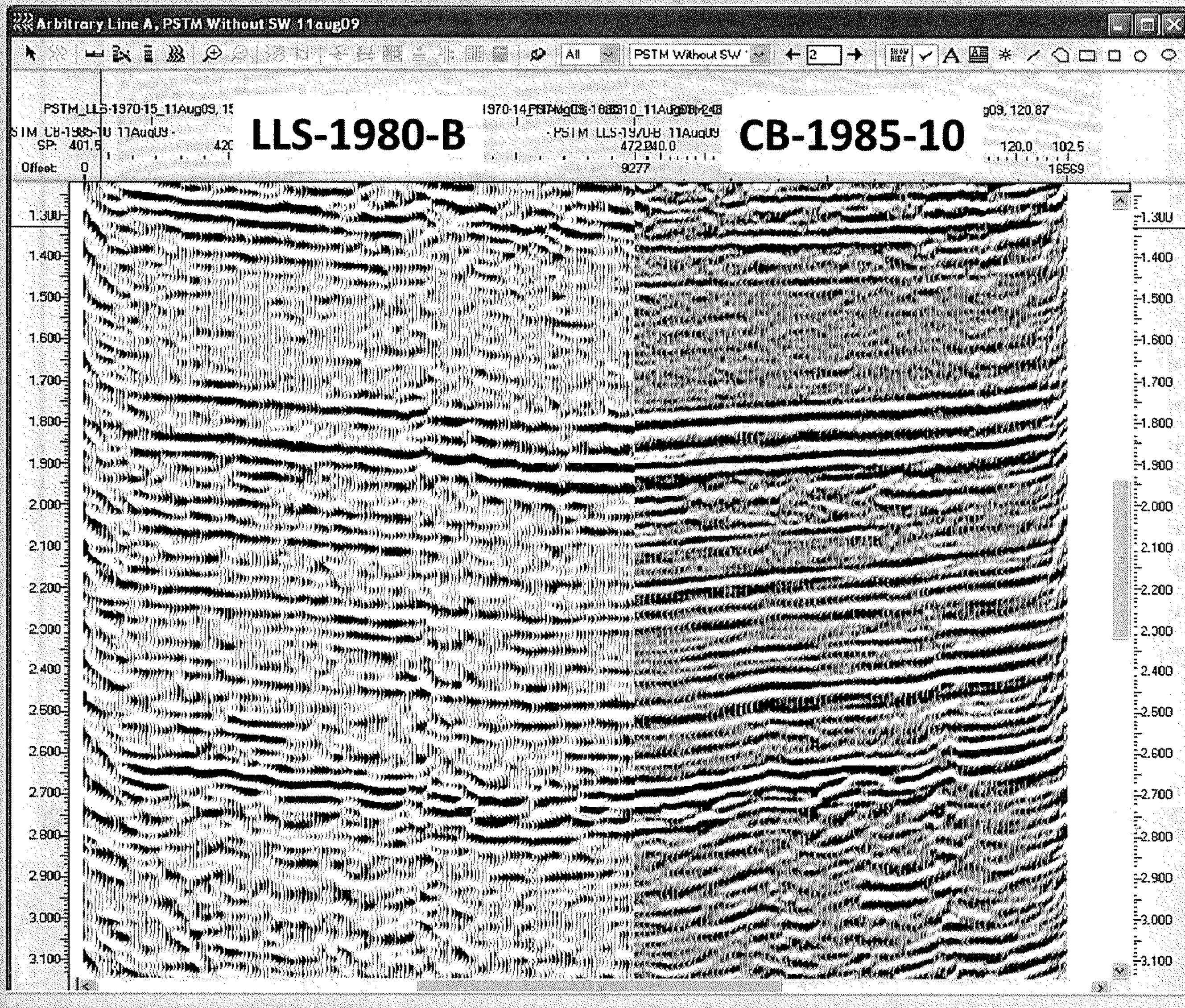
Previous Images: mis-tie

CPO-4



New Images: Minor mis-tie

CPO-4



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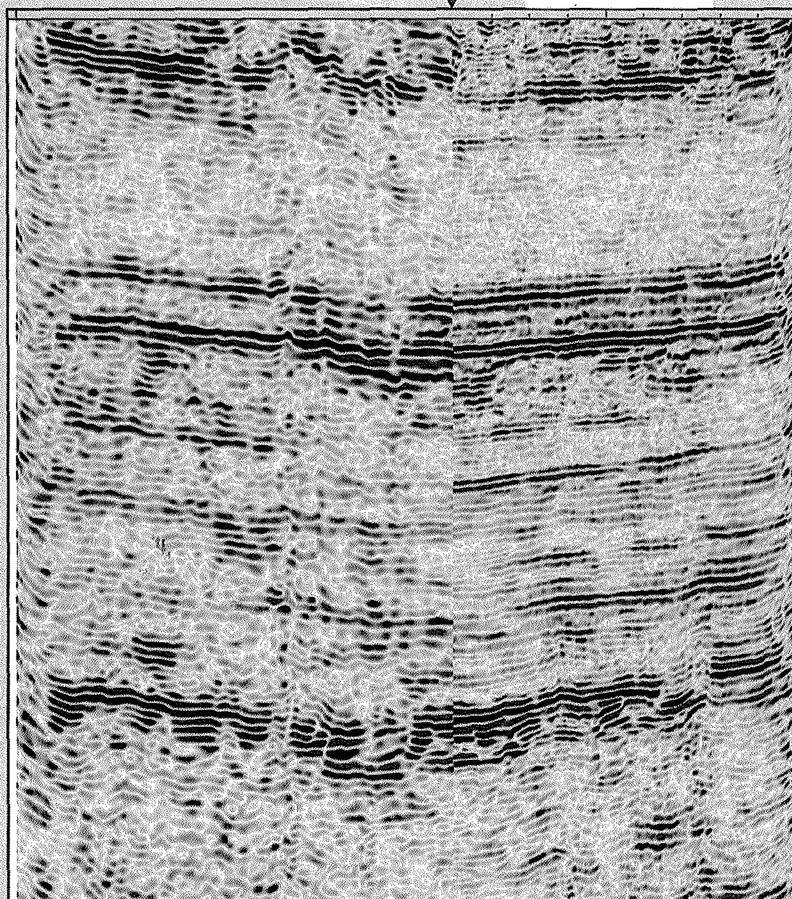
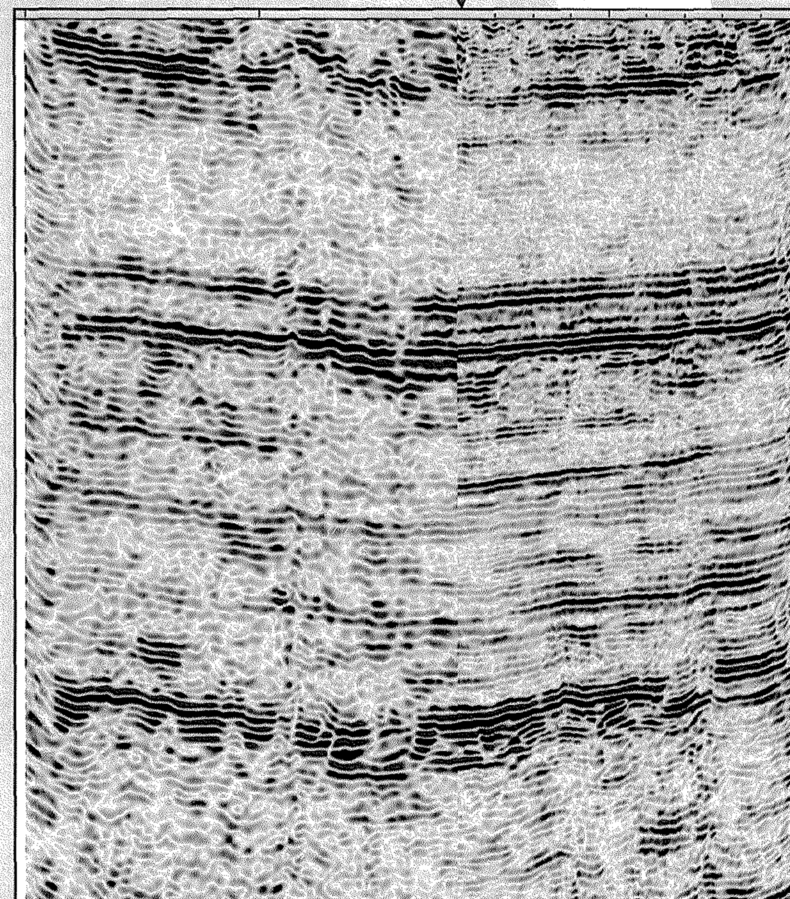
Zero Phase Conversion

CPO-4

Before



After



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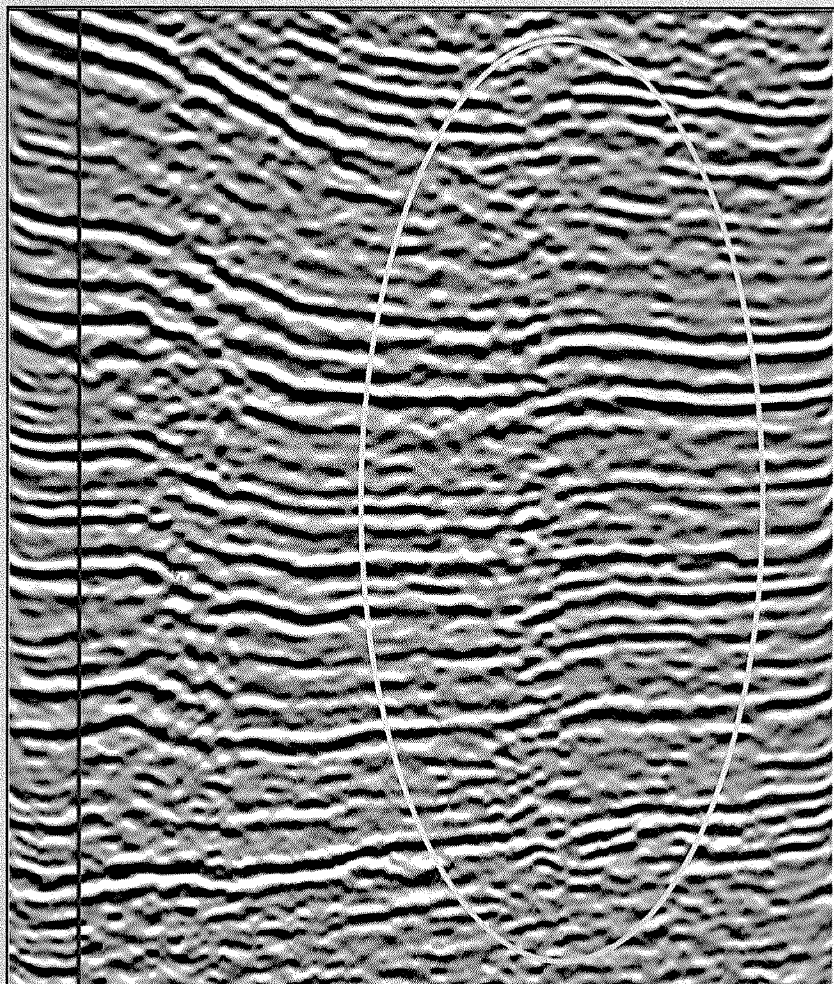
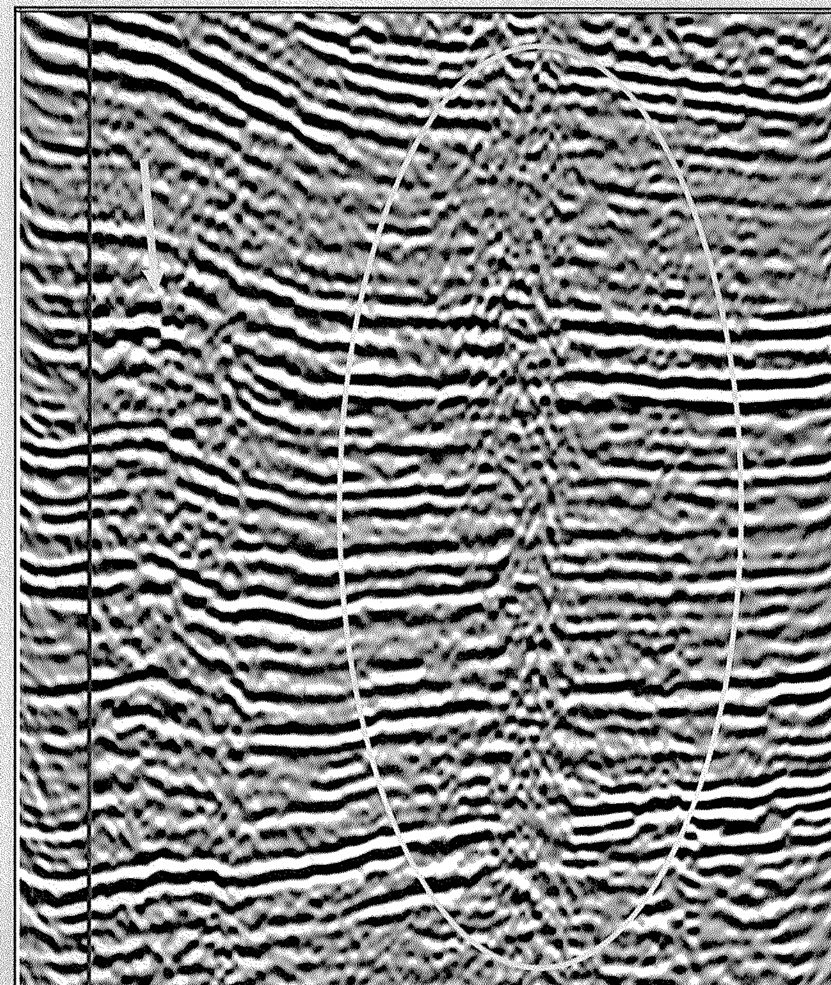
Comparison: LLS-1970-14

CPO-4

Previous



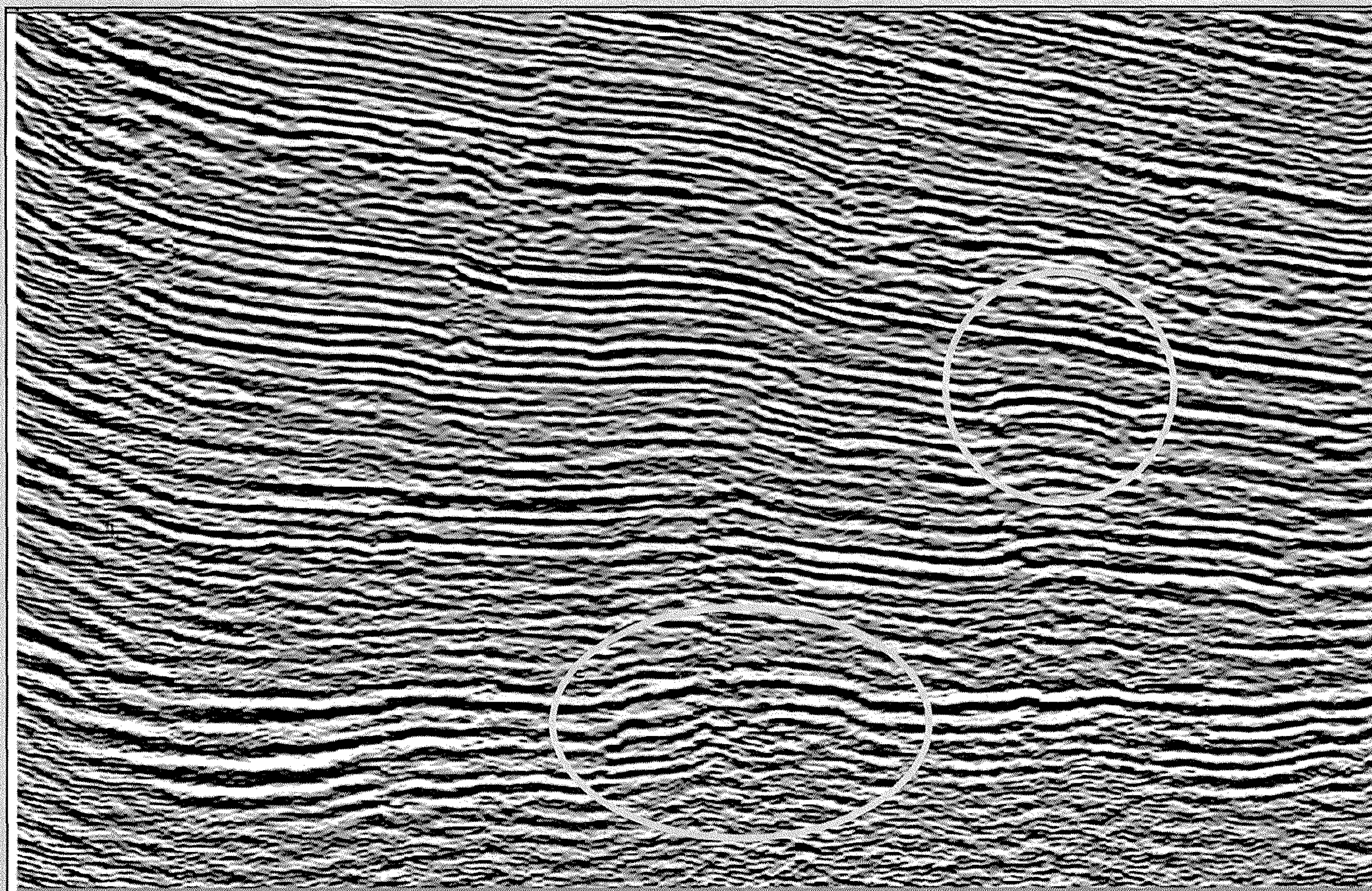
New



SK energy

Comparison: G-1987-1120

CPO-4

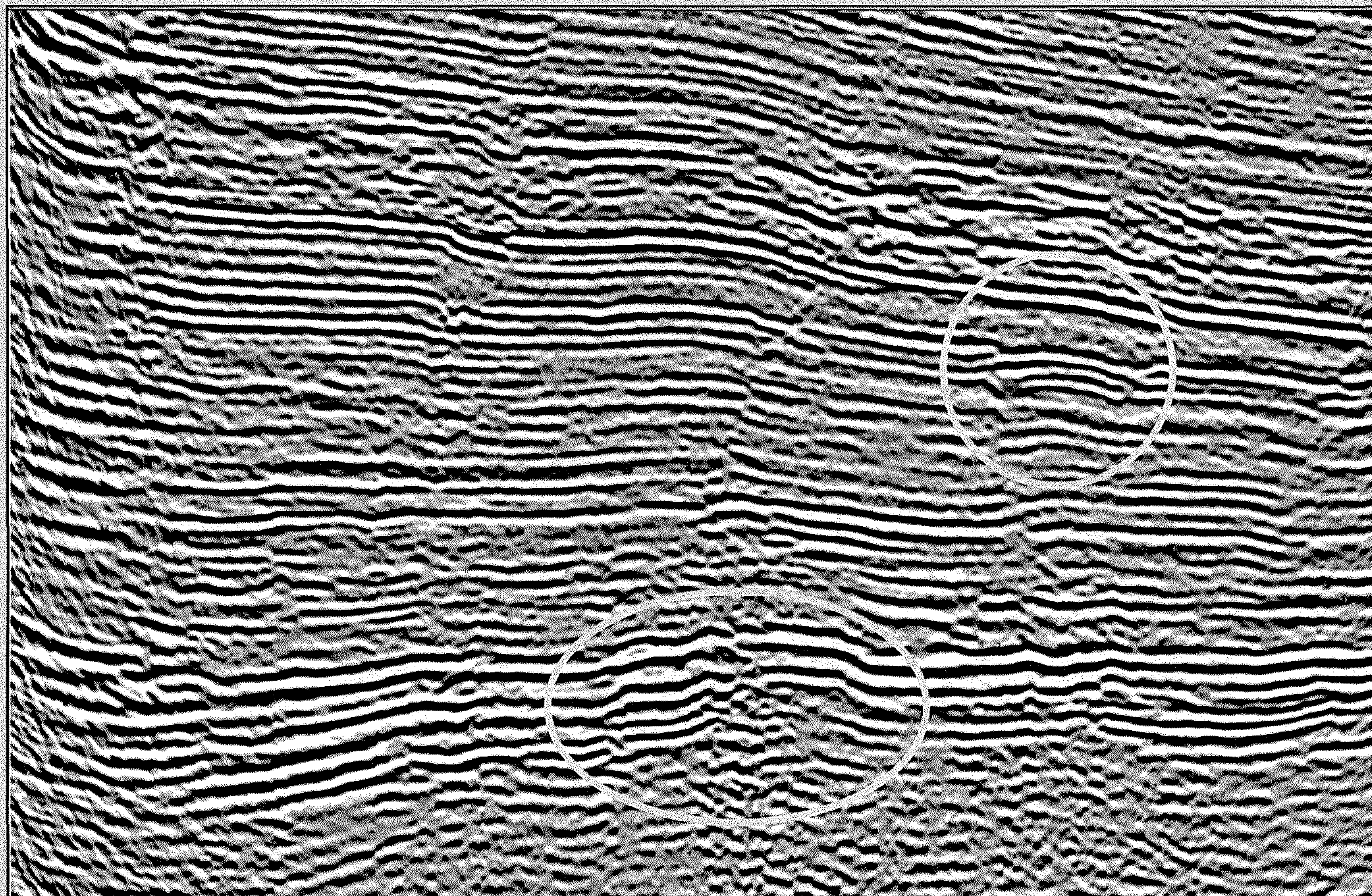


Previous processing

SK energy

Comparison: G-1987-1120

CPO-4



New processing

SK energy

Summary

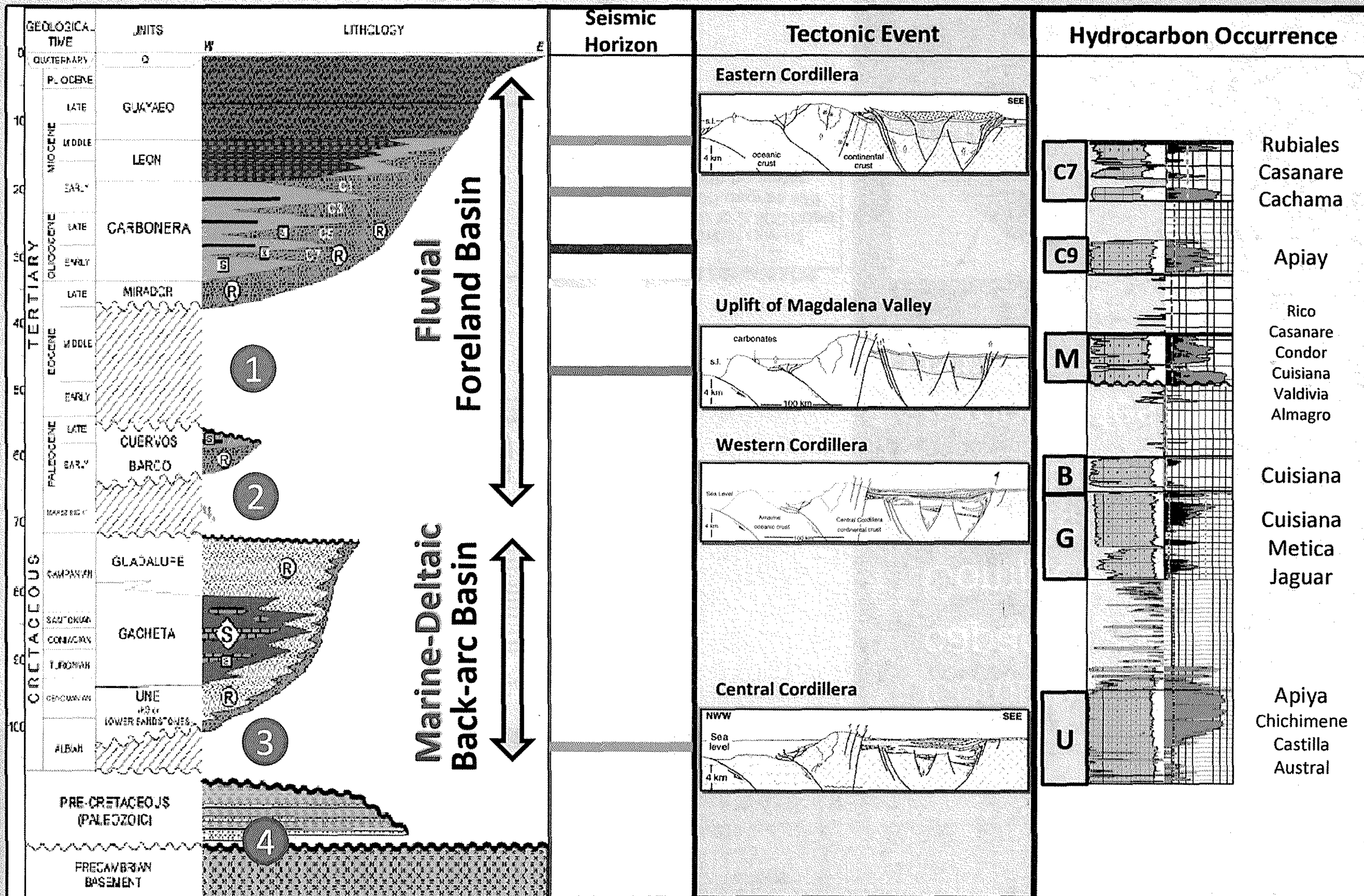
CPO-4

- Successfully removed the miss-ties by using a common fixed datum and replacement velocity.

- Significantly improved the image quality
  - Sharper fault definition
  - Improved reflector geometry and continuity

Geological Interpretation

General Geology



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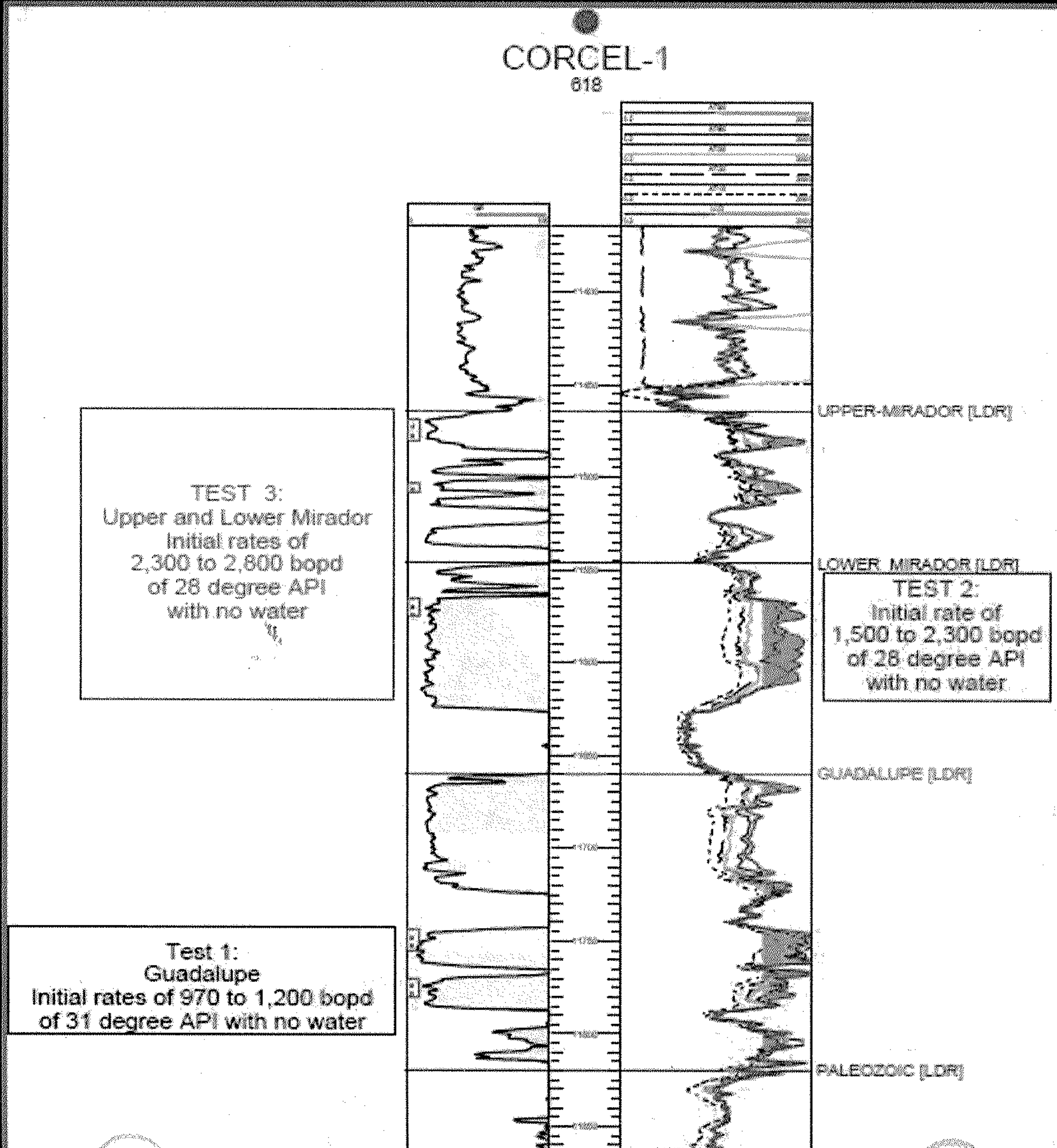
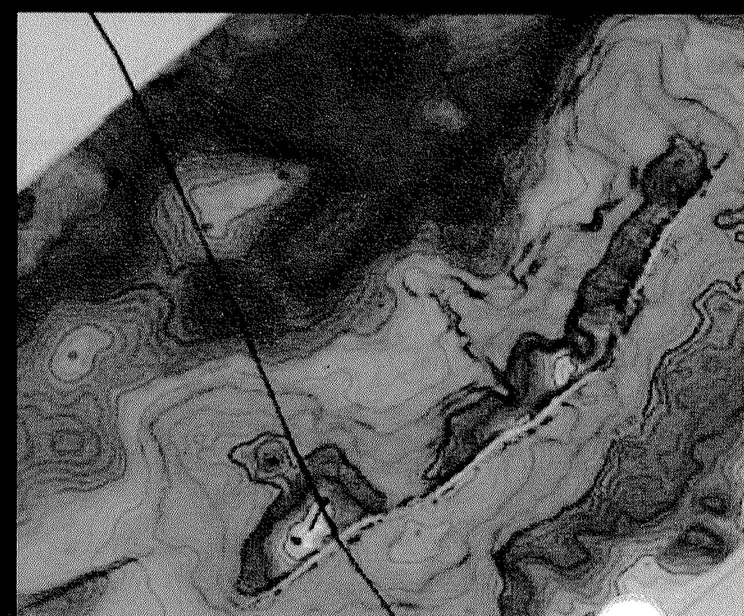
CORCEL

Corcel-1

Petrominerales



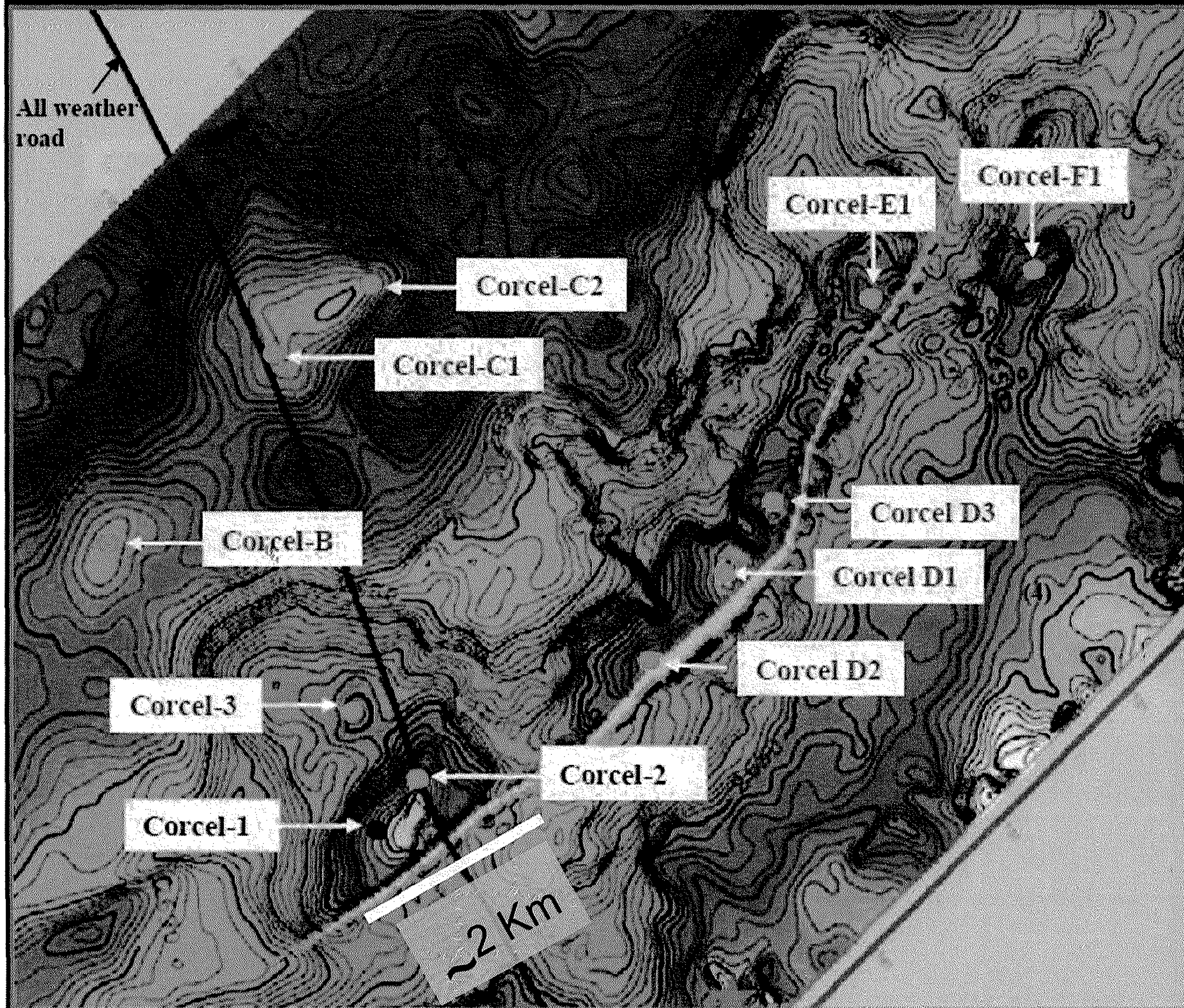
- Combined productive capacity > 10,000 bpd
- Completed 6-day test at restricted rates of up to 3,321 bpd
- 6-month test at 4,000 bpd commenced September 7th



CORCEL

2007/2008 Drilling Locations

Petrominerales

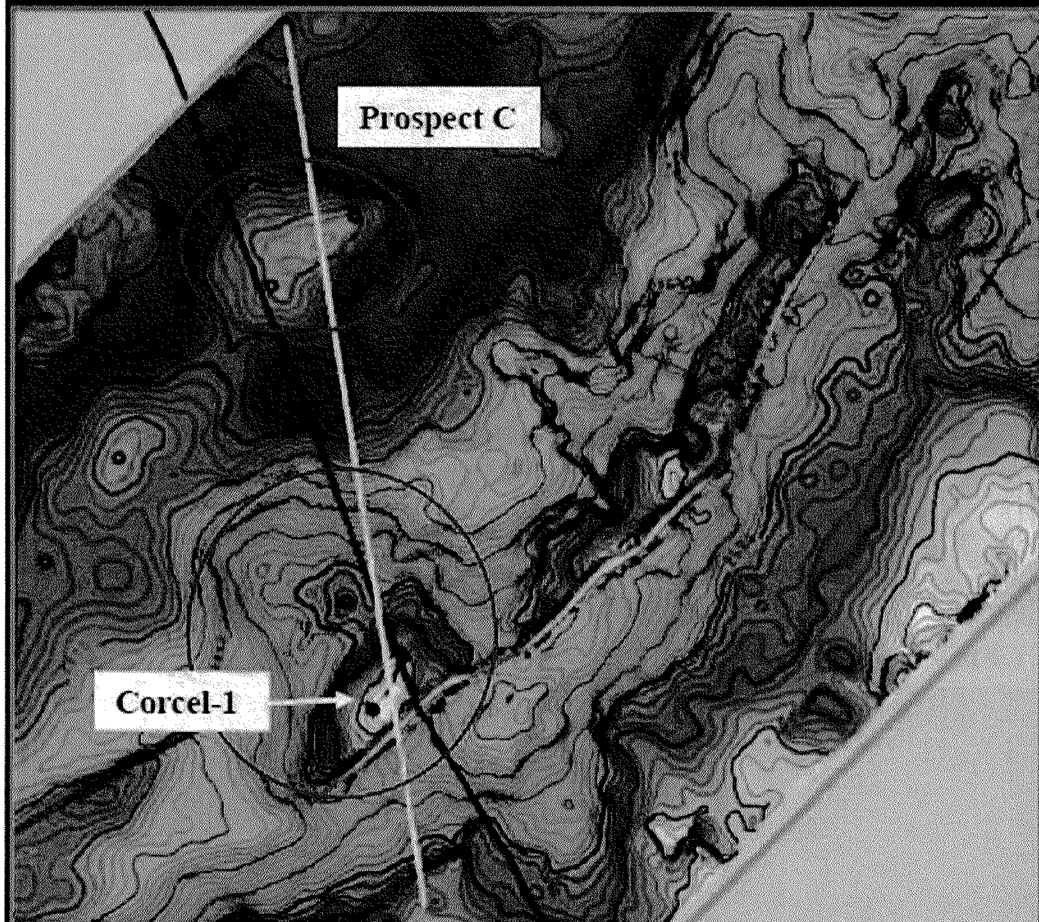


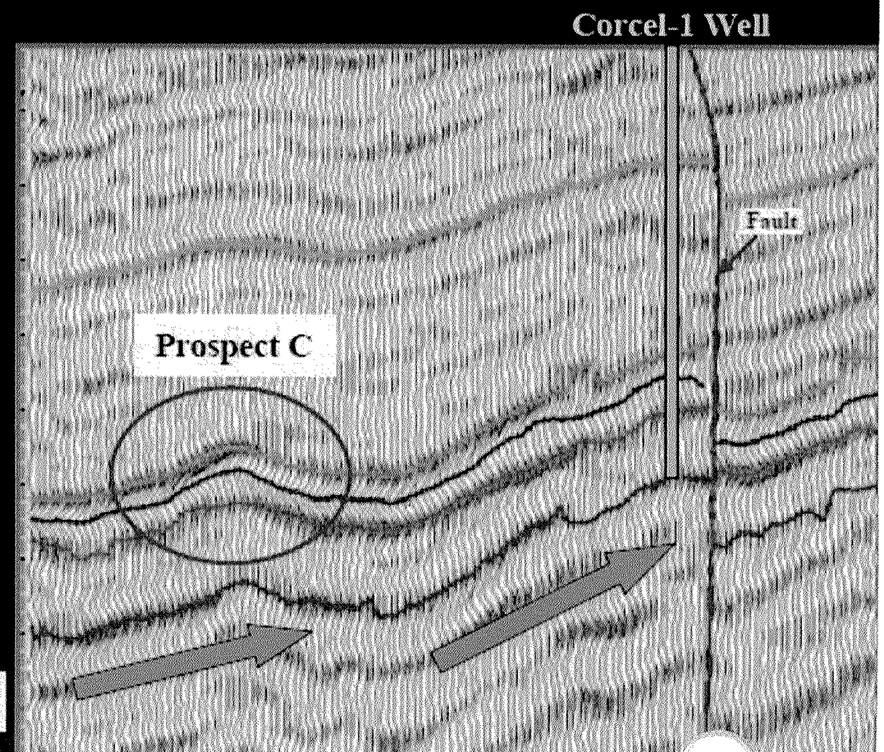
- Corcel 1, 2 producing
- Corcel 3 drilling
- Five additional prospects
- Three delineation locations
- Continuous drilling program
- 3-D seismic only covers 15% of the 79,815 acre block
- Adjoining Guatiquia Block – 26,341 acres

CORCEL

Prospect C

Petrominerales



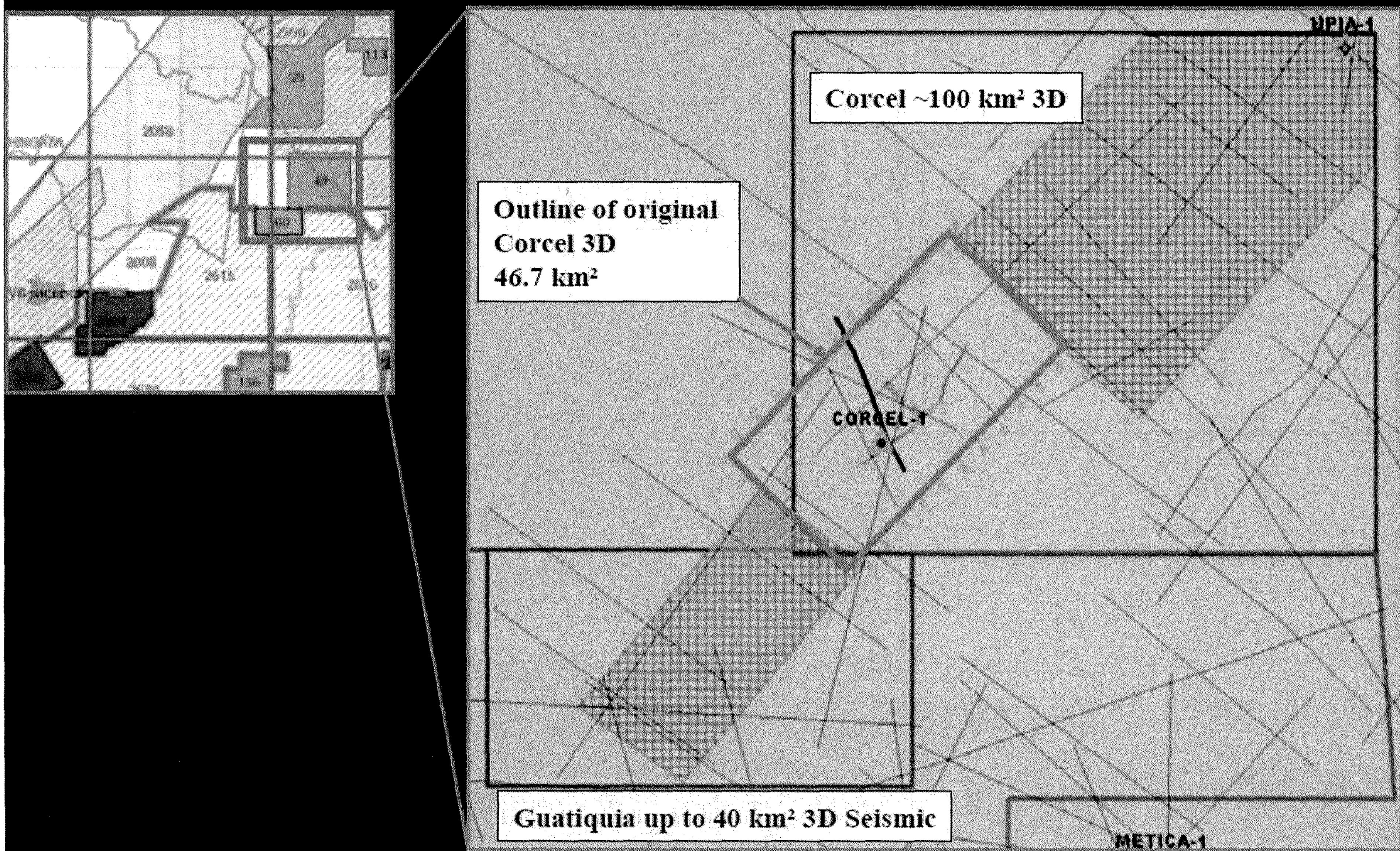


Oil migration path

CORCEL SEISMIC PROGRAMS

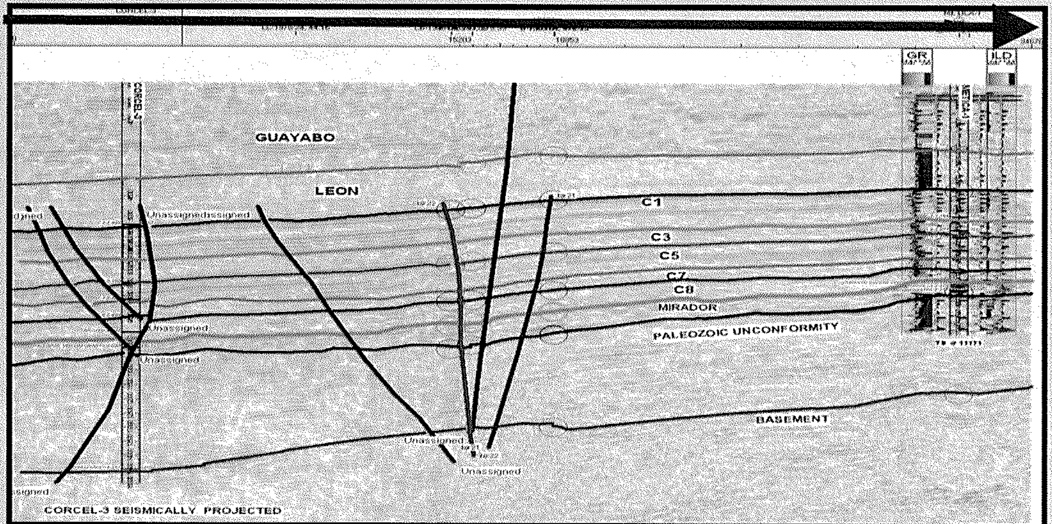
Corcel and Guatiquia

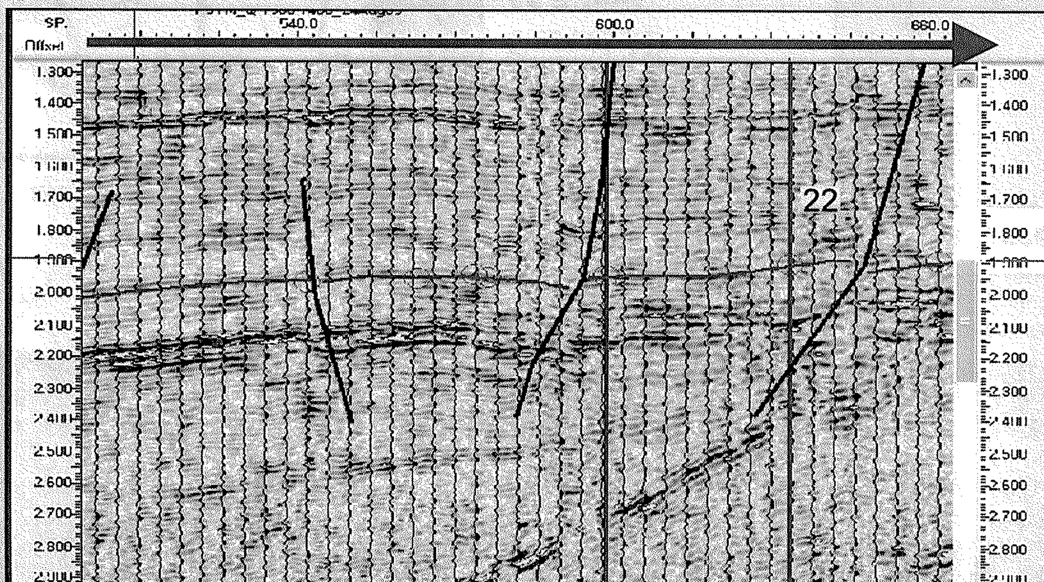
Petrominerales

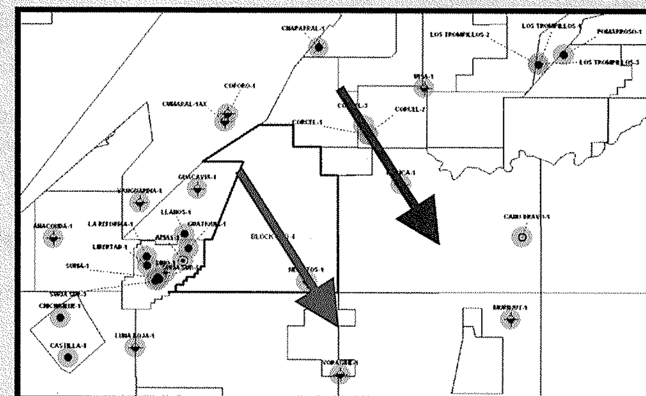


Corcel Analogy

CPO-4







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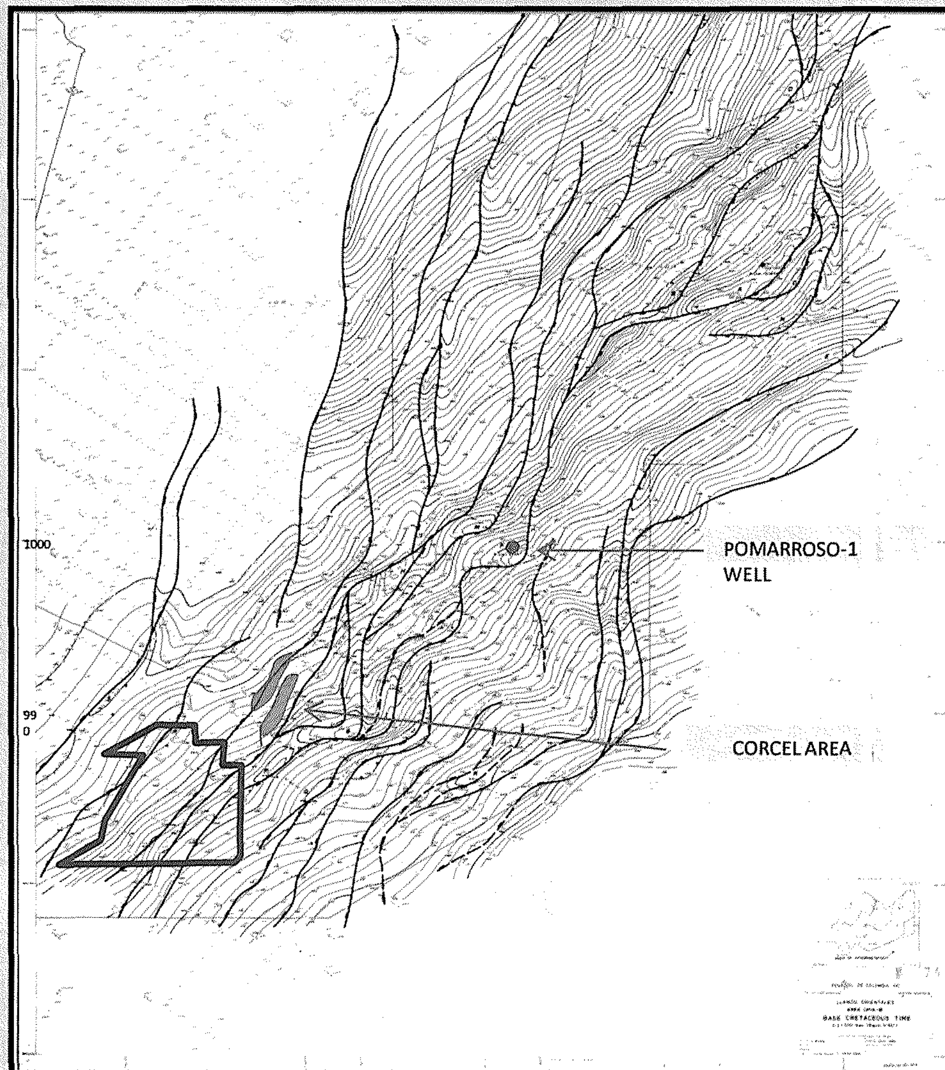
Fault Trend on Une

CPO-4



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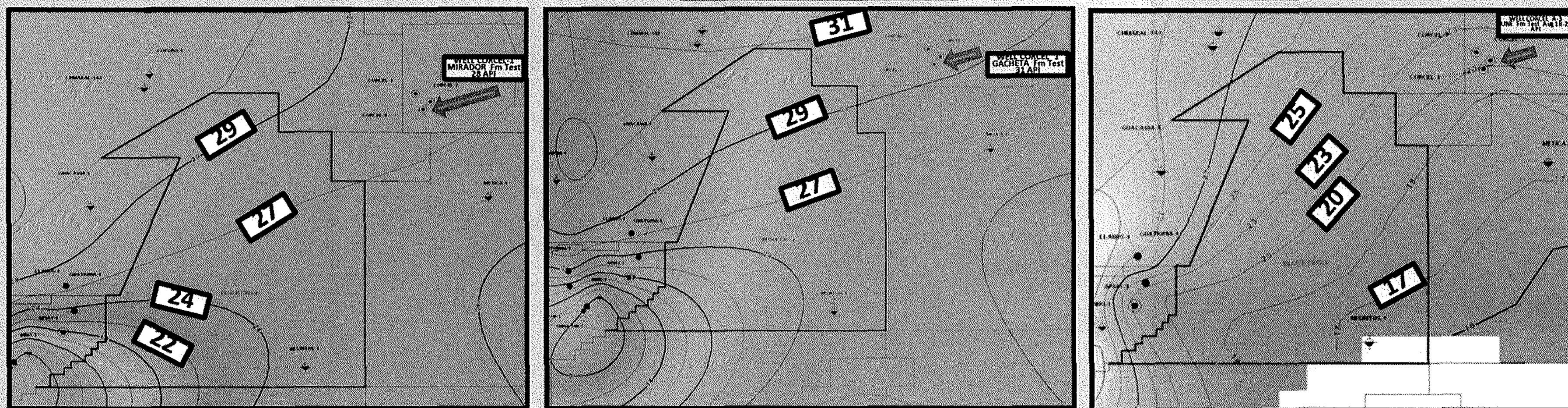
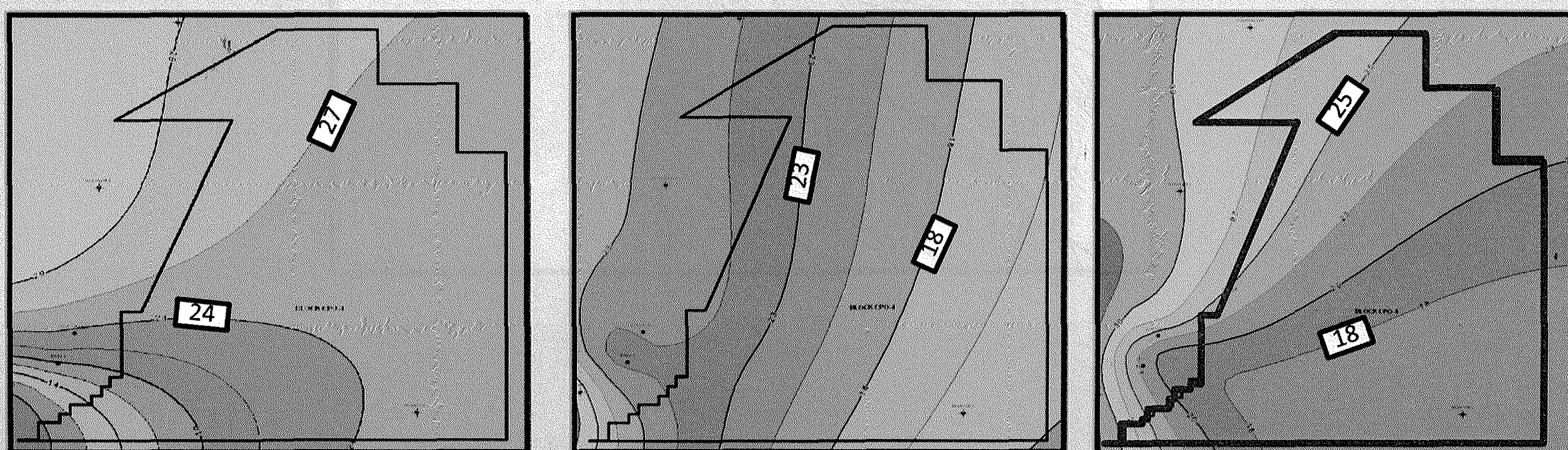
API

CPO-4

Mirador | Guadalupe | Une



With Corcel Data



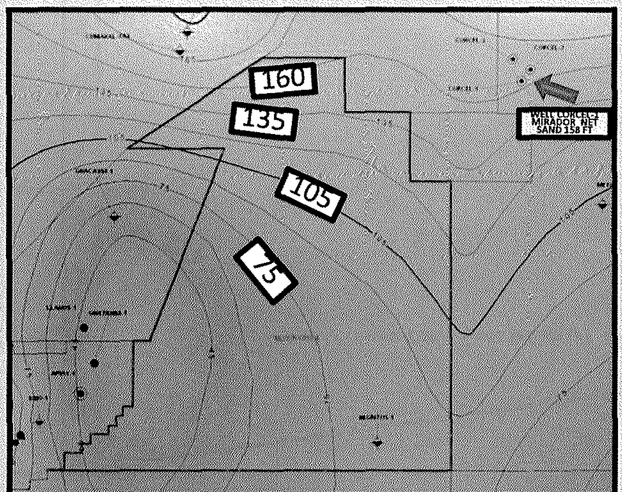
Without Corcel Data

SK energy

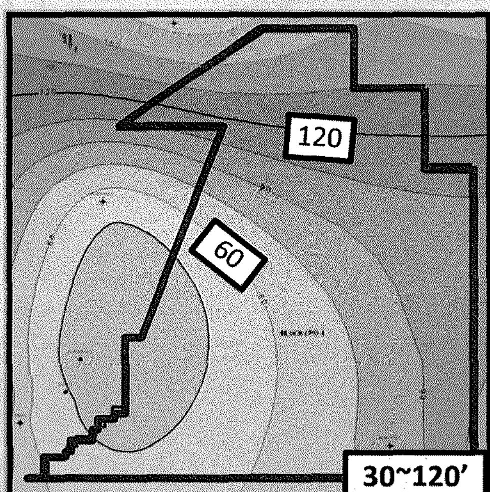
Mirador

CPO-4

Net Sand

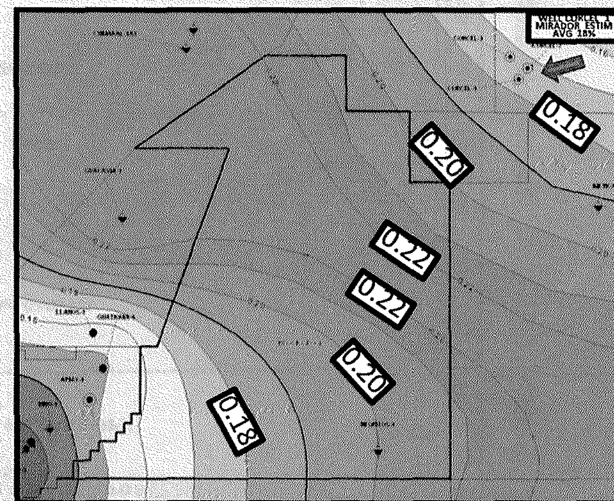


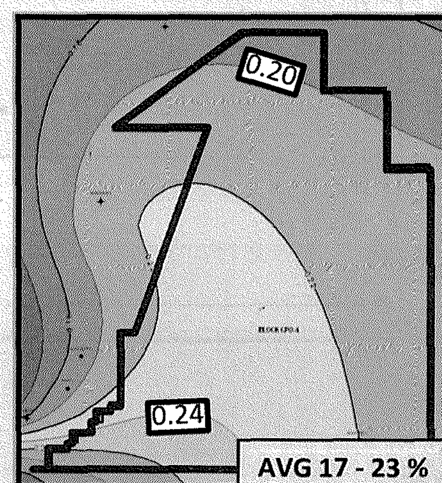
With Corcel Data



Without Corcel Data

Porosity





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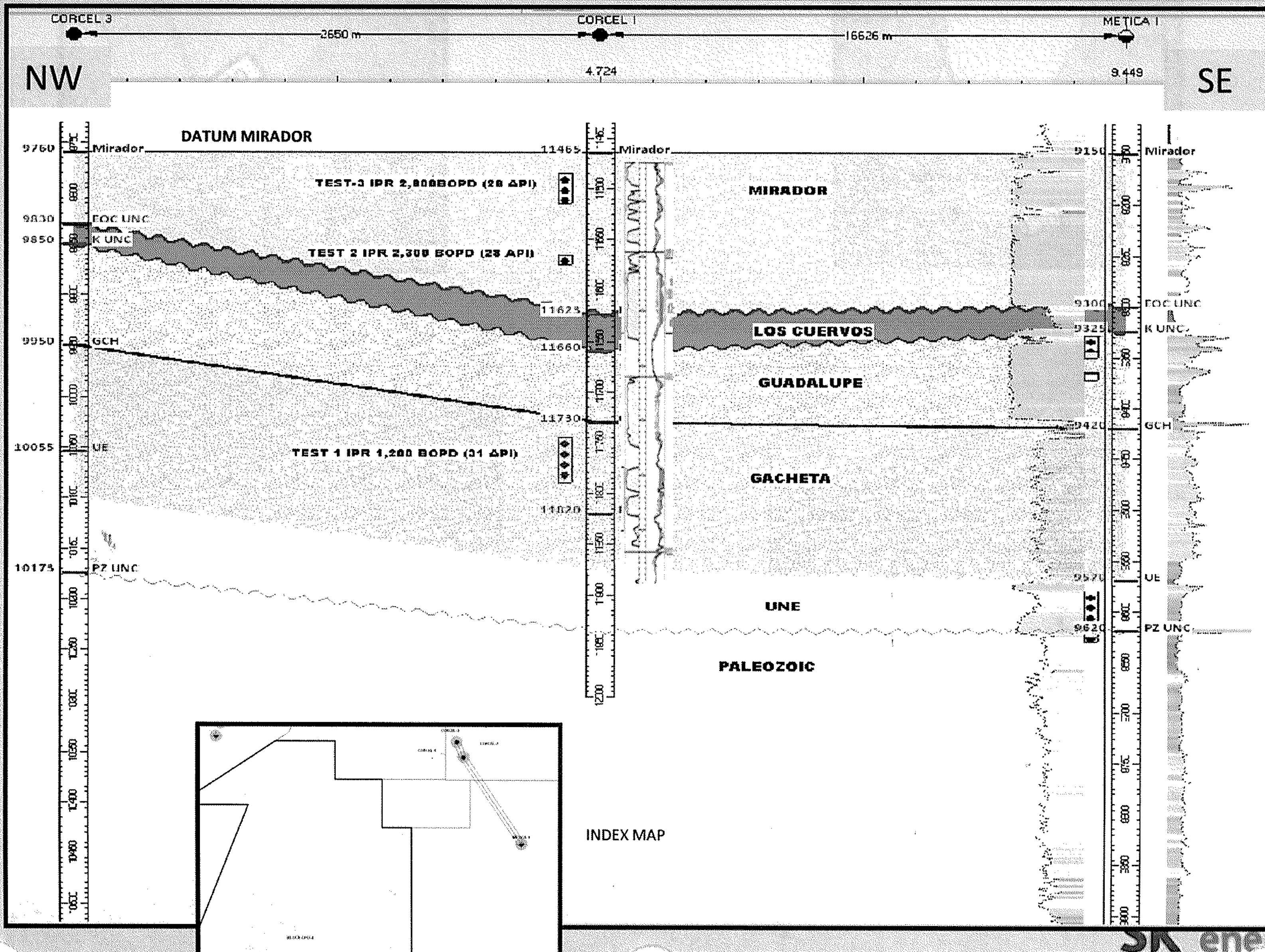
Strat. Correlation of Corcel 1 & 3 Wells & Metica-1



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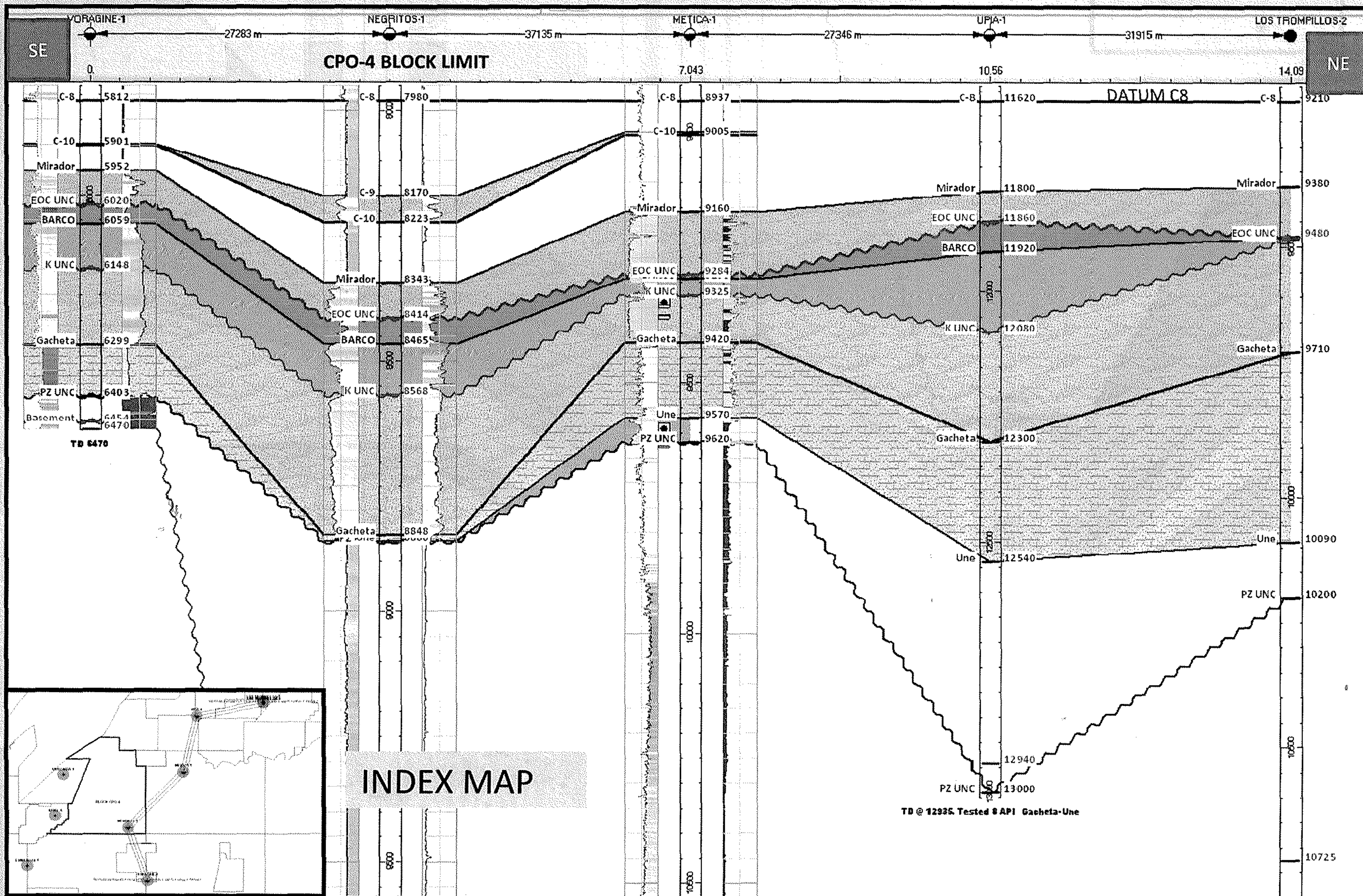
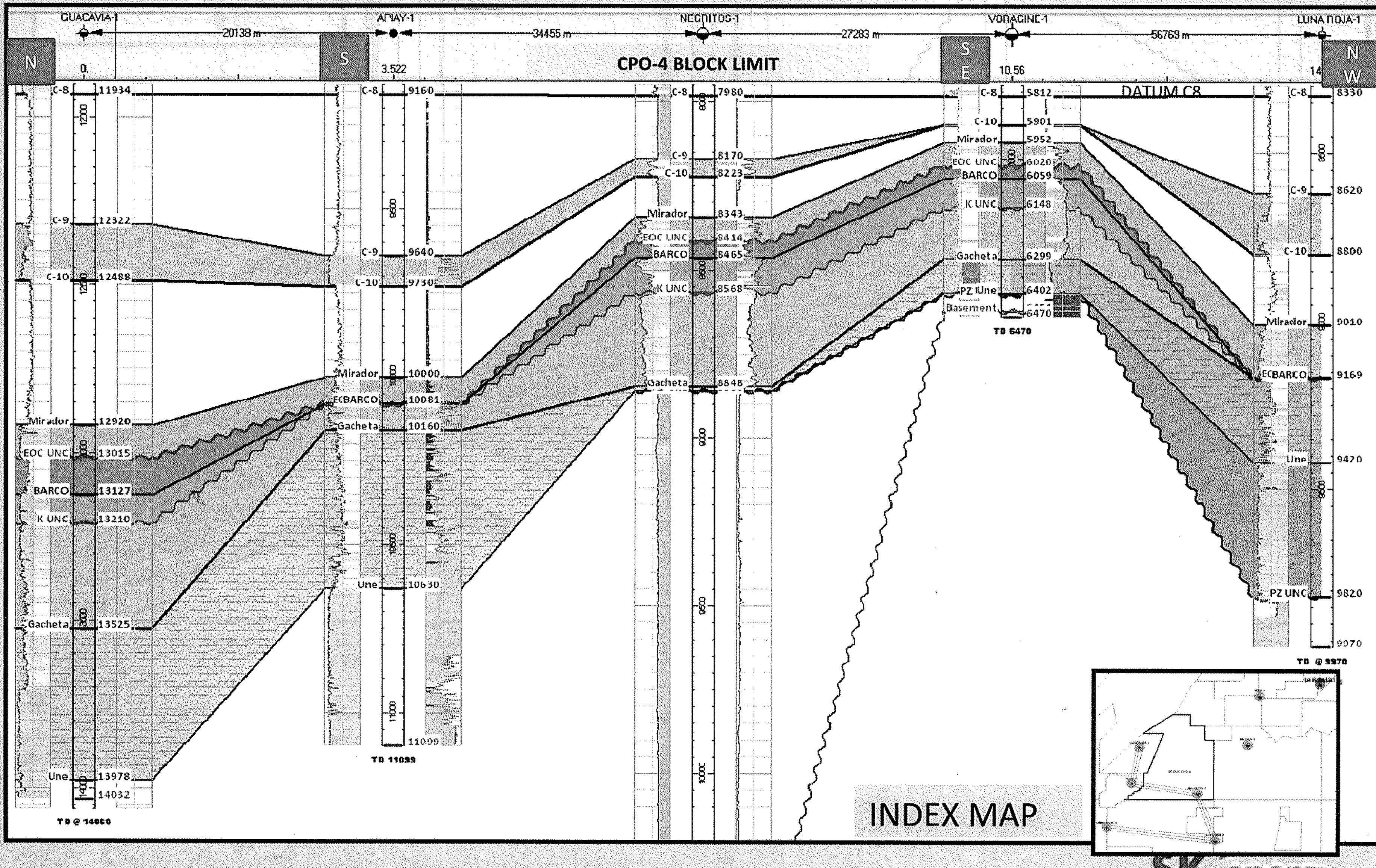
Strat. Correlation Wells Metica-1, Negritos-1, Voragine-1, Upia-1, Los Trompillos 2; Showing Main Tertiary /Cretaceous Reservoirs



Strat. Correlation Wells Guacavia-1, Apiay-1, Negritos-1,Voragine-1, Luna Roja -1; Showing Main Tertiary & Cretaceous Reservoirs



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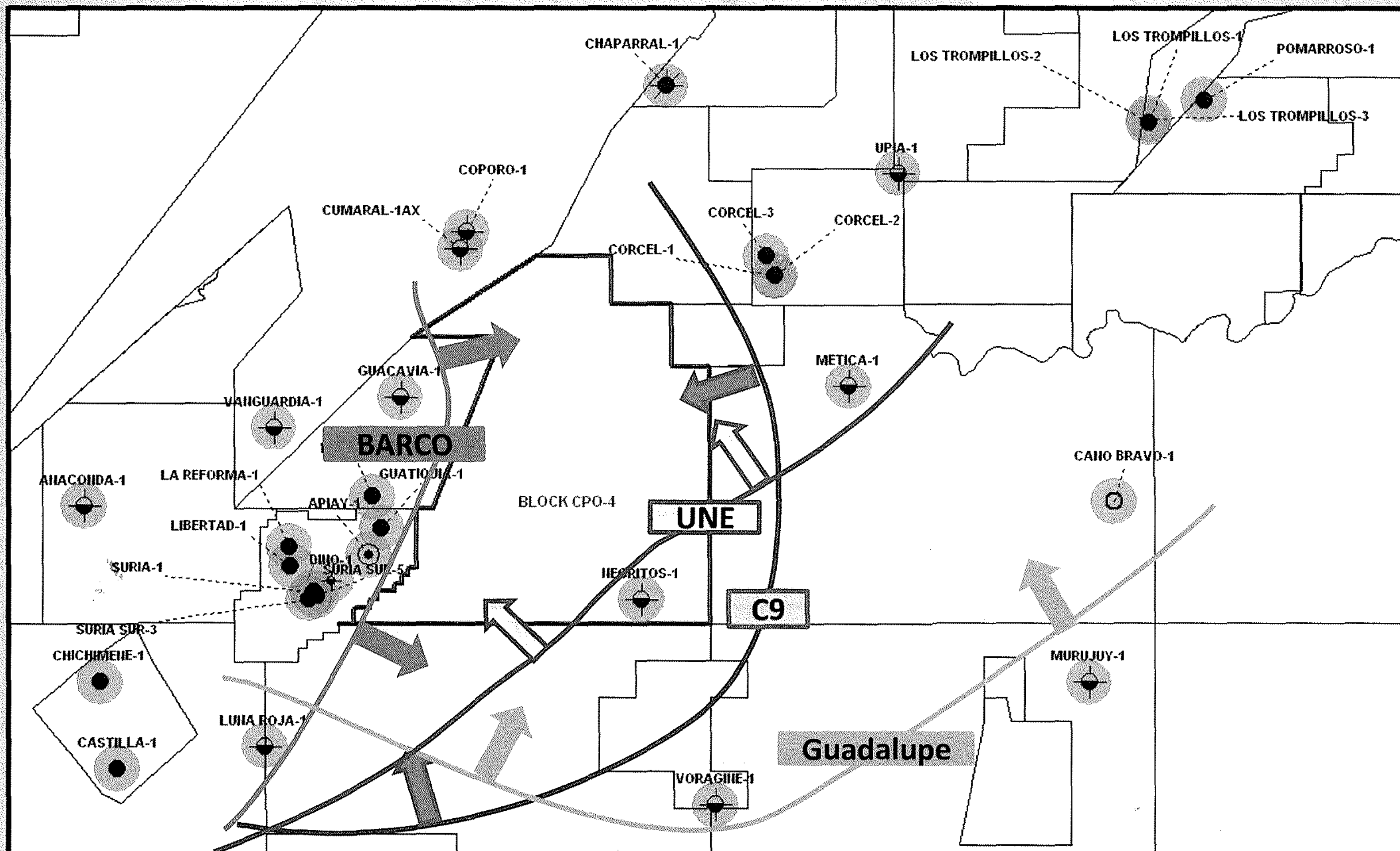
Reservoir Distribution



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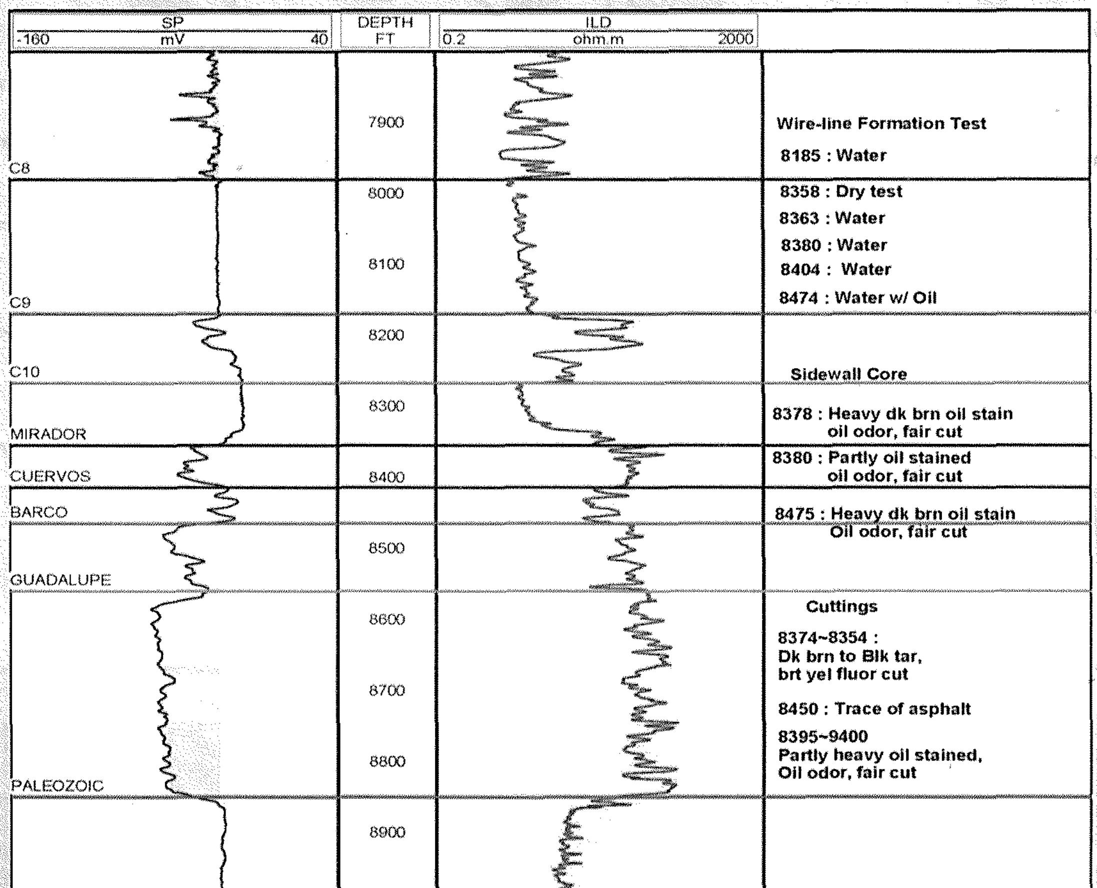
Summary of Negritos-1

Operator : Int'l Petroleum Ltd. **Location : N937236.68 E1111111.61**

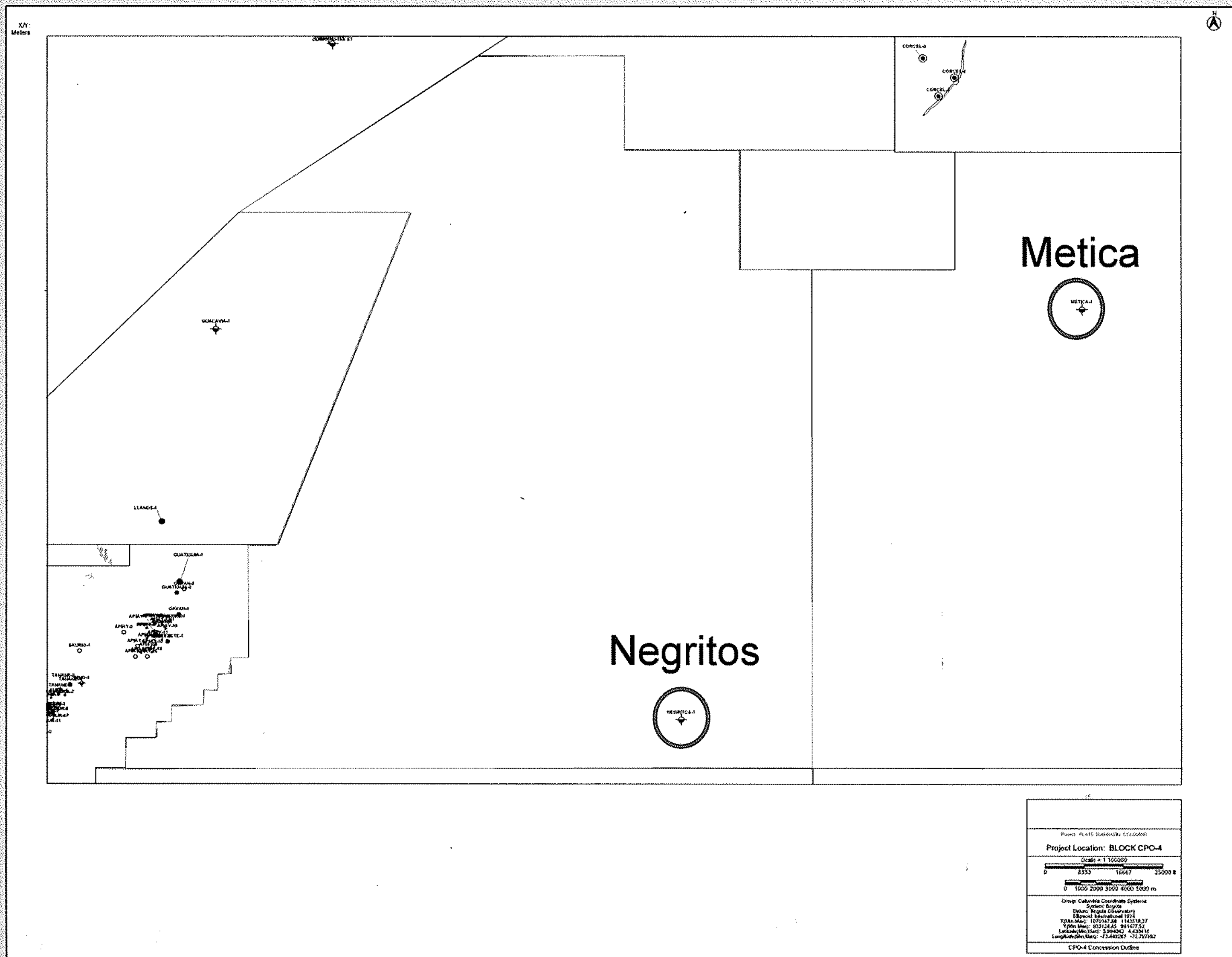
Spud : Jun. 5, 1962 **P&A : Aug. 8, 1962**

Ground : 613' **RKB : 624'** **TD : 10,569' Basement**

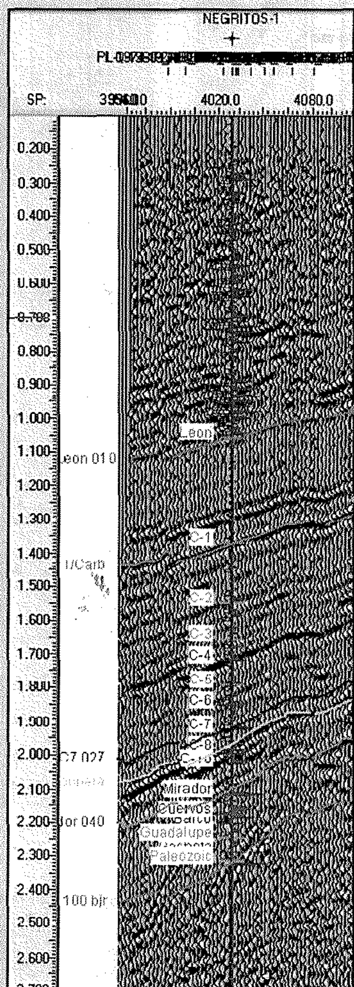


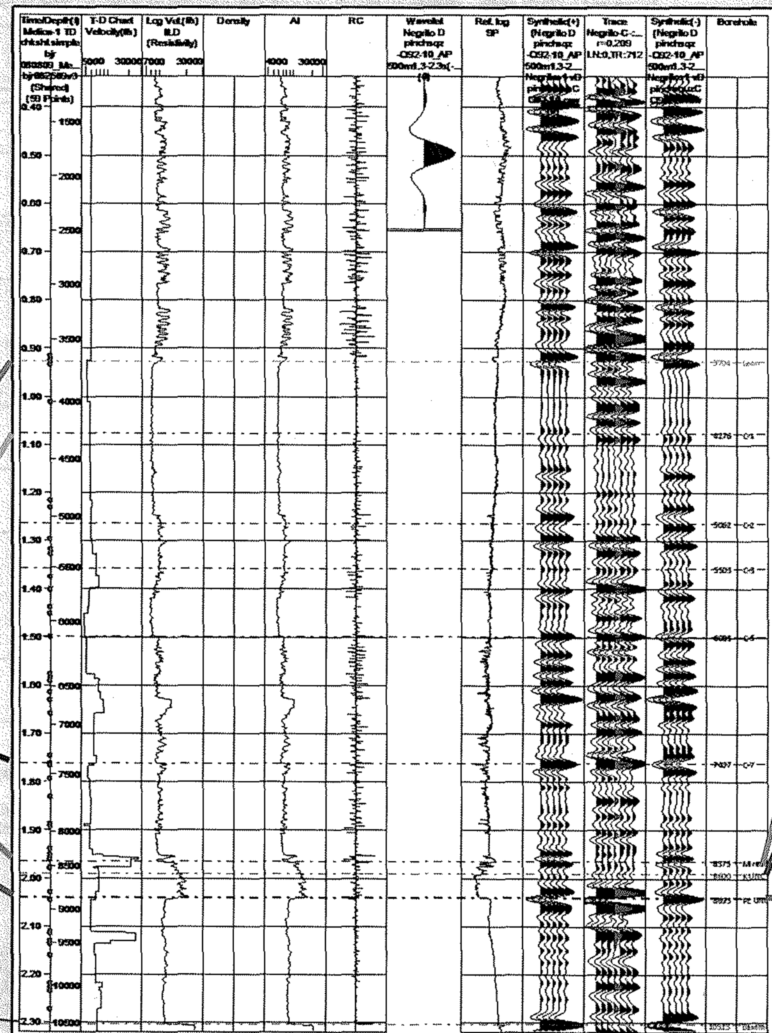
Seismic Interpretation

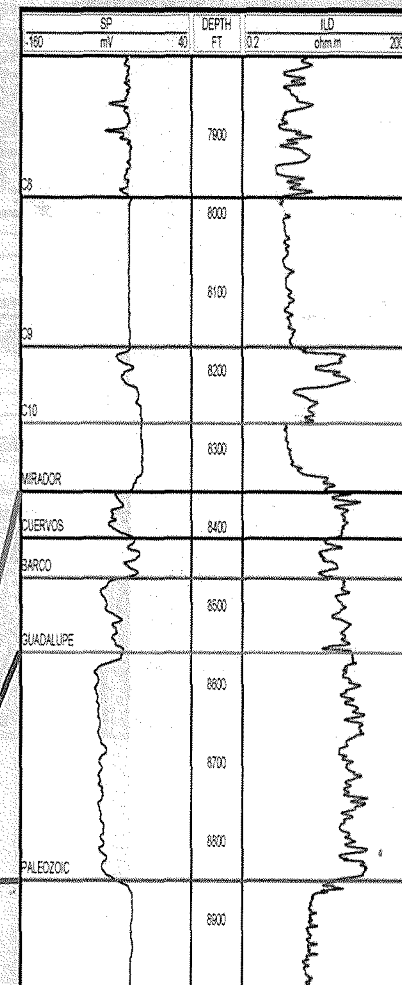
Synthetic Well Tie Locations



Synthetic Well Tie (Negritos)

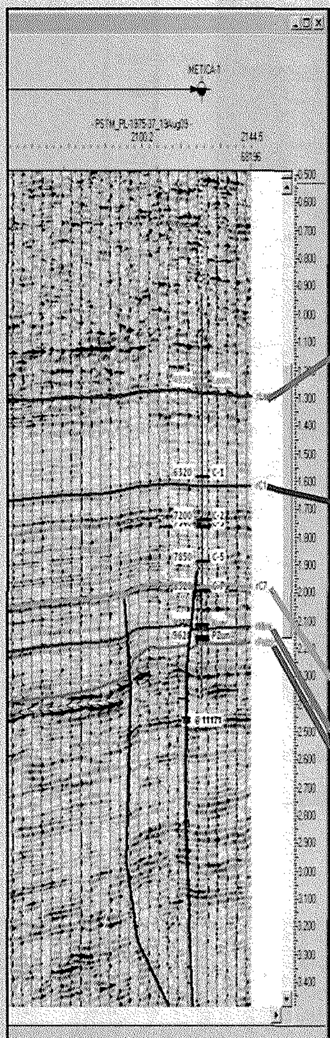


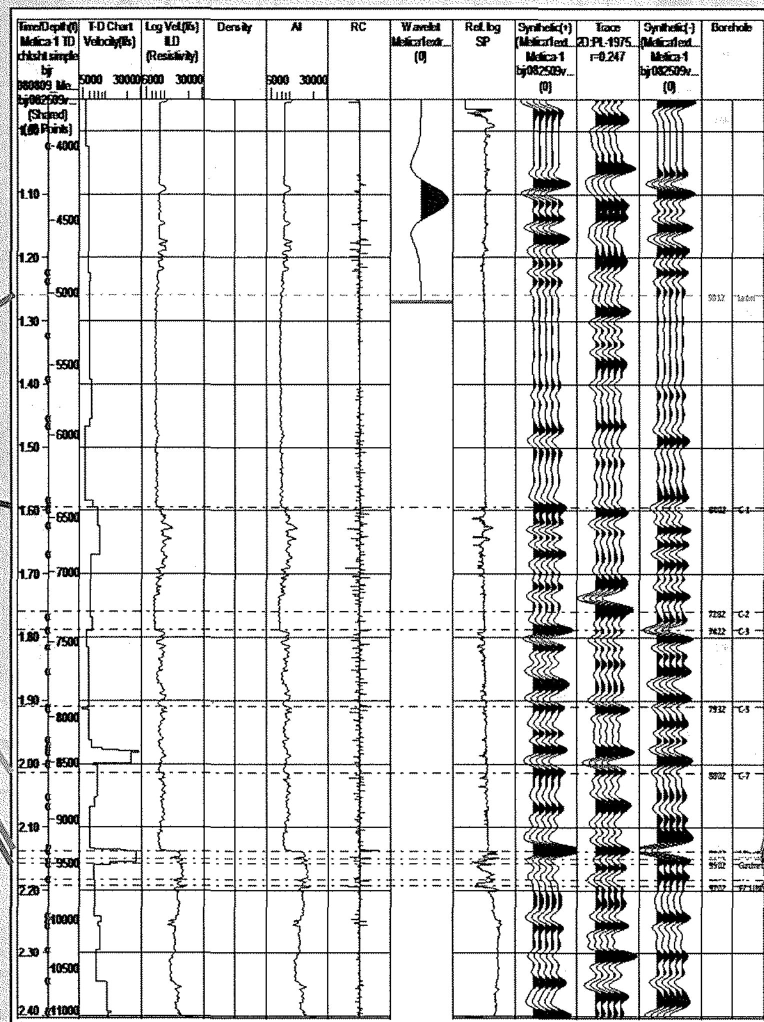


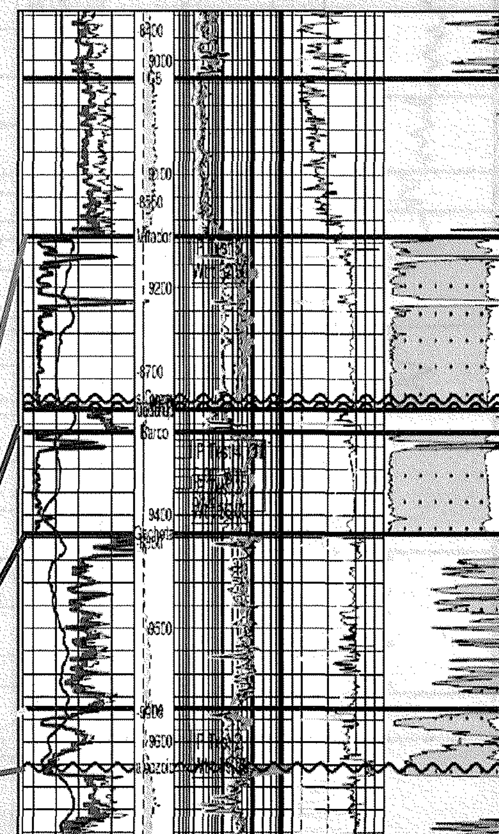


SK energy

Synthetic Well Tie (Metica)







SK energy

Interpretation Plan

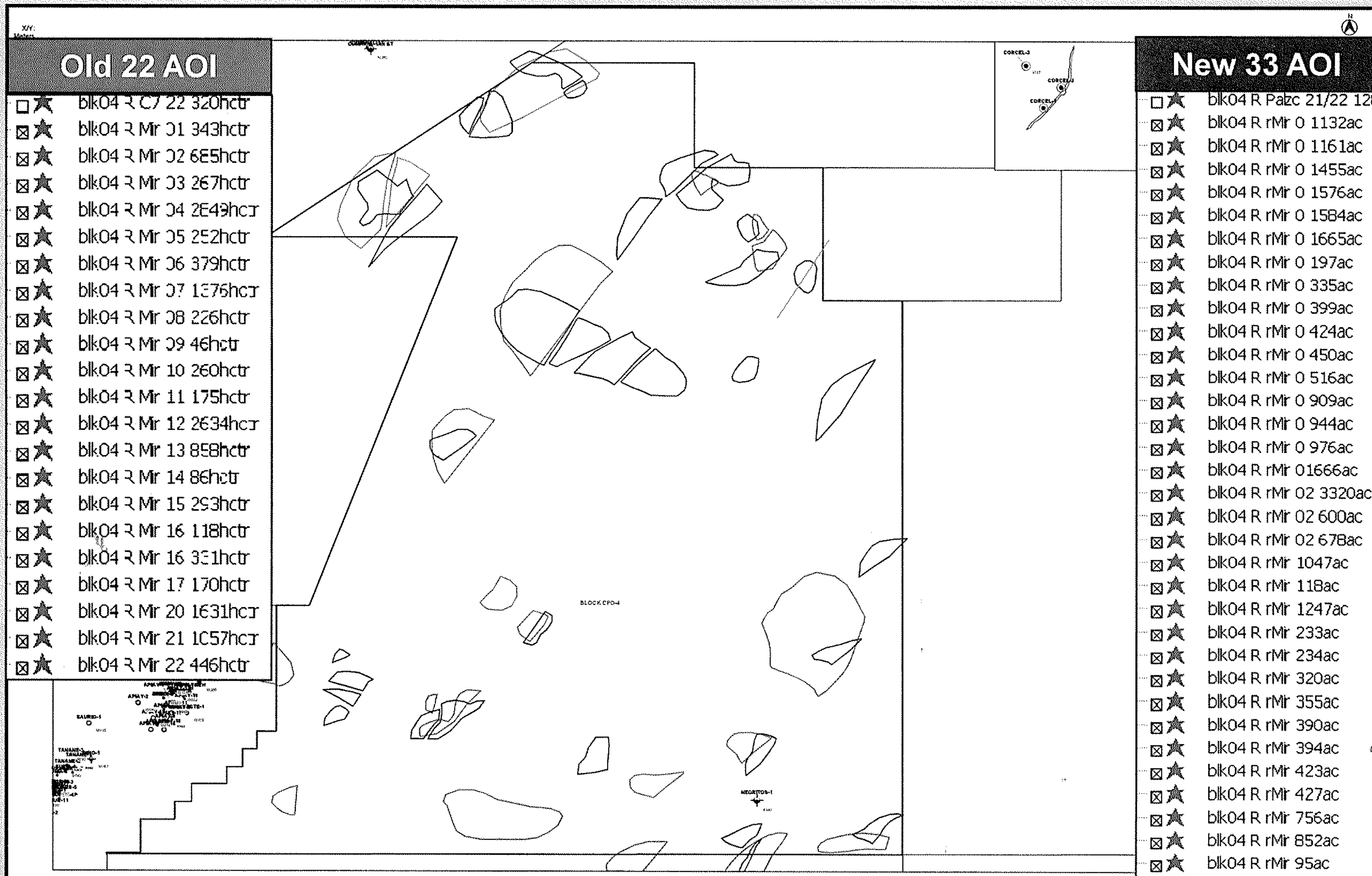
Horizon

- Top of Leon √
- Top of C1 √
- Top of C7 √
- Top of Mirador √
- Base of Mirador
- Top of K
- Top of Gacheta or Une
- Top of Paleozoic √
- Top of Basement

Map

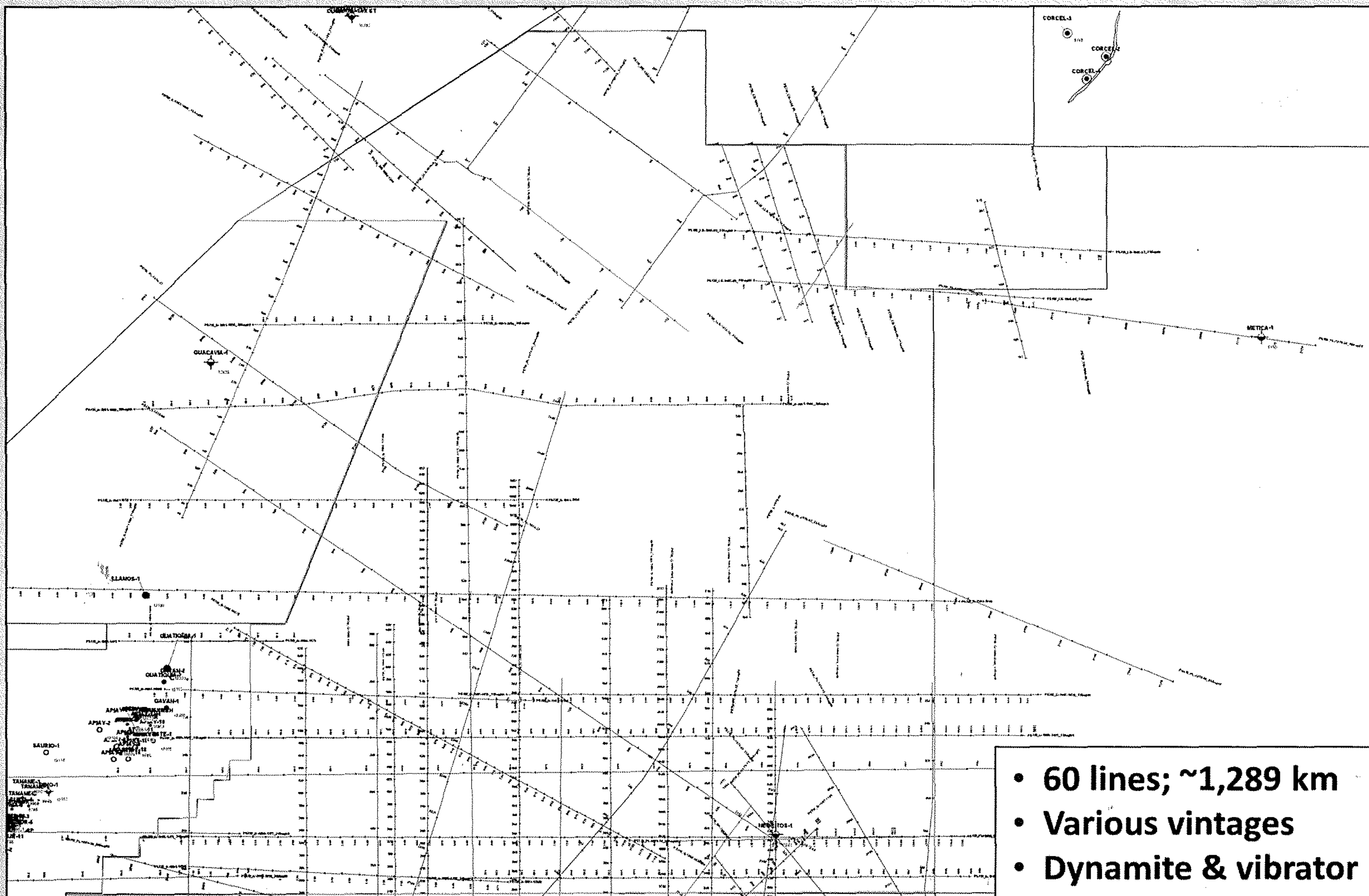
- Structural Map
- Iso-chron Map

Identified Structure (Mirador)



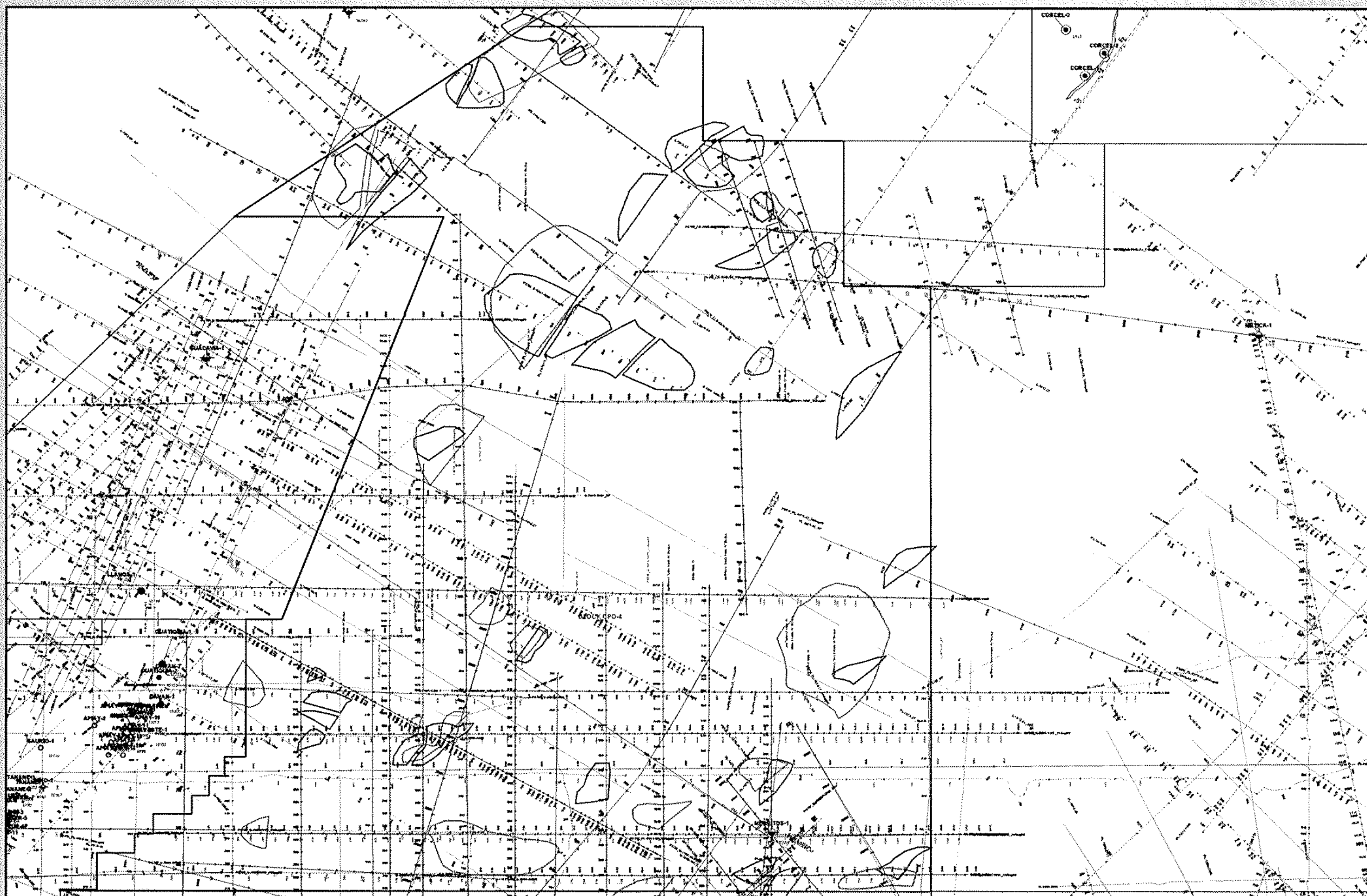
SK energy

Reprocessed Lines



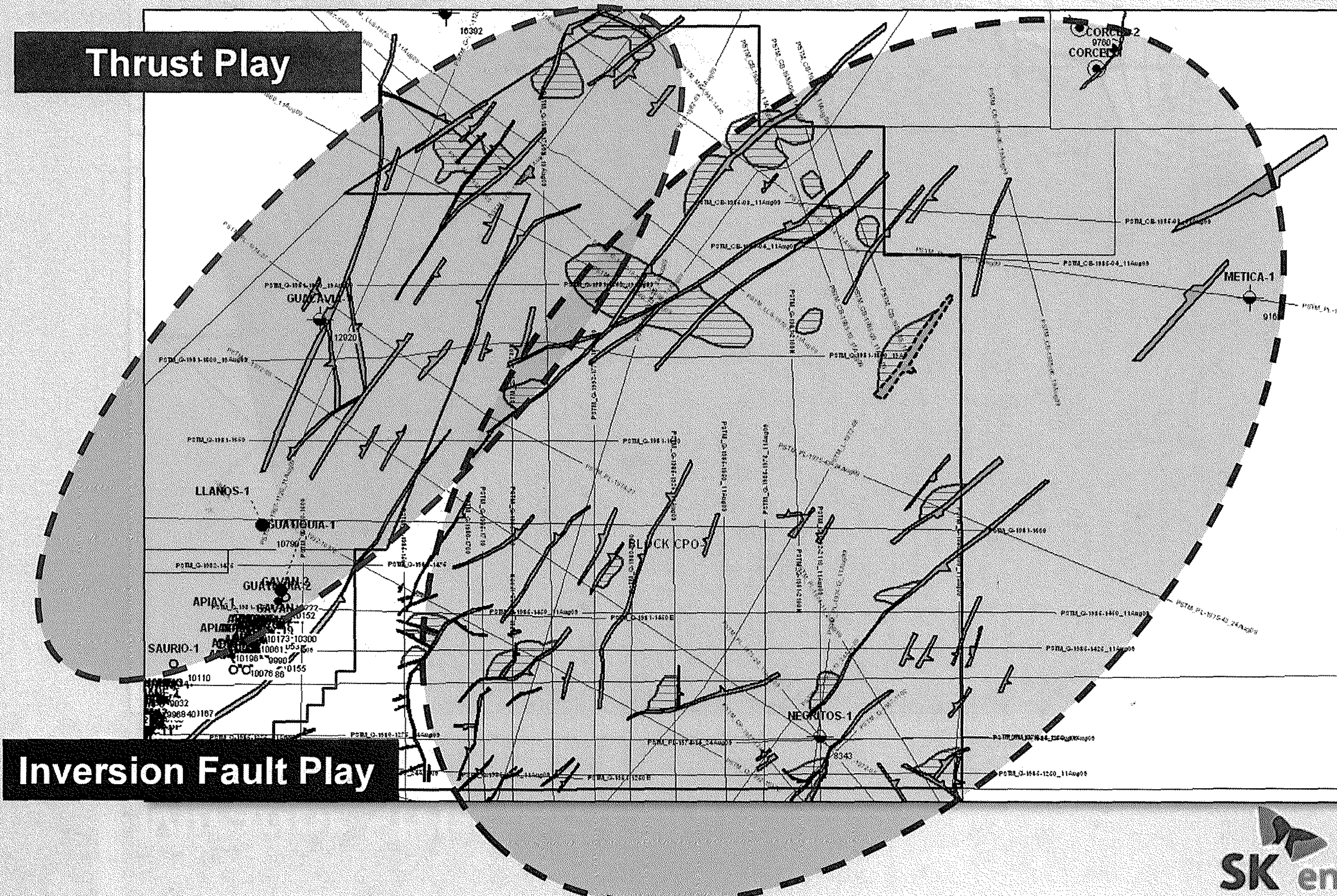
- 60 lines; ~1,289 km
- Various vintages
- Dynamite & vibrator

Available Seismic Lines

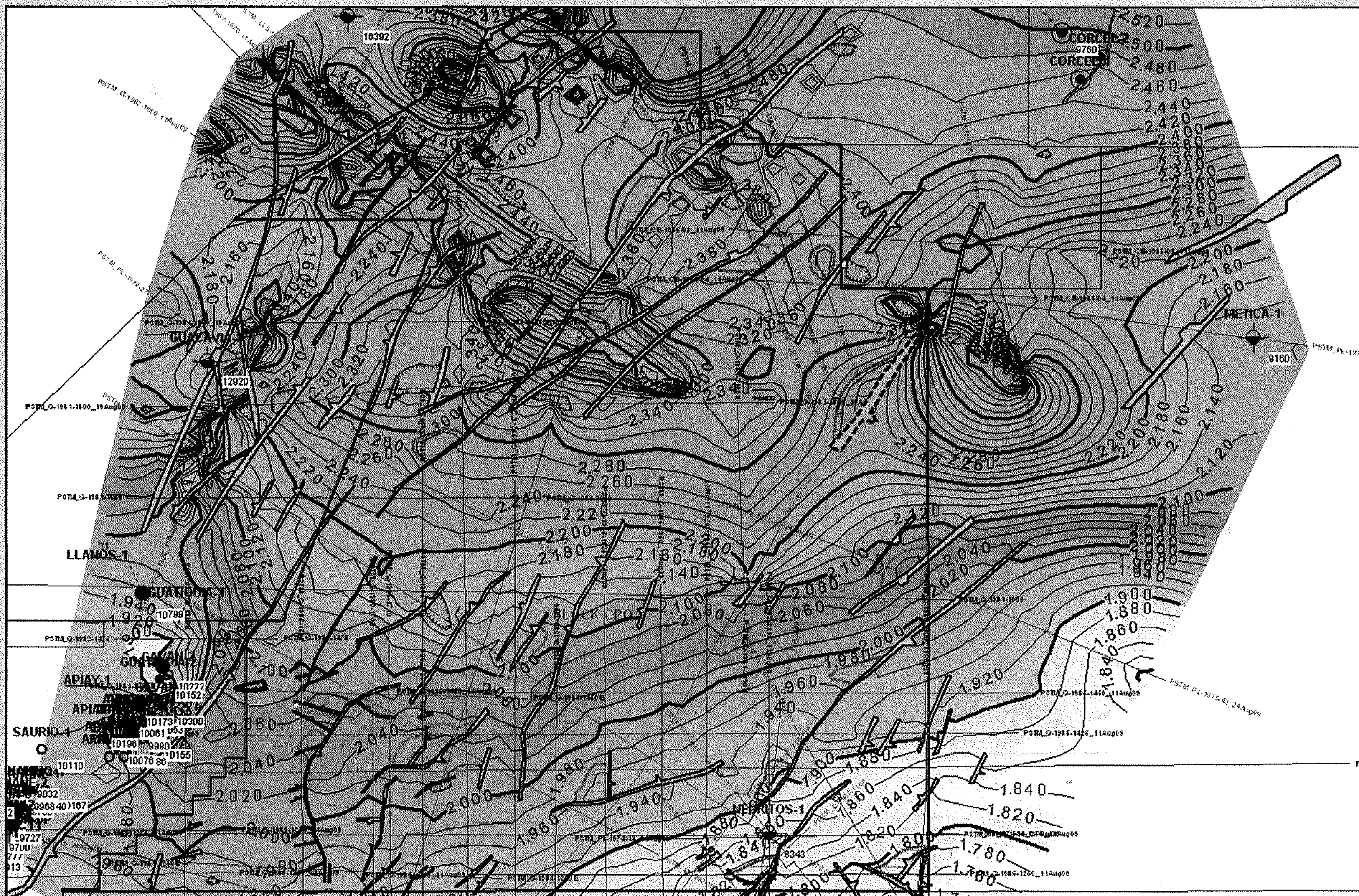


Vintage	Km
1970	140
1972	157
1974	180
1975	98
1980	177
1981	289
1982	15
1983	35
1985	274
1987	35
1988	142
1992	158
1994	97
1994	28
Total	**1825**

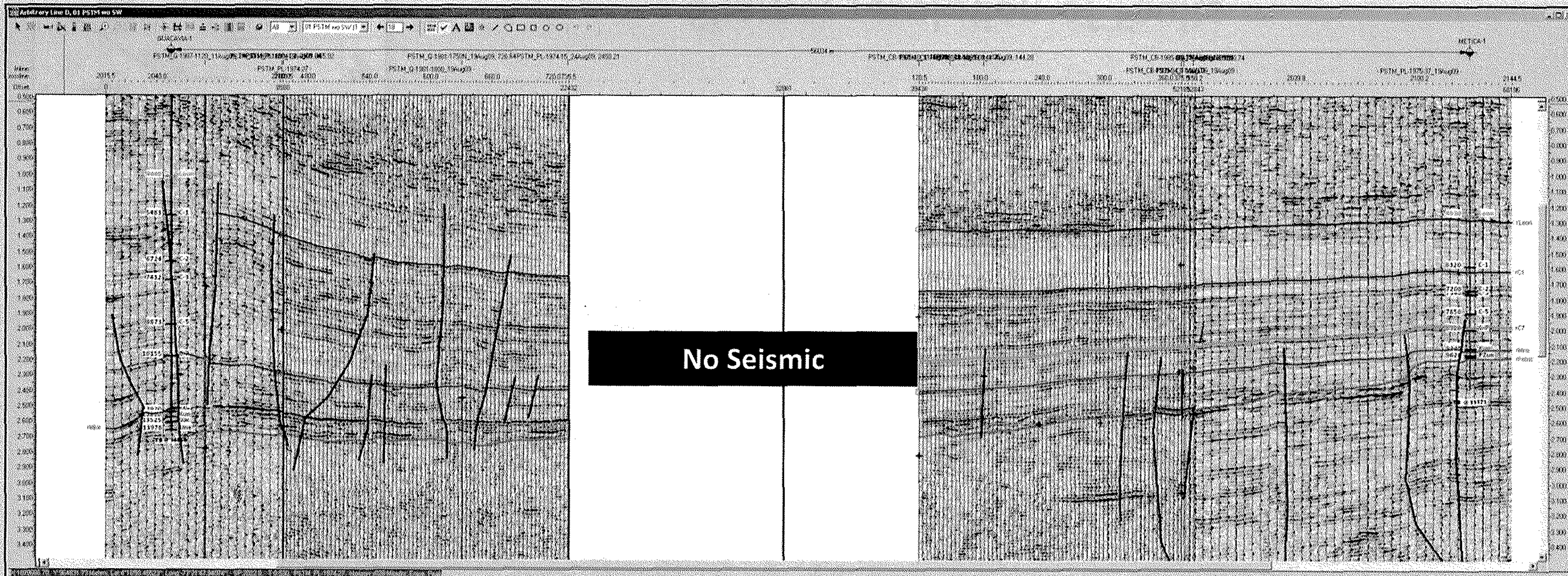
Structural Pattern

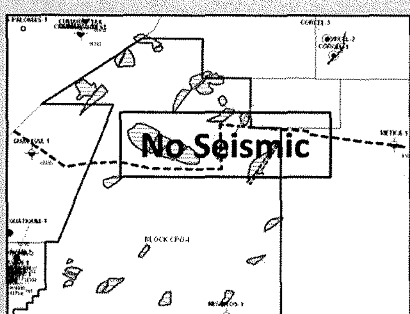


Mirador Structural Map



Reprocessed Data: Consistent Across Area i.e. Metica – Guacavia Well Tie

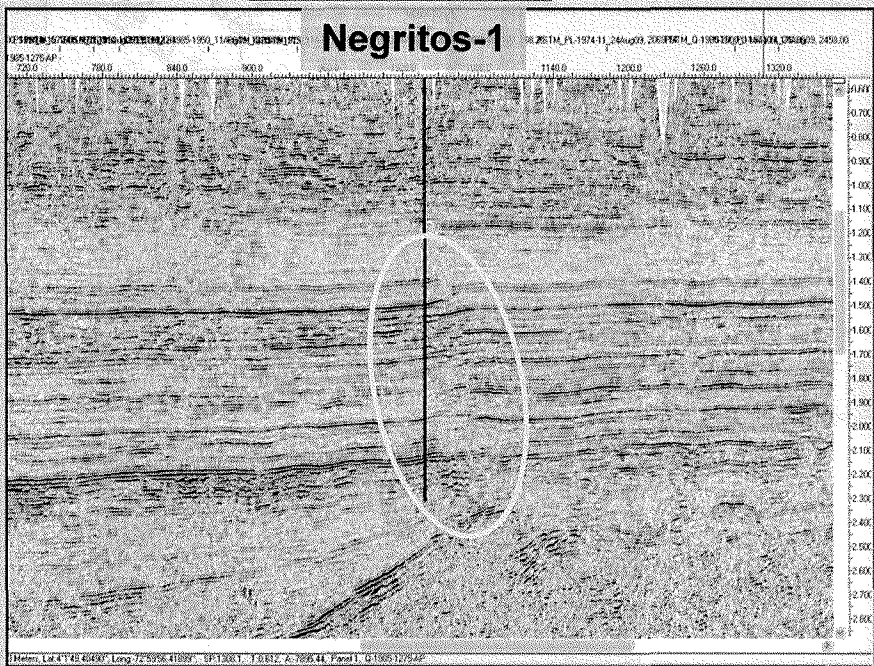




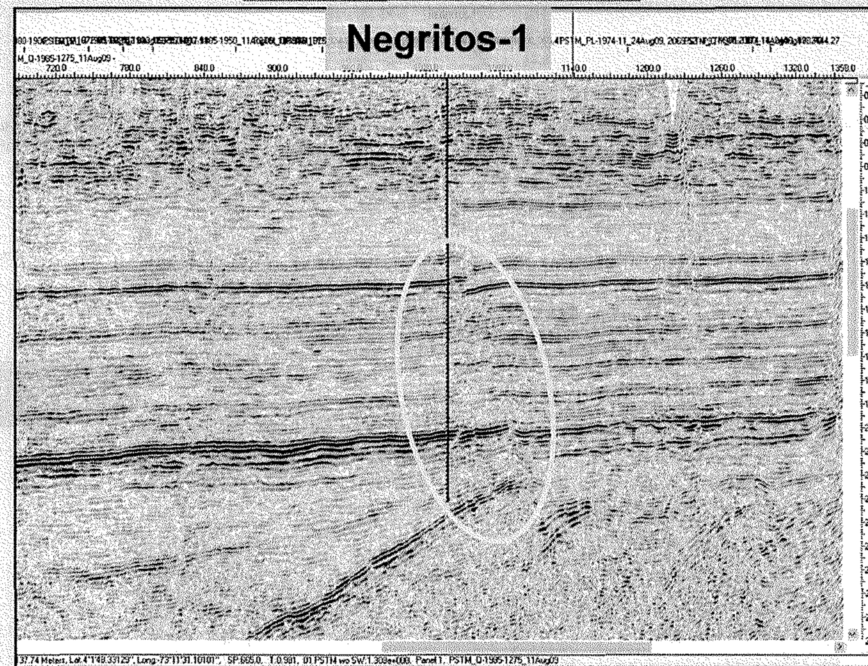
SK energy

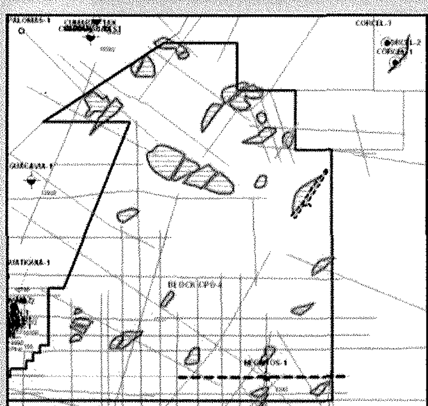
Reprocessed Data

Original Data



Reprocessed Data

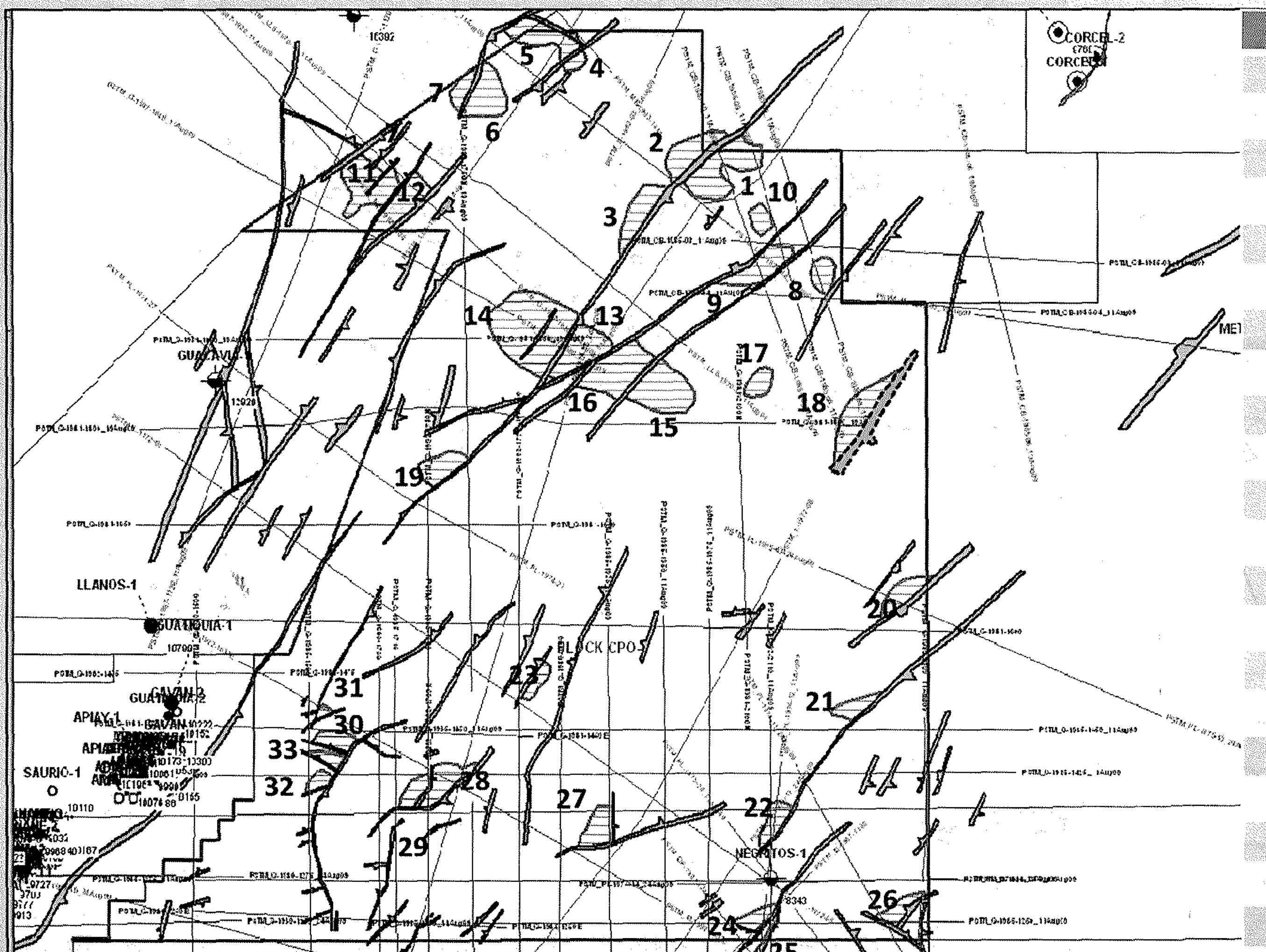




- Sharper resolution of Faults
- Greater continuity of reflectors
- Higher frequency

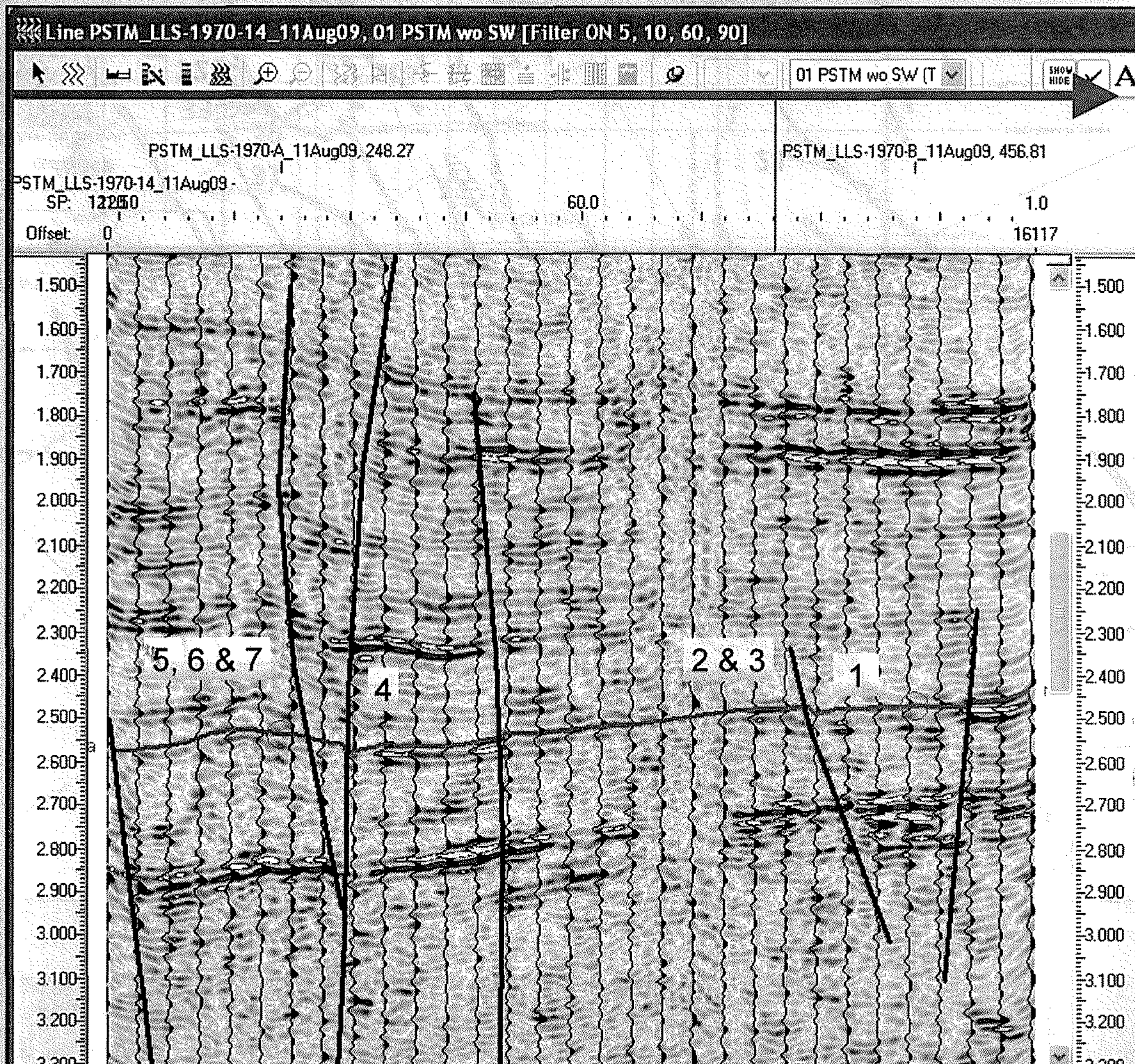
Line Q-1985-1275-AP

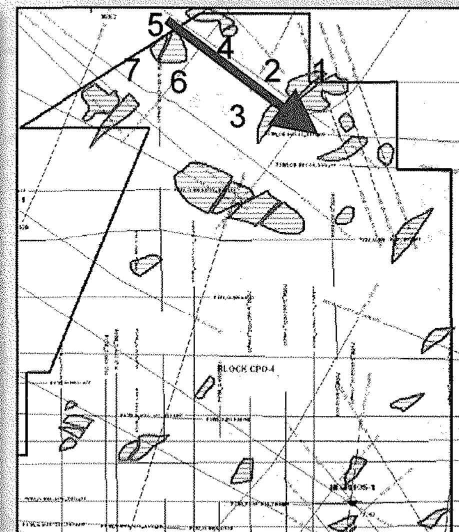
Structural Size



Structure	Acre
1 & 2	2,574
3	652
4 & 5	1,123
6 & 7	1,402
8	450
9	944
10	335
11 & 12	2,587
13, 14, 15 & 16	7,641
17	399
18	1,247
19	678
20	600
21	424
22	516
23	1,666
24 & 25	512
26	427
27	320
28 & 29	1,146
30, 31, 32 & 33	985

Structures 1 - 7

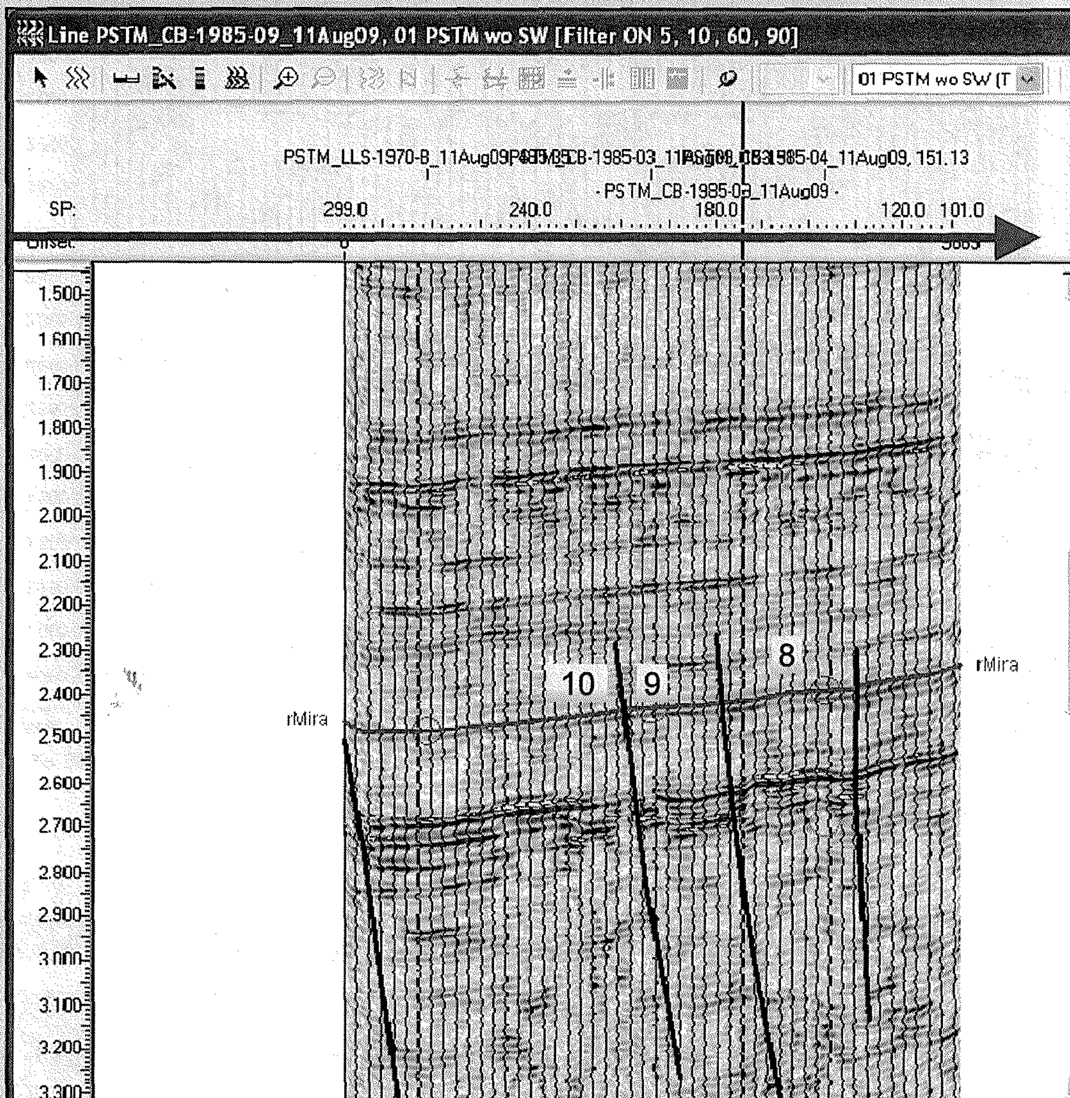


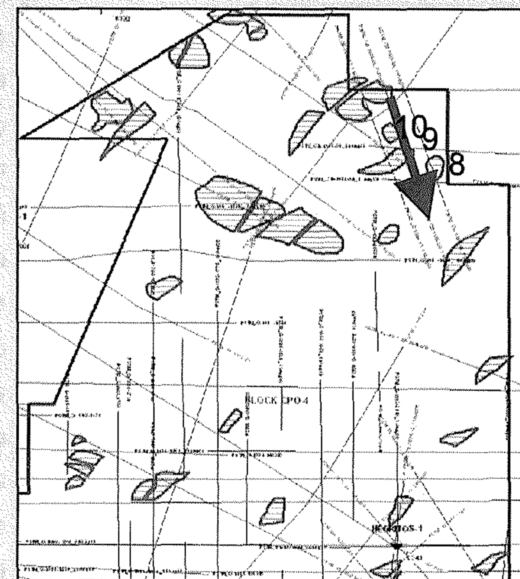


AOI	Ac
1	197
2	976
3	852
4	197
5	976
6	1,047
7	355

SK energy

Structures 8 - 10

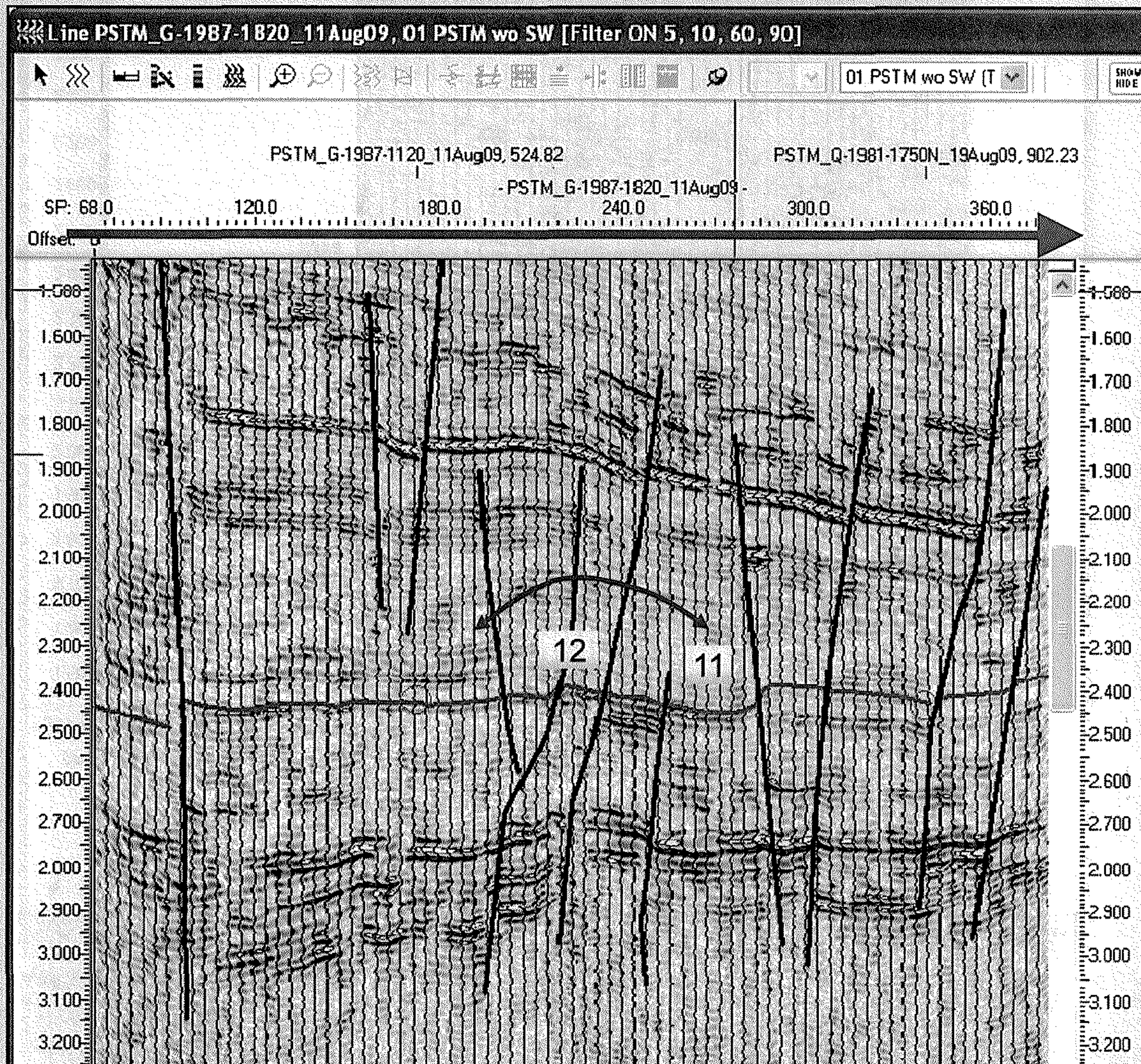


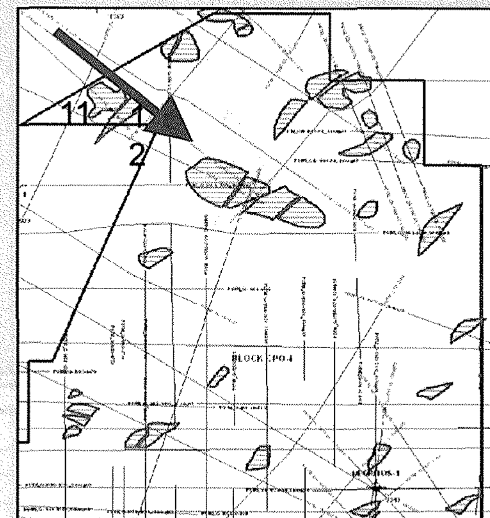


AOI	Ac
8	450
9	944
10	335

SK energy

Structures 11 - 12

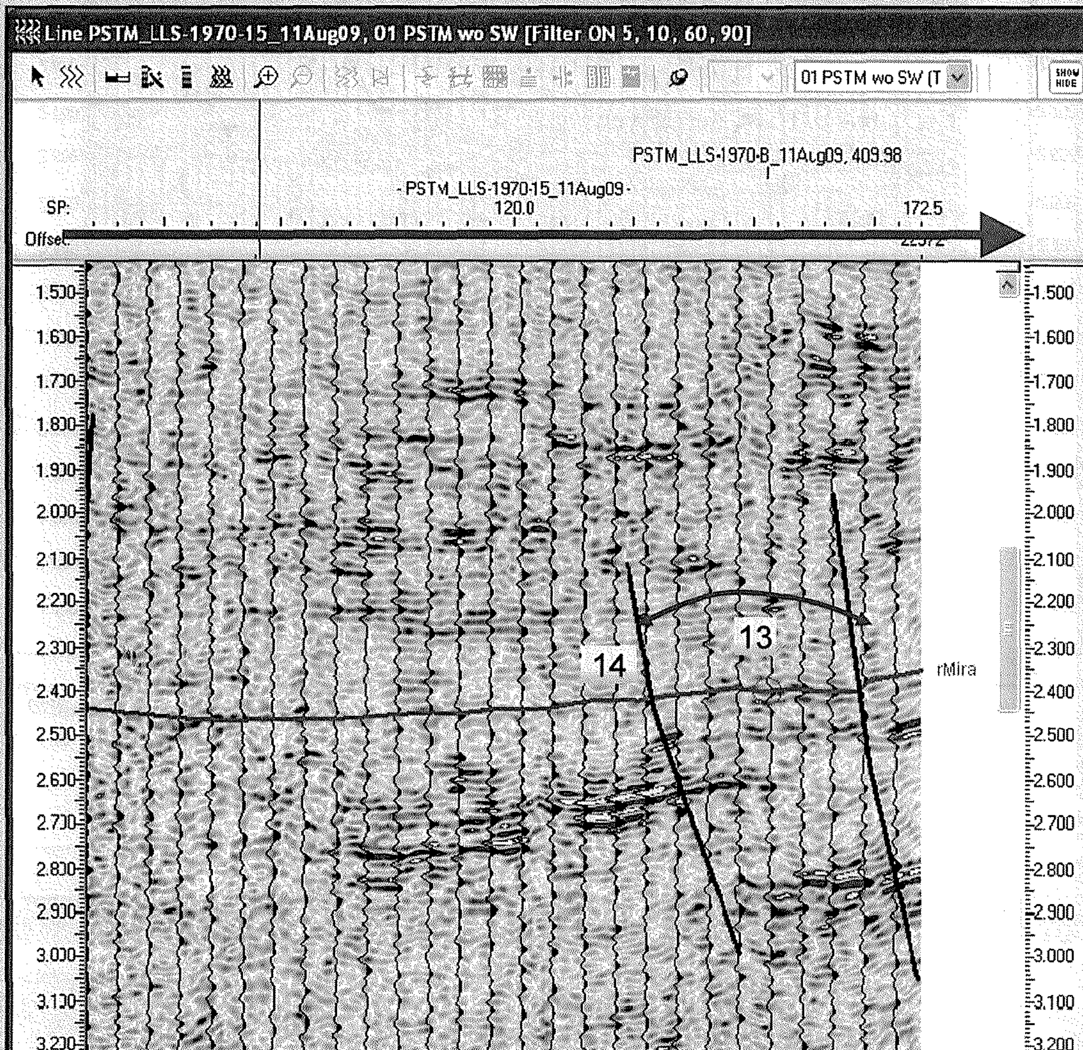


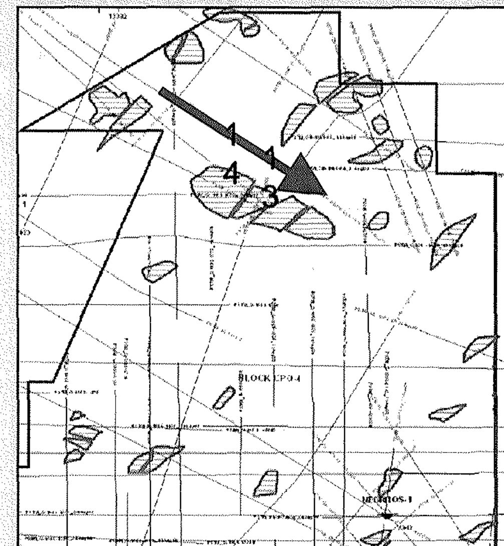


AOI	Ac
11	1,132
12	1,455

SK energy

Structures 13 - 14

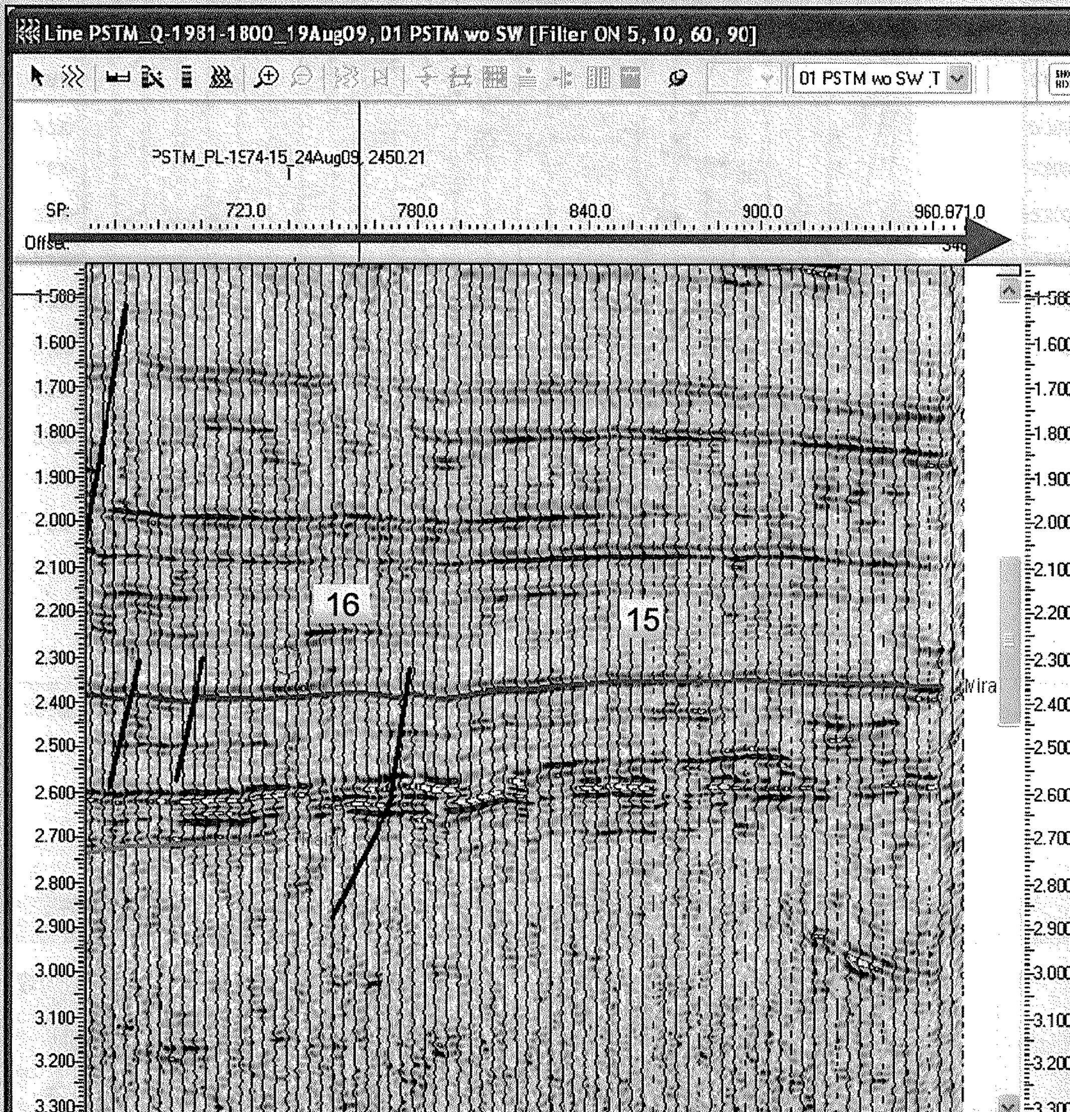


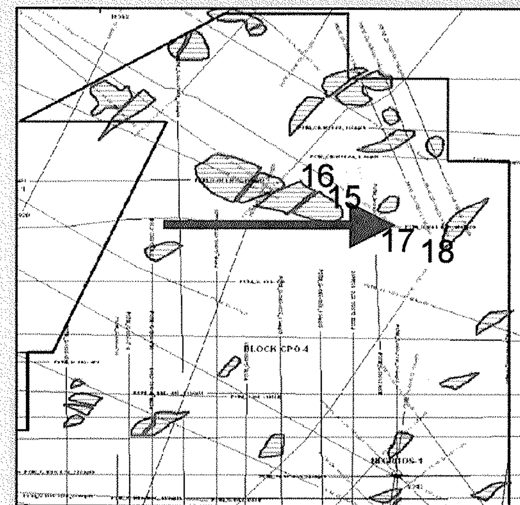


AOI	Ac
13	1,161
14	3,320

SK energy

Structures 15 - 18





AOI	Ac
15	1,576
16	1,584
17	399
18	1,247

Note

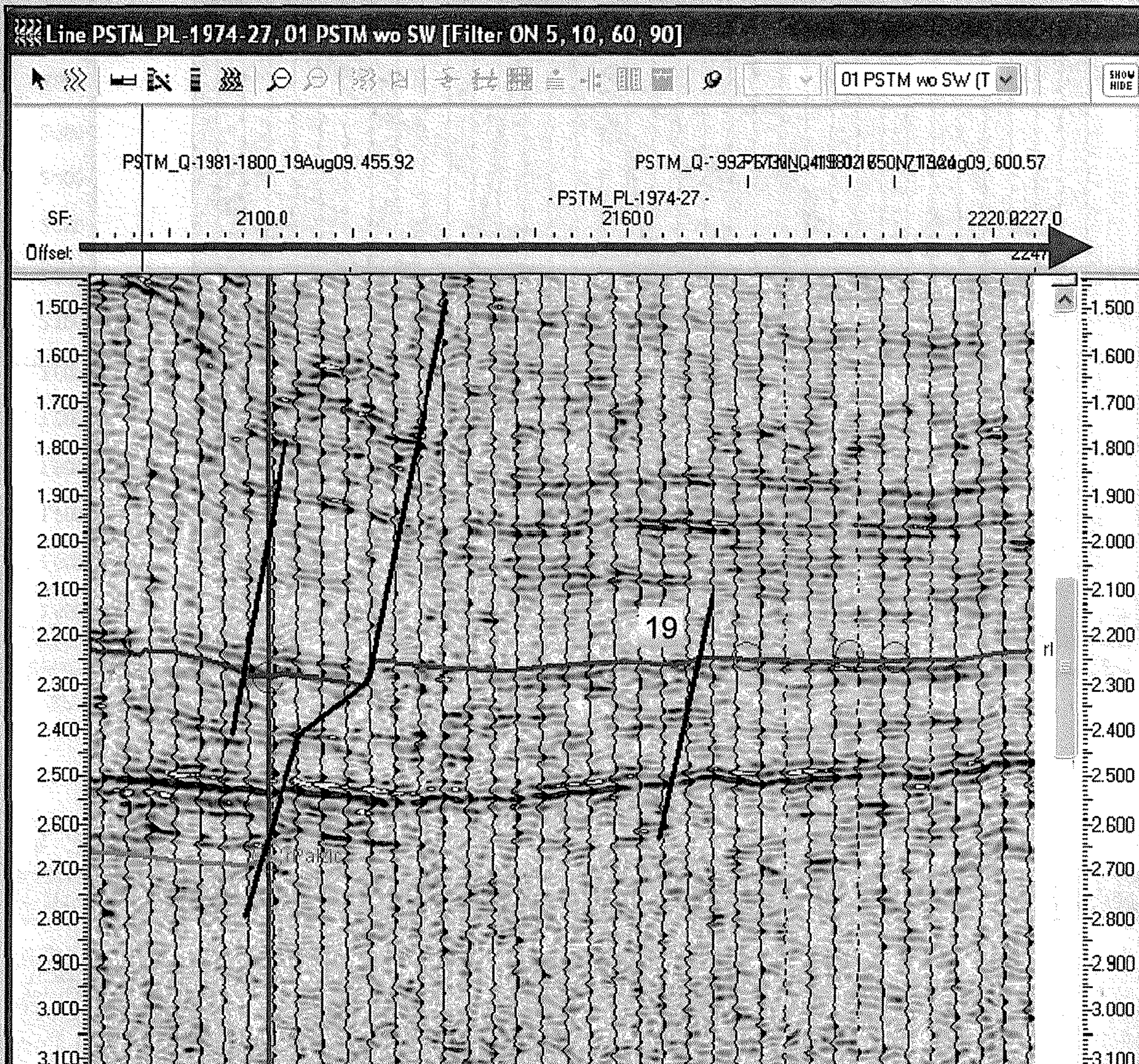
AOIs 17 & 18

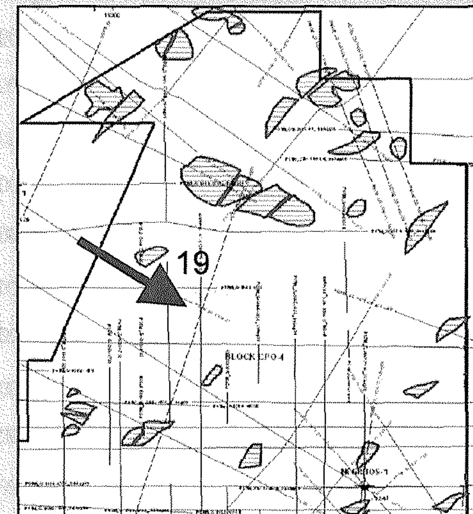
Unsupported by direct seismic

But are inferred by regional trends

SK energy

Structure 19

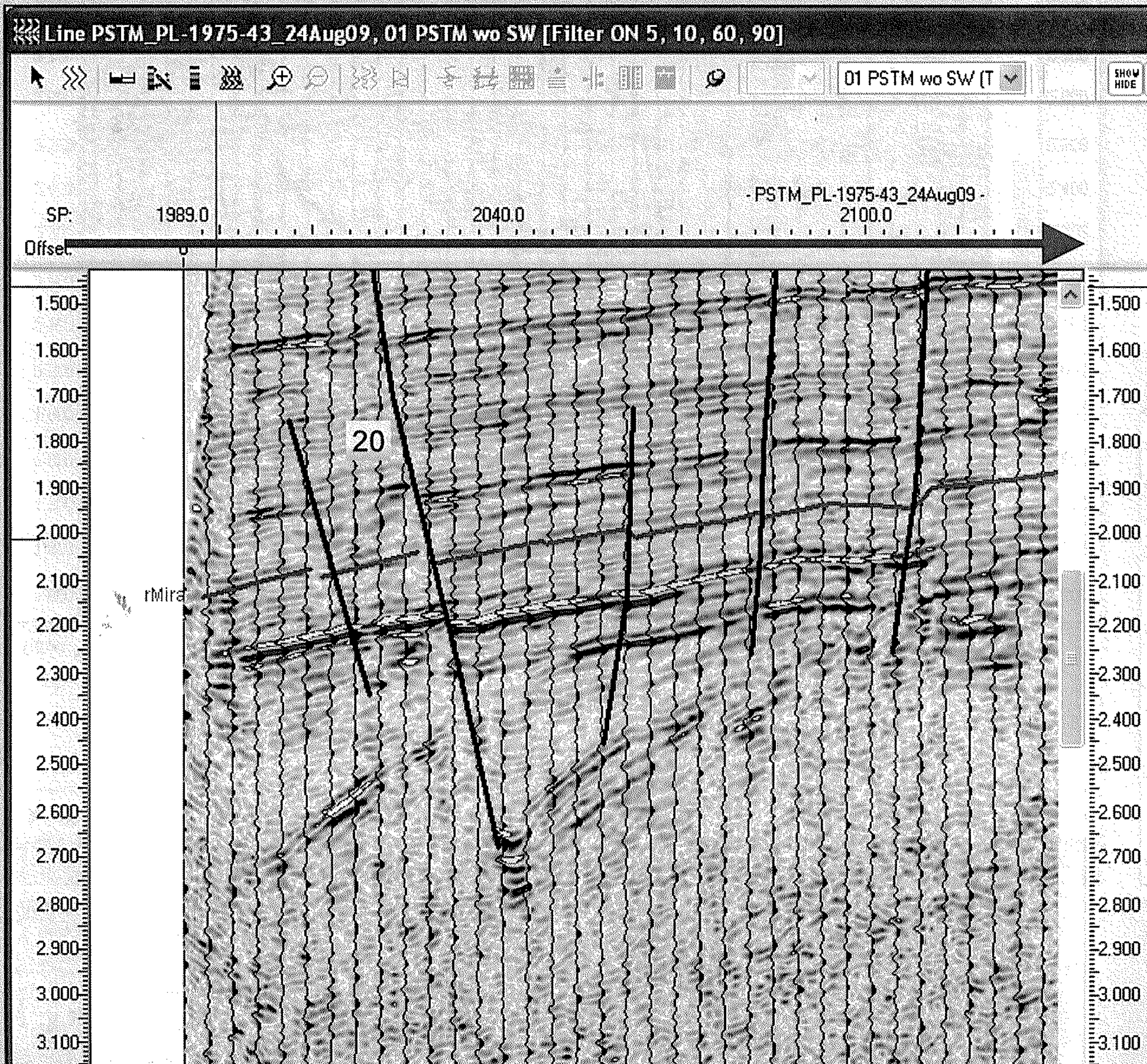


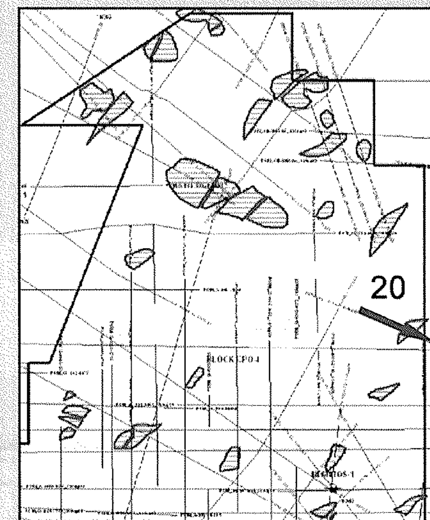


AOI	Ac
19	678

SK energy

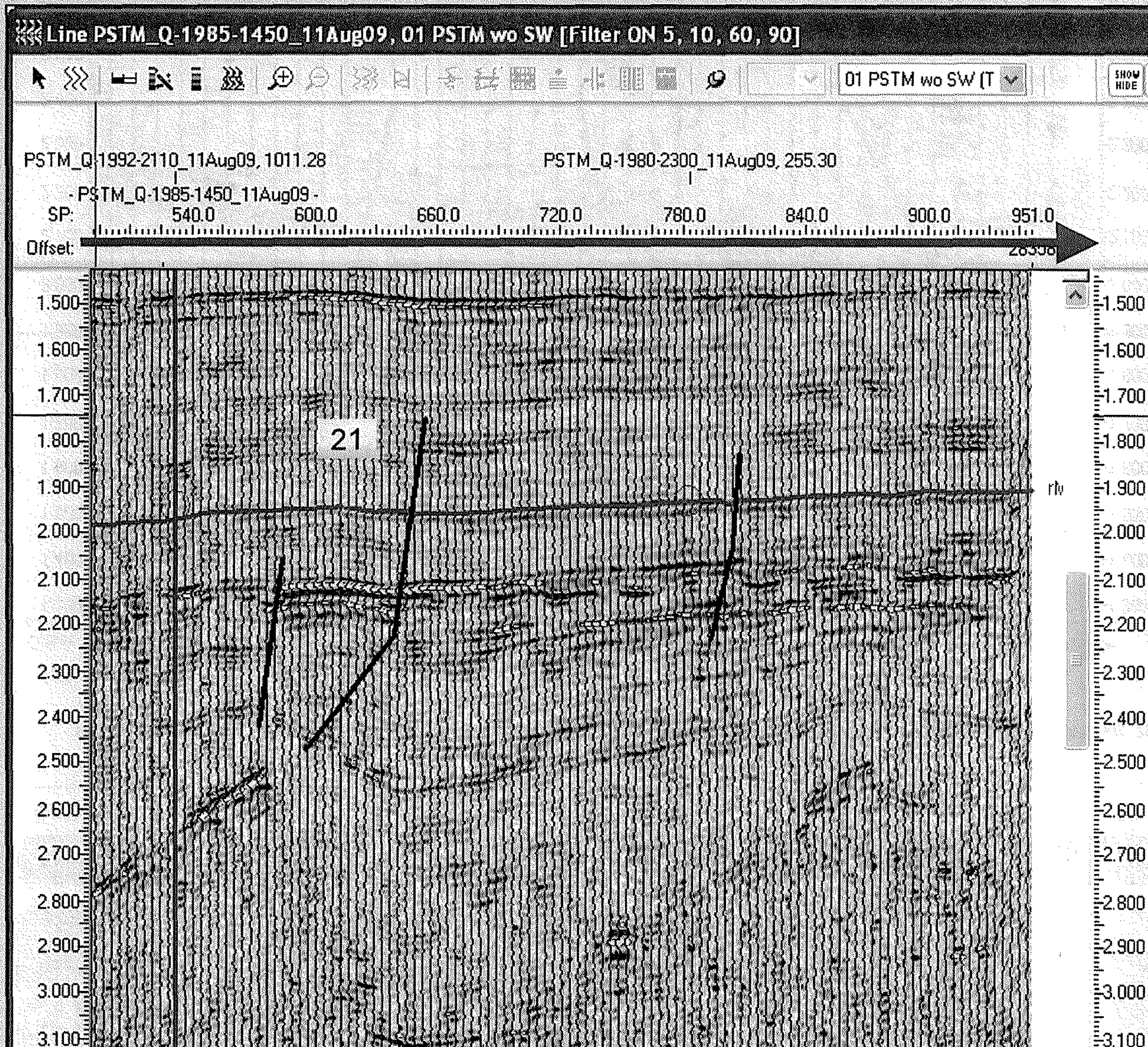
Stucture 20

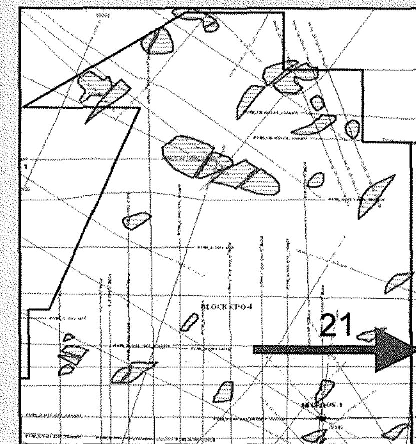




AOI	Ac
20	600

Structure 21

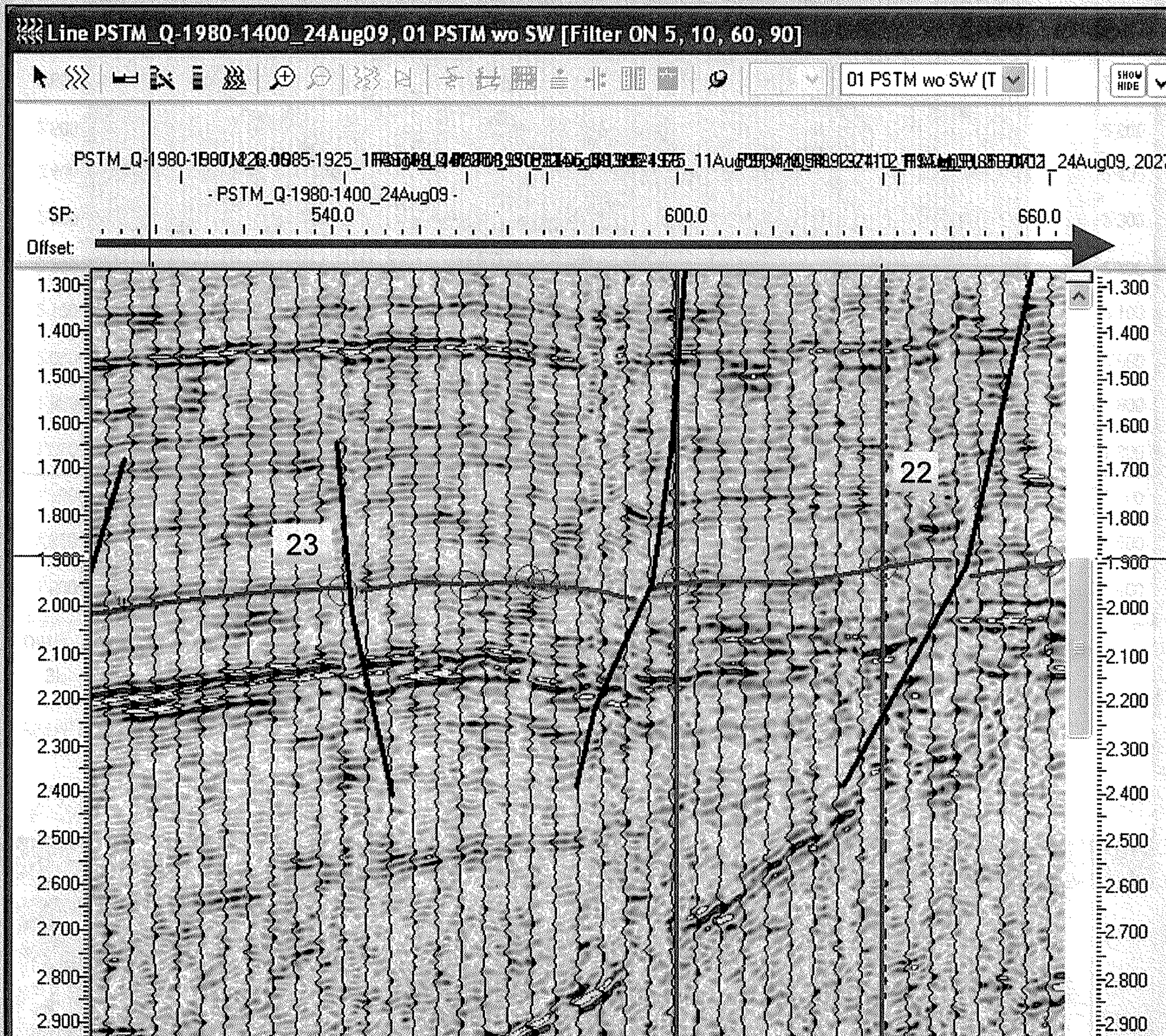


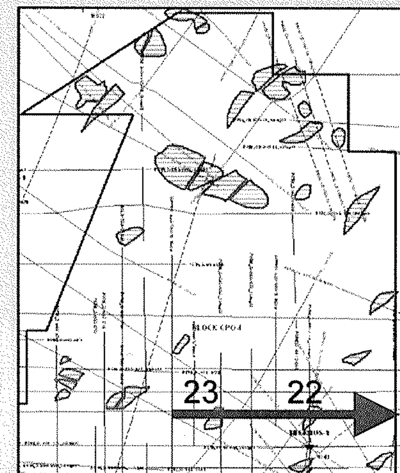


AOI	Ac
21	424

SK energy

Structures 22 - 23

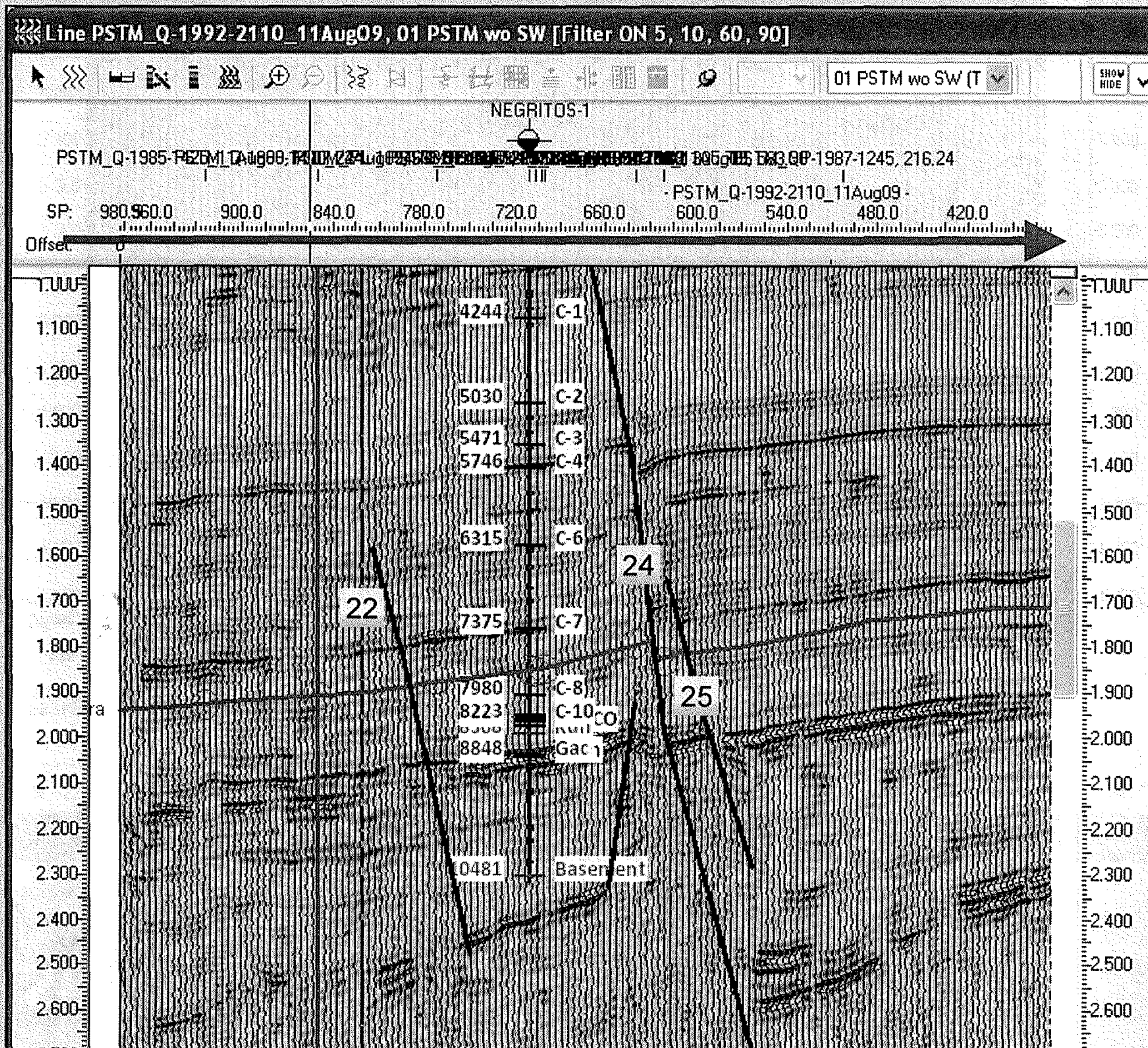


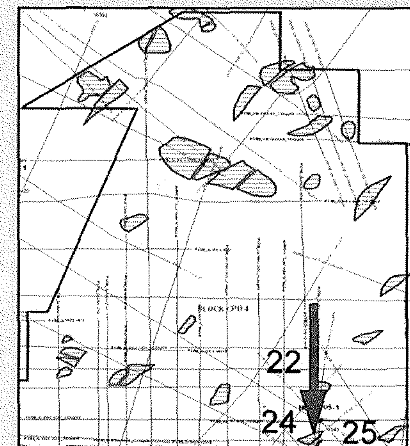


AOI	Ac
22	516
23	1,666

SK energy

Structures 22, 24 & 25

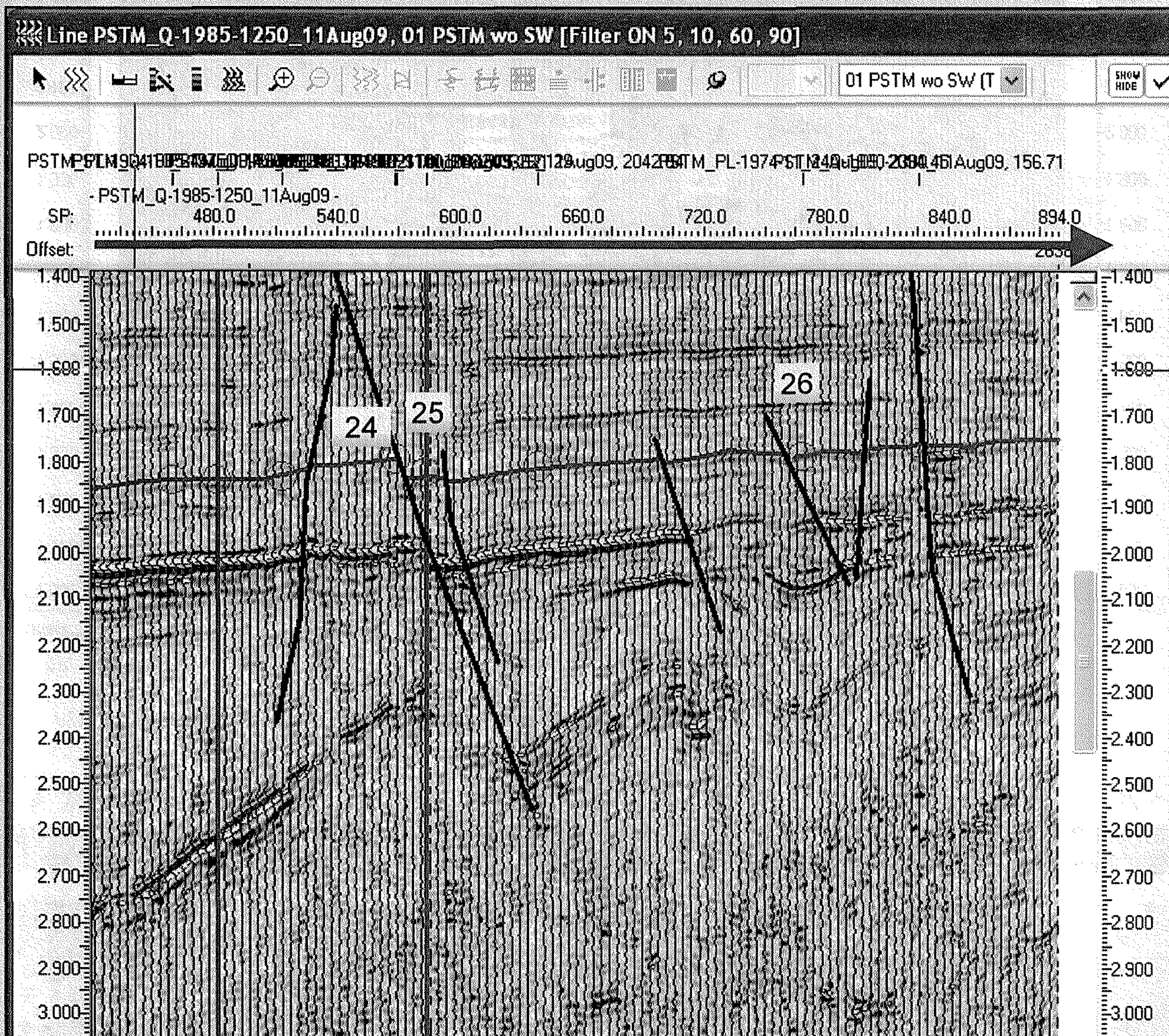


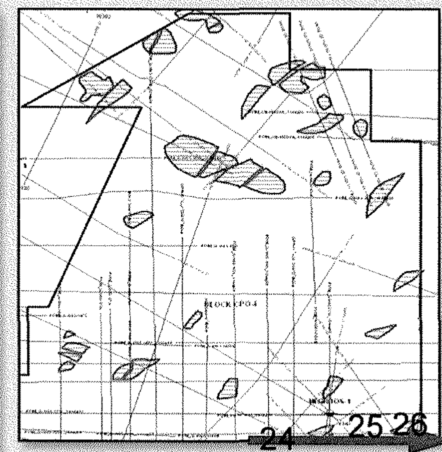


AOI	Ac
22	516
24	394
25	118

SK energy

Structures 24, 25 & 26

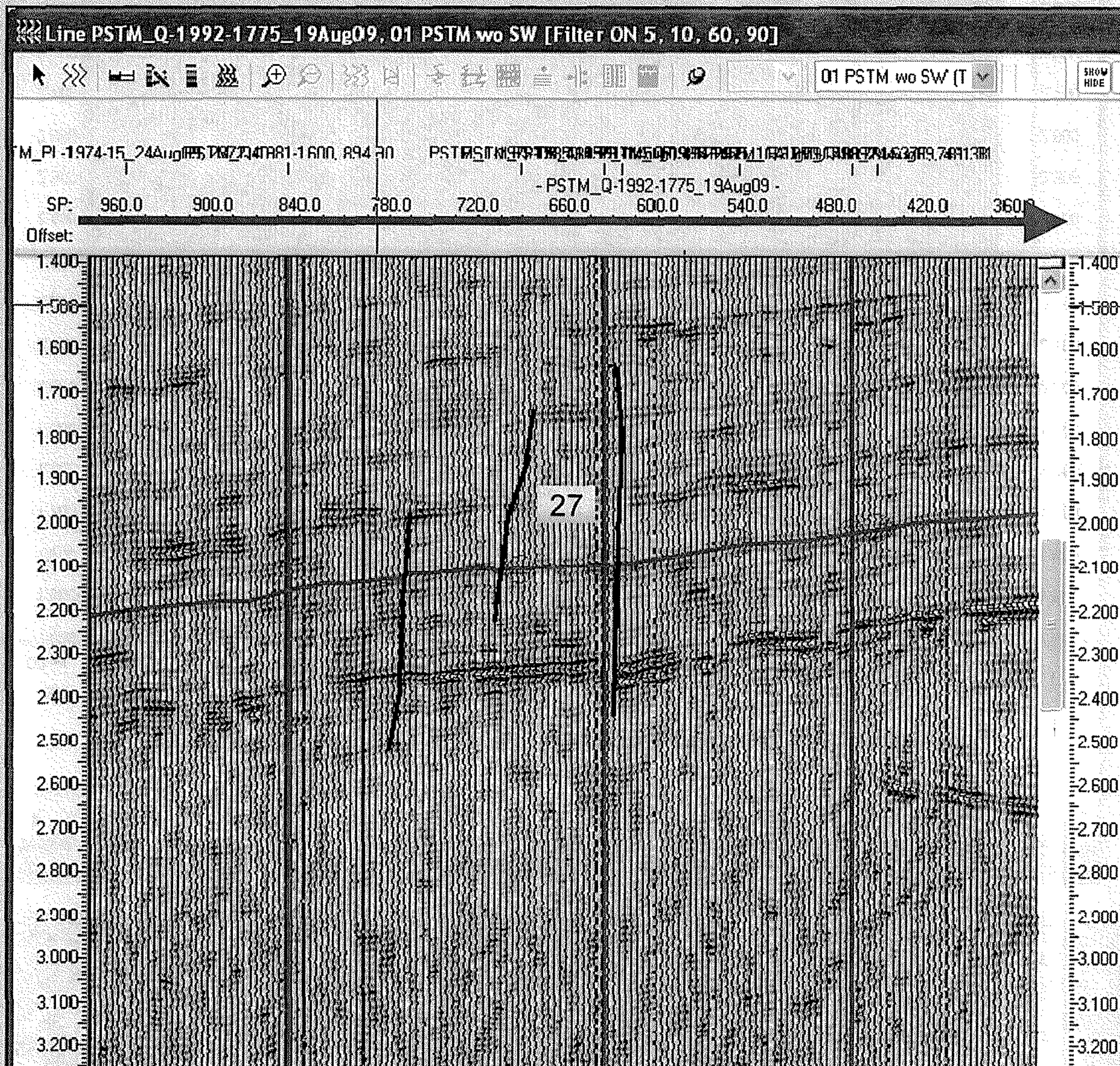


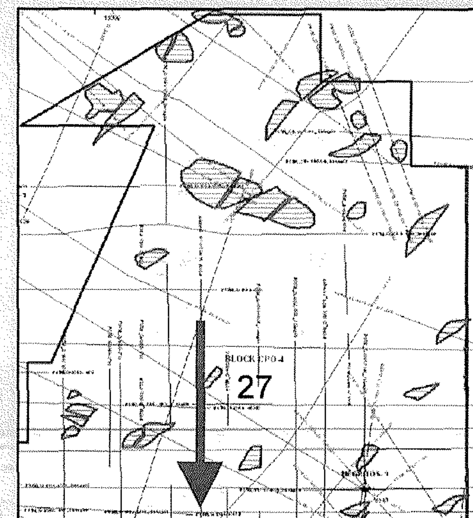


AOI	Ac
24	394
25	118
26	427

SK energy

Structure 27

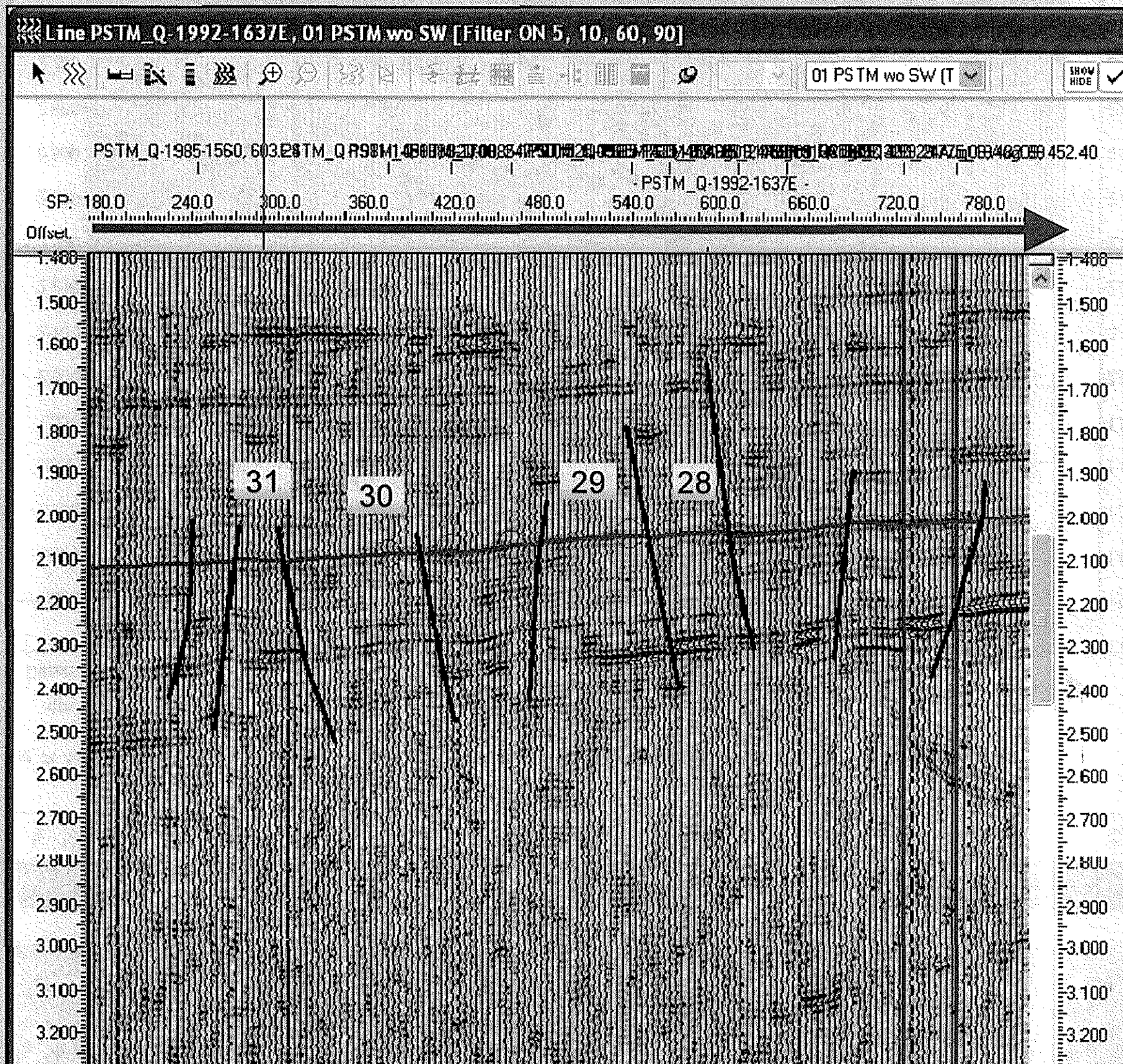


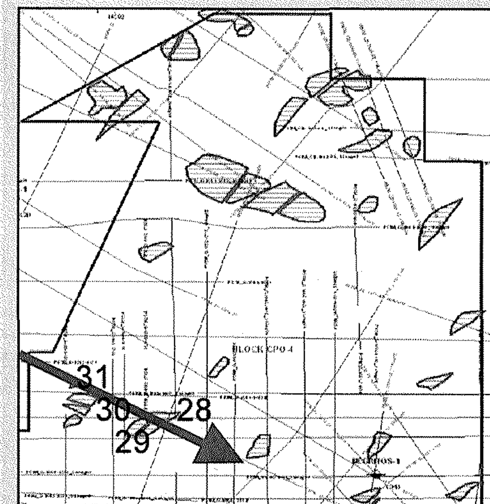


AOI	Ac
27	320

SK energy

Structures 28 - 31

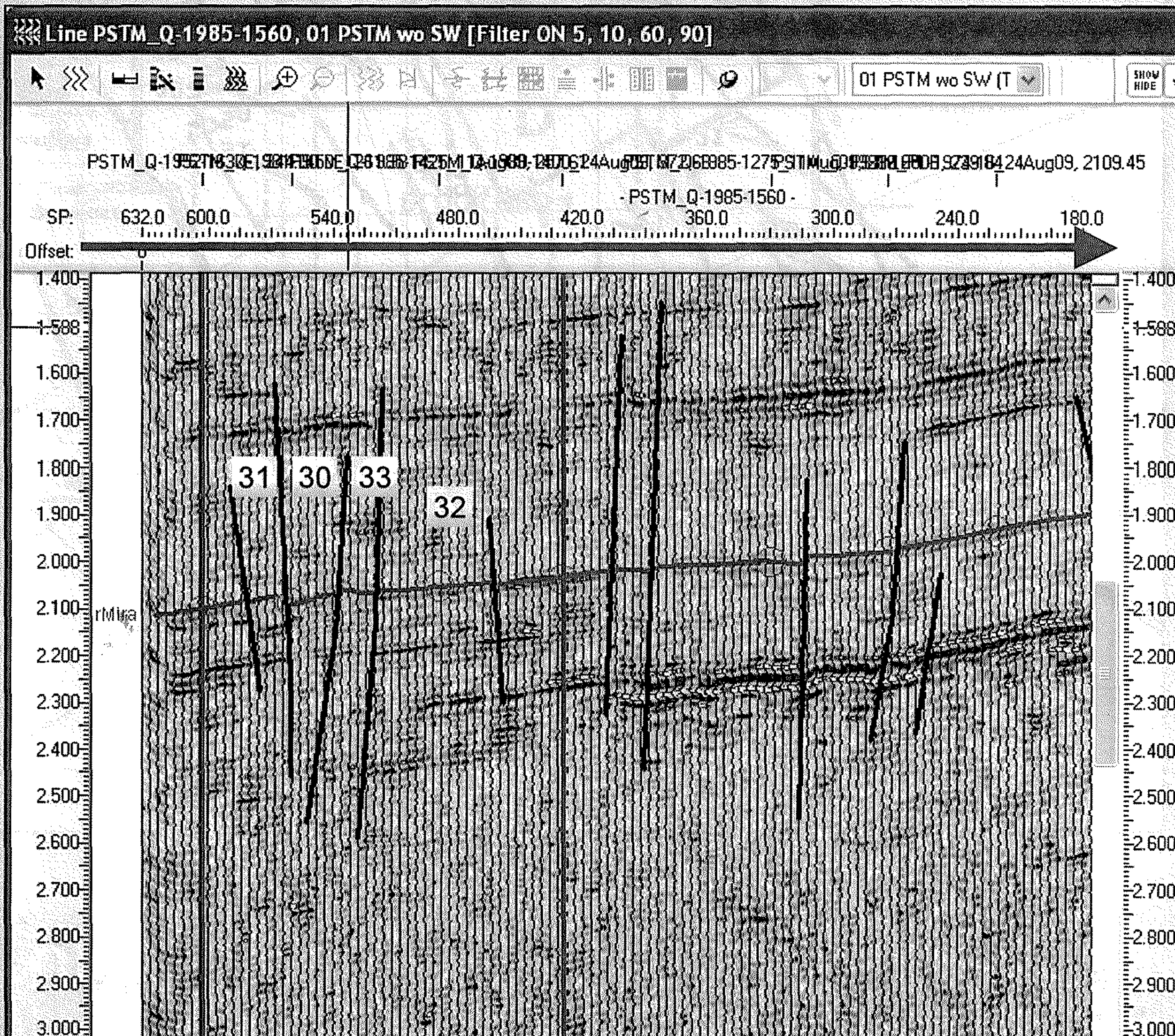


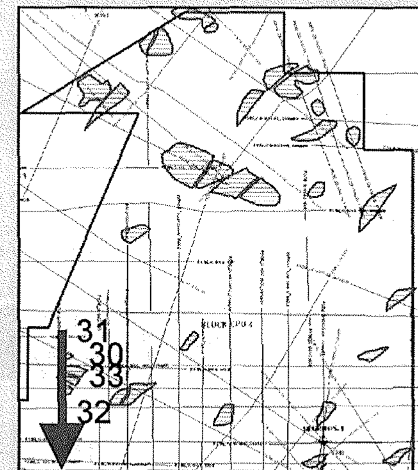


AOI	Ac
28	756
29	390
30	423
31	95

SK energy

Structures 30 - 33

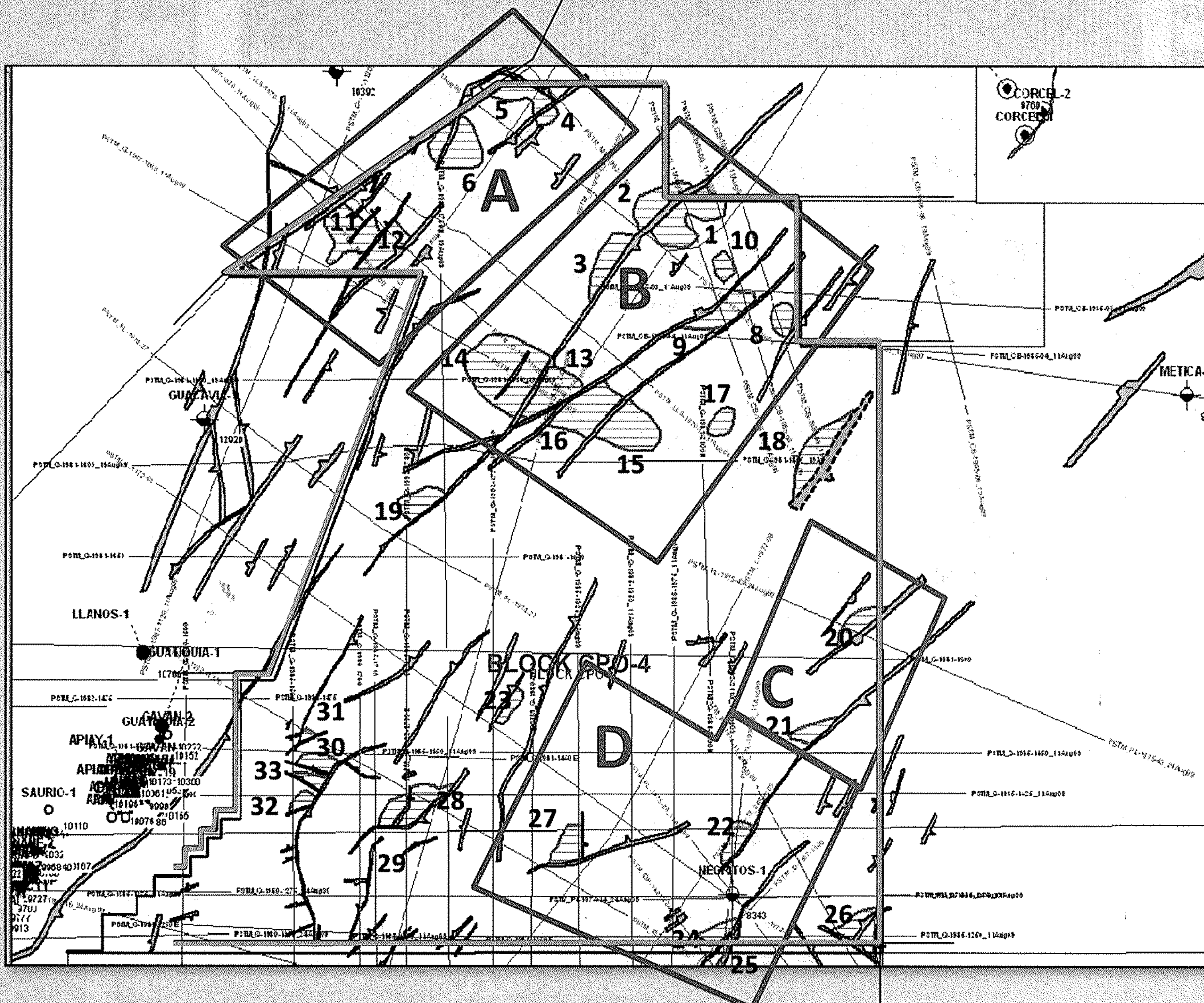




AOI	Ac
30	423
31	95
32	233
33	234

SK energy

Possible 3D Areas
Unrisked Estimated MMBOE (1,000 ac = 23mmboe)



AOI	Km2
A	198
B	308
C	95
D	228
Total	829

AOI	MMBOE
A	119
B	271
C	24
D	31
Total	445

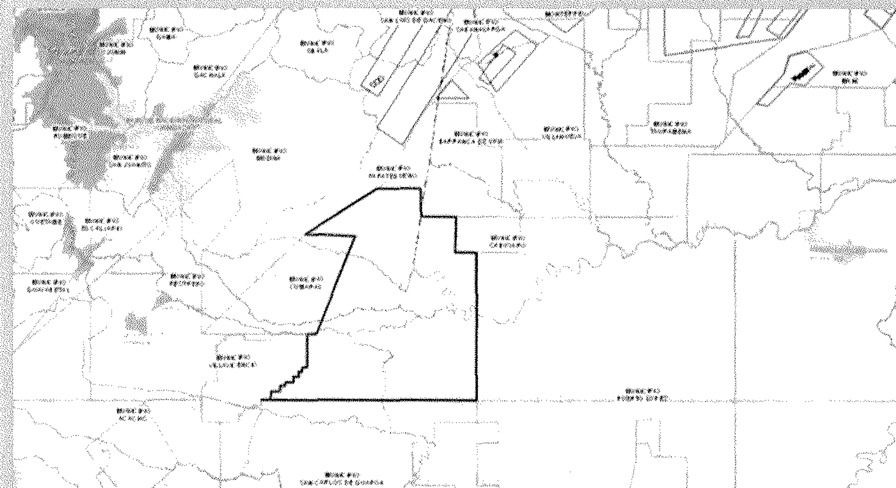
SK energy

Socio-environmental Status

CPO-4

Due Diligence and Scouting

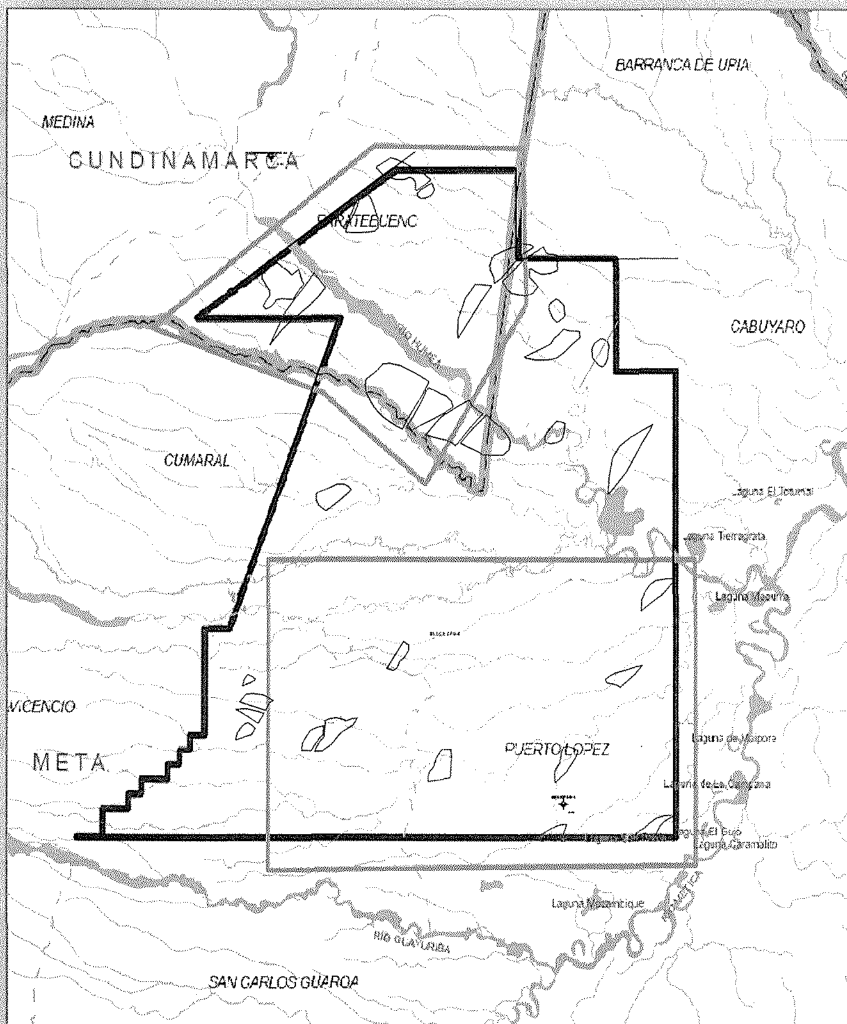
- Cost : USD 14,110
- Delivered: June 2009
- No ethnic communities inside the Block
- No reservations, native or afro-descendant properties recognized by local governments
- <u>No need of prior consultation process</u>
- Certain population density and good roads
- In winter seasons passable roads can disappear
- 67.92% of the area has bad drainage, permanent ponding and prolonged flood period.
- From December to March : deficit humidity appears



SK energy

Socio-environmental Status

CPO-4



Environmental Management Plan – PMA

- Service Contract : SIPAC Colombia Ltda.
- Start date : August 31st , 2009
- End date : September 30th , 2009
- Estimated Cost : USD 60,742
- Permits from environmental authorities: November 20th , 2009
- Estimated Cost of Permits : USD 19,500

SK energy

'09 WP&B Forecast

CPO-4

SK Energy & HAE : Block CPO-4
2009 Year Budget Summary
mUS Dollars

	Budget (A)	'09.1~5	'09.6~8	'09.9~12 (E)	'09 YE Estimate (B)	B-A	
Drilling	-	.	-	-	-	-	
G&G	**1,229**	201	233	695	**1,129**	△ 100	Decrease of technical data acquisition and G&G study costs
G&A	**1,629**	322	319	704	**1,345**	△ 284	SBLC Commission Fee Decrease (Rate: 5% -→ 2.1%, Full payment -→ Installment) Legal Fee Decrease
HSEC	**536**		14	188	**202**	△334	EIA Cost postponed to next year No Prior Consultation
Contract Commitment	**570**		599	-	**599**	+ 29	Education fee to ANH & Labor Insurance
TOTAL Expenditure	**3,964**	**523**	**1,165**	**1,587**	**3,275**	△ 689	

* After execution of JOA, HQ Overhead will be charged.
** When the cash call is calculated, the amount of USD 130,638 will be credited to HAE. (USD 522,550 * 25% = USD 130,638)

SK energy

Partner's Feedback

CPO-4

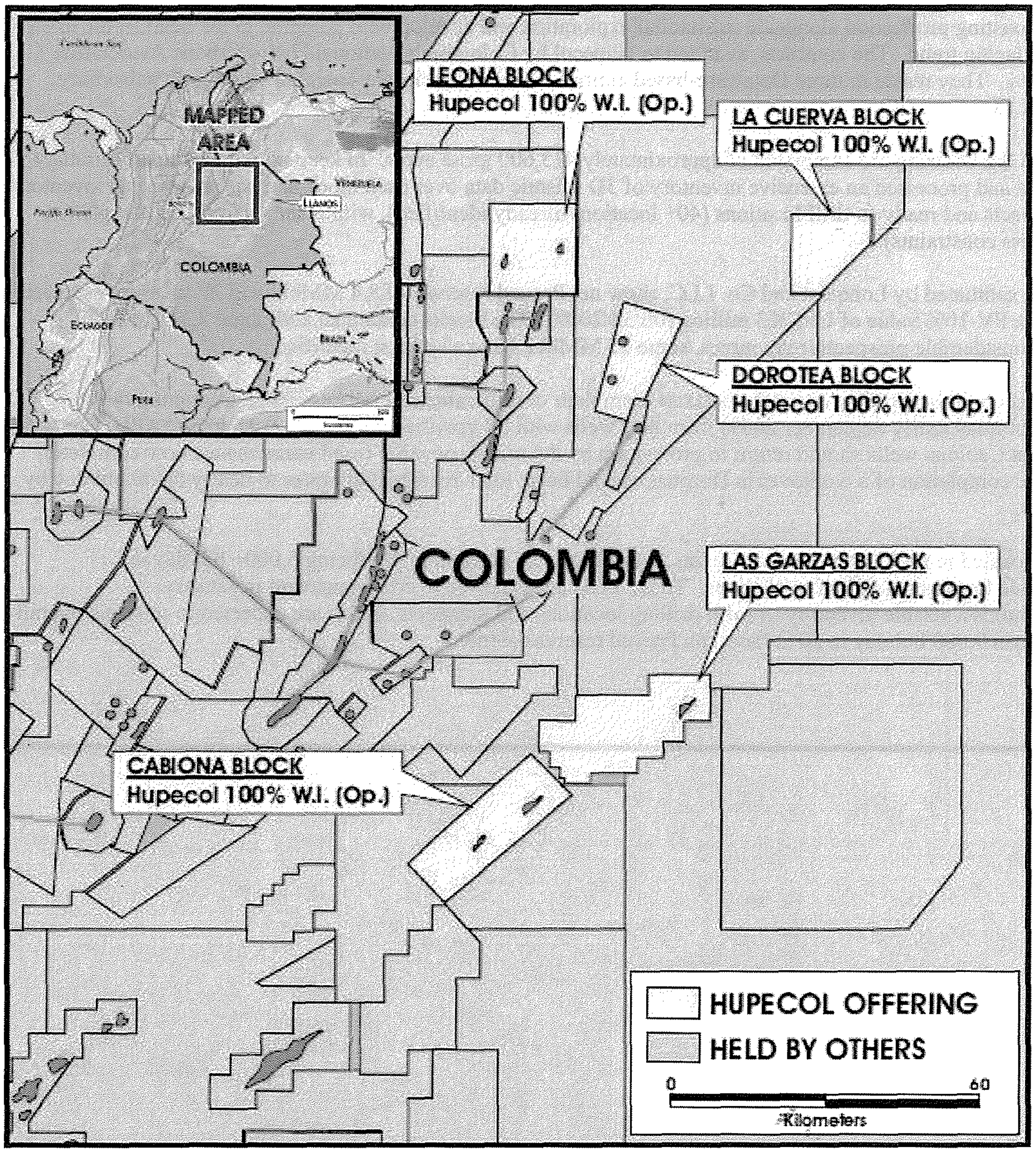
Thank you!

SK energy

Scotia Waterous

HUPECOL

Scotia Waterous (USA) Inc. ("Scotia Waterous") has been retained as exclusive financial advisor by Hupecol (the "Company") to explore alternatives to optimize the Company's portfolio, including the divestment of Hupecol's interests in certain assets in Colombia's Llanos Basin (the "Offering").



PLAINTIFF'S EXHIBIT
PX-021

BACKGROUND TO SALE

Hupecol is a private E&P company founded in 1998, headquartered in Houston, Texas, which maintains a branch office in Bogotá, Colombia. The Company strategically explores and develops assets through seismic acquisition and drilling programs. Hupecol employs a wildcatter's perspective, as shown when they entered Colombia in 1998, several years before the region caught on with many international players.

The Offering, including interests in six Colombian E&P contracts, represents an exciting opportunity to acquire a solid acreage position for new entrants to Colombia, or for those looking to grow their portfolio.

Hupecol is offering existing production alongside substantial exploration and development potential in the heart of the updip Llanos Basin oil producing trend. The contracts, awarded to Hupecol by Colombia's National Hydrocarbons Association (ANH), are held 100%. They reside in three Delaware-based entities while all blocks are operated by a fourth subsidiary, Hupecol Operating, LLC.

Blocks included with the Offering are comprised of approximately 413,000 gross acres. In keeping with Company strategy, Hupecol has acquired and processed an extensive inventory of 3D seismic data over each block and has amassed an inventory of high-quality prospects and ready-to-drill locations (40+ locations already identified), with others waiting on completion (due to seasonal access constraints).

Third-party reserves, estimated by Lonquist and Co. LLC, show net Proved reserves of 8.4 MMbbl and 2P volumes estimated at 11.1 MMbbl with a PV-10% value of US$263 million (06/30/2009). The blocks contain an additional 2.1 MMbbl of Possible reserves. Considerable prospective resources, some 35 MMbbl, have also been identified.

Hupecol has been successful in growing its production rate from their considerable reserve base. Net production rates average some 4,000 bbl/day (early September 2009) from four wells with oil gravities ranging from 16 to 34 °API. The Company expects that Cabiona wells should return to production by the mid-September (road maintenance now complete), which, along with the completion of a workover in Dorotea, should bring total average daily rates to nearly 6,000 bbl/day by the end of September.

Another four wells, located in La Cuerva and Las Garzas, are collectively capable of producing 5,000+ bbl/day are temporarily shut-in due to seasonal access restrictions. These wells are expected to come onstream in January 2010. Hupecol also holds a sizable inventory of infill drilling locations and prospects, which are expected to improve overall production to more than 9,000 bbl/day in 2011 based on Proved reserves alone.

Highlights of the Offering include:

- Interests in six exploration and production blocks in Colombia
  - o All blocks are 100% WI, and operated by Hupecol
  - o Contracts are 8% Royalty, and no "X-factor", a considerable advantage over many other recently signed contracts
  - o Contracts do not contain overrides or preferential rights; all obligations have been met
- Opportunity to acquire current production with substantial exploration and development upside
  - o Net production of 4,000 bbl/day (September 2009), expect to surpass 6,000 bbl/day by December 2009; tested over 5,000 bbl/day from four new wells (temporarily shut-in)
  - o Targeted reservoirs, typically in the Carbonera found at 4,000 to 6,000 ft, have excellent production characteristics
- Proved + Probable reserves of more than 11 MMboe certified by third-party reserve engineers Lonquist & Co., LLC (6/30/2009) with a PV-10% of approximately $300 million
  - o Proved: 8.6 MMbbl oil (30% Proved Developed); Probable and Possible: 4.9 MMbbl; more than 34 MMbbl of Prospective Resources identified
  - o Widespread 3D seismic coverage over reservoirs of excellent quality
  - o Updated reserve report expected early October to account for recent well results and an updated drilling schedule
- Current infrastructure capable of handling existing production and identified upside
- Strong, experienced field staff effectively managing field operations

TRANSACTION PROCESS

Companies interested in gaining access to confidential information are required to execute the Hupecol Confidentiality Agreement ("CA"), located at www.scotiawaterous.com. Interested parties are asked to send an executed CA to the attention of Ignacio Scuseria via email (ignacio_scuseria@scotiawaterous.com) or by fax to +1 (713) 222-0572, followed by two originals to Scotia Waterous' Houston office.

Once the CA has been approved, interested parties shall be provided access to the Virtual Data Room ("VDR"), accessible via www.scotiawaterous.com, which houses the vast majority of the data. The Physical Data Rooms are located in Scotia Waterous' Houston, Texas office as well as Hupecol's office in Bogota, Colombia. There, interested parties may review otherwise unavailable evaluation material including seismic data, and take part in a Data Room presentation given by Scotia Waterous' staff. The presentation may also be available via teleconference for those unable to attend in person.

The expected timetable for the transaction, to be further defined during the process, is as follows:

Milestone	**Date**
Information Memorandum available	October 05, 2009
Physical/Virtual Data Rooms Open	October 12, 2009
Proposals Due	**November 19, 2009**
Transaction Closing	December 15, 2009

SK energy

HOUSTON AMERICAN

Minutes of CPO-4 Technical Committee Meeting
October 14th, 2009

Houston, TX

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1. **Introduction**
DS Choi opened the meeting, welcomed Houston American Energy and thanked them for their attendance.

The attendees of the meeting were confirmed to be:

Houston American Energy	SK Energy Co Ltd
John F. Terwilliger CEO	**Dong Soo Choi** Vice President Houston Office
Stephen Hartzell Geologist	**James C. Fluker** Sr. Manager New Business Development Houston office
James Jacobs CFO	**Juan Pablo Reyes** Geologist Bogota office
	Enrique Salguero Geologist Houston office
	Young Kim QC Consultant
	Howard Jung Commercial Manager Houston office

2. **Project Status Overview - Presented by D.S Choi**
Operator informed that the scouting and due diligence works are finished, as well as the reprocessing of old seismic data and the reinterpretation. Currently, operator is working in the service company selection for the seismic acquisition survey. The approval for 2010 Seismic Survey Program should be made by October 31st 2009, and the 2010 Work Program and Budget should be approved by the end of November.

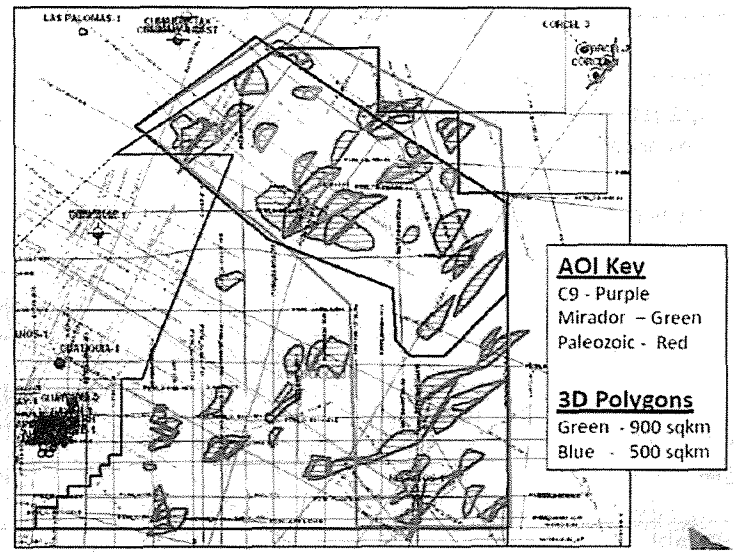
PLAINTIFF'S EXHIBIT PX-024

Exhibit # 158
HUSN
Date: 12-3-12
Linda Rayburn, CSR, RPR, CLR

Operator reported that, after the TCM on September 2009 in Bogota, SK revised the PMA area and finished PMA field survey on October 7th 2009 with an estimated cost of US$70,000

ANH already approved the farm-out. The signed resolution giving final authorization is ready.

3. **3D Seismic Acquisition Program - Presented by Young Kim presented the 3D acquisition.** Operator proposed two 3D polygons: 1) 500 km^2 (Green line); 2) 900 km^2 (Blue line).



Operator explained the following about the seismic program:

- Described the background information (Charge size)
- Described Evaluation Assumption: 500 km^2 / 1800 gr per shot point/ 7 standby days
- Operator received the proposals from 4 companies (CGL, Geoespectro, Global, Sismopetrol) and compared them.
- The range of schedule was 15~32 weeks.
- The estimated cost was US$21,310~27,929/$km^2$.
- Global's standby cost is extremely higher than the others.
- Sismopetrol seems to be a strong candidate. However, Operator will select two candidates and do a detail interview and select the final one.
- Operator mentioned that it is important to consider 20% more as community relations and other costs such as VAT.

Partner made the following questions and comments:

- Asked about the shot hole depth. Operator said that it will be 3 m.
- Asked about the schedule. Operator confirmed that it will take 140 days (3 months)
- Commented that HAE had contracted Sismopetrol and is very pleased with their work. However, they agree with operator's approach.

Lee

- Commented that, based on their experience, the additional cost for community relations and VAT would be double, and presented the recent HAE's seismic acquisition cost data (US$17,382~19,564/km^2)

4. **Seismic Interpretation - Presented by: Jim Fluker**
   Operator showed all available seismic data and reprocessed data: 60 lines with 1,289 km. Operator also presented synthetic well tie in Negritos, Metica. The regional lines show that the horizon pickings are consistent across the area between Metica and Guacavia.

   Operator presented Corcel-1 well correlation and an analogy with Petrominerales' Corcel block, and showed possible trapping of hydrocarbon by the blind-thrust faulting in NW area, and showed structural maps and AOIs of C9, Mirador and Paleozoic. Additionally, Operator showed key seismic lines with leads in Northwest, Northeast, Southeast, and West.

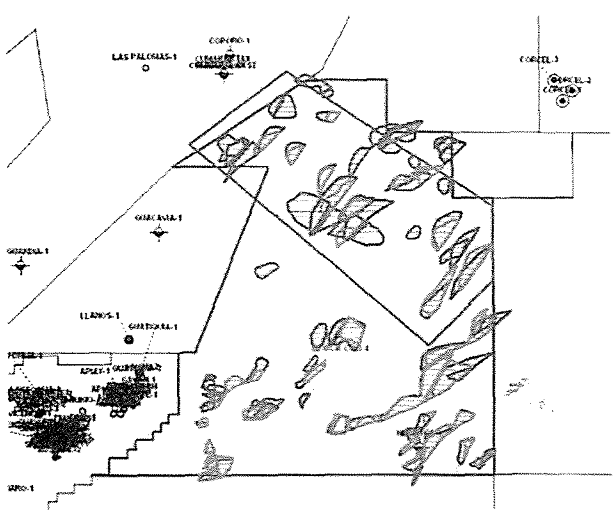
   Operator explained the potential of the stratigraphic play and thin sand (5') in Llanos basin, and commented on Paleozoic play in Camisea in Peru.

5. **Geological Interpretation - Presented by: D.S. Choi**
   Operator summarized the information about Negritos-1 well and its history, and explained that there is untested hydrocarbon potential in C9 and between Mirador and Paleozoic. Operator also presented the reservoir distribution and the fault trend on Une formation.

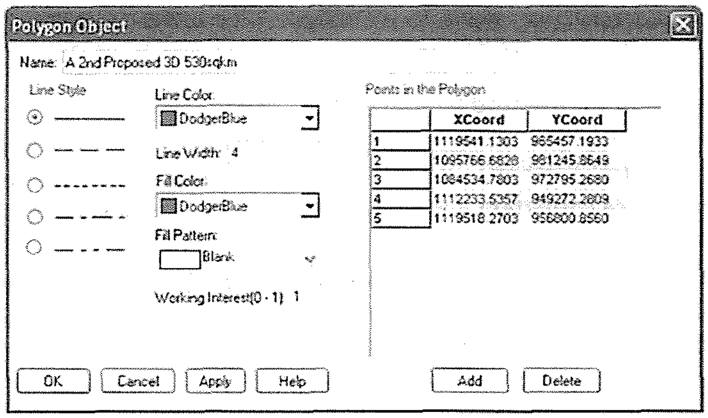
   Operator presented Drainage Patterns vs. Fields in Llanos basin, and the surface structure pattern in the block, and pointed out that the river pattern changes at the possible surface fault.

6. **Recommendation of 3D Area**

- Operator proposed two 3D polygons: 1) 500 km^2 (Green line); 2) 900 km^2 (Blue line).
- Operator and Partner agree on: 1) 500 km^2 (Blue line) and an additional area of 30 km^2 to improve the acquisition parameters. Total surface area : 530 Km^2 (Blue line).



Lee



7. **Various**
   - Next meeting to approve the 2010 Work Program and Budget will be held in Houston or Bogota (Preferably Houston) before Thanksgiving Holidays in November.

APPROVED

For SK Energy

Name: Myung Hwan LEE

Myung Hwan Lee

Title: General Manager

Date: Oct. 16, 2009

For Houston American

Name: John F. Terwilliger

Title: CHAIRMAN

Date: Oct. 26, 2009

JT
Lee

Technical Committee Meeting
CPO-4 Block, Colombia

SK Energy
Houston
October 14, 2009

PLAINTIFF'S EXHIBIT
PX-025

SK energy

Houston American

Agenda

CPO-4

1. Introduction of Objective : 3D Area
2. Project Status
3. 3D Acquisition
4. Seismic Interpretation
5. Geological Interpretation
6. Recommendation of 3D Area
7. Partner's feedback

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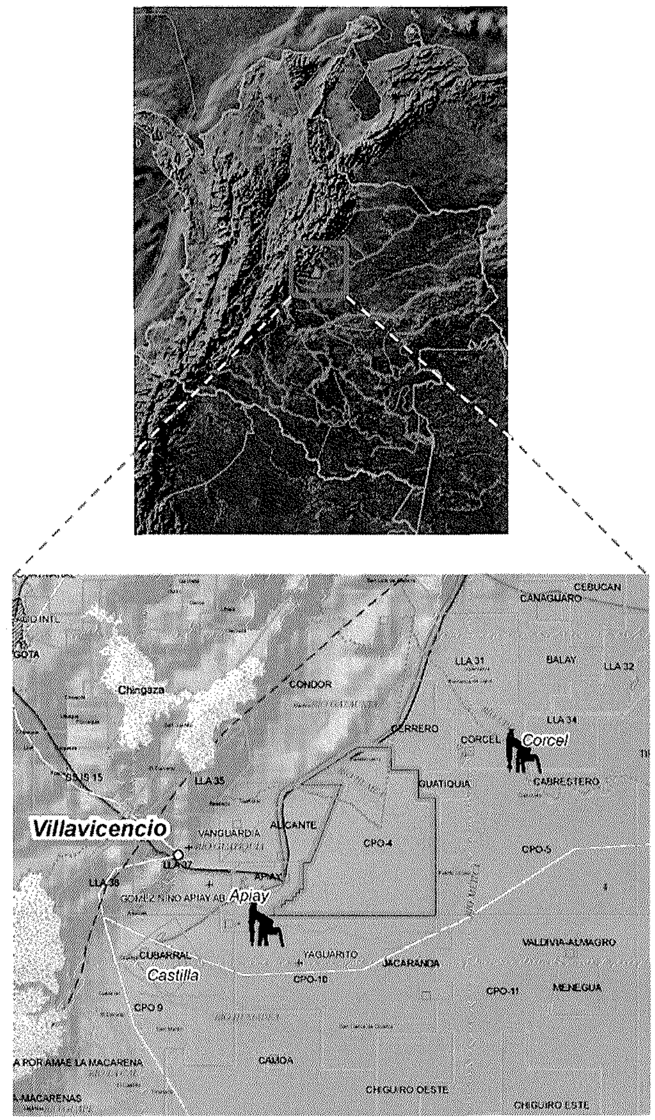
Project Status

Block Overview

CPO-4

General information

- Location : Onshore, Central Colombia
- Basin : Western Llanos Basin
- Area : 139,859 ha (1,398.59 km2)
- Effective Date : December 18, 2008
- Contract Type : License Agreement (Royalty & Tax)
- Participant :
  - SK Energy : 75% (Operator)
  - Houston American Energy : 25%

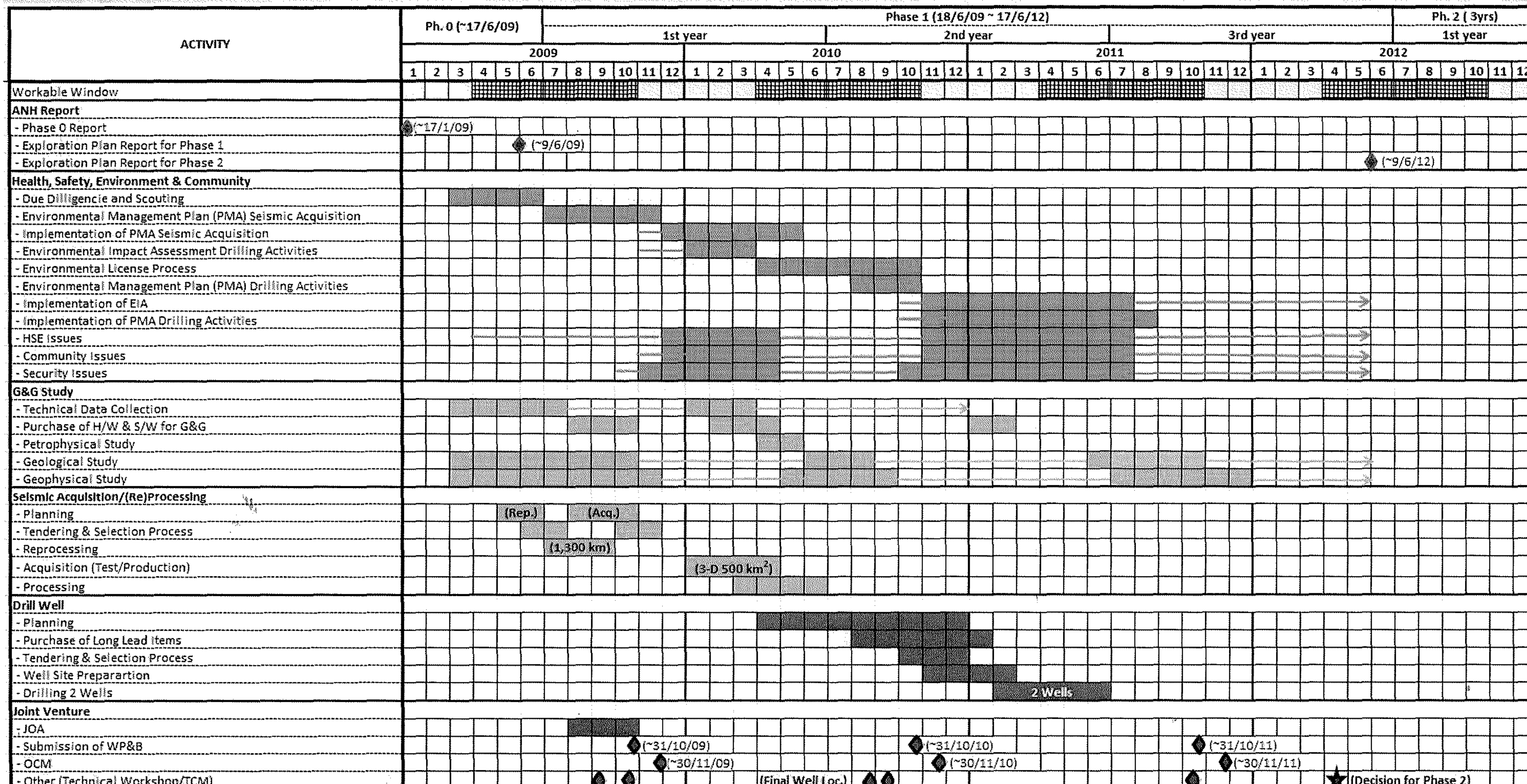


Exploration Period & Work Obligation

PHASE	PERIOD	WORK OBLIGATION
Phase 0	'18.12.08 ~ '17.6.09 (6 mos.)	Phase 0 Report (12.6.09)
Phase 1	'18.6.09 ~ '17.6.12 (3 yrs.)	• 400 km 2D Seismic Reprocessing • 620 km 2D New Seismic Acquisition • 2 Exploration Wells
Phase 2	'18.6.12 ~ '17.6.15 (3 yrs.)	• 400 km 2D Seismic Reprocessing • 3 Exploration Wells

Exploration Plan for Phase 1

CPO-4



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2009 Main Work Program

CPO-4

Work	Work Program	Status
Technical	• Technical Data Gathering • S/W and H/W Purchase • Scouting & Due Diligence • Reprocessing Old Seismic Data (2-D 1,300 L-km) • **PMA (Environmental Mgt. Plan) for Seismic Survey** • **Seismic Acquisition Planning & Service Company Selection**	On-going On-going Finished Finished **~ '09. 11.30** **~ '09. 10.31**
Partner	• **2010 WP & B Approval** • **Approval for 2010 Seismic Survey Program**	**~ '09. 11.15** **~ '09. 10.31**

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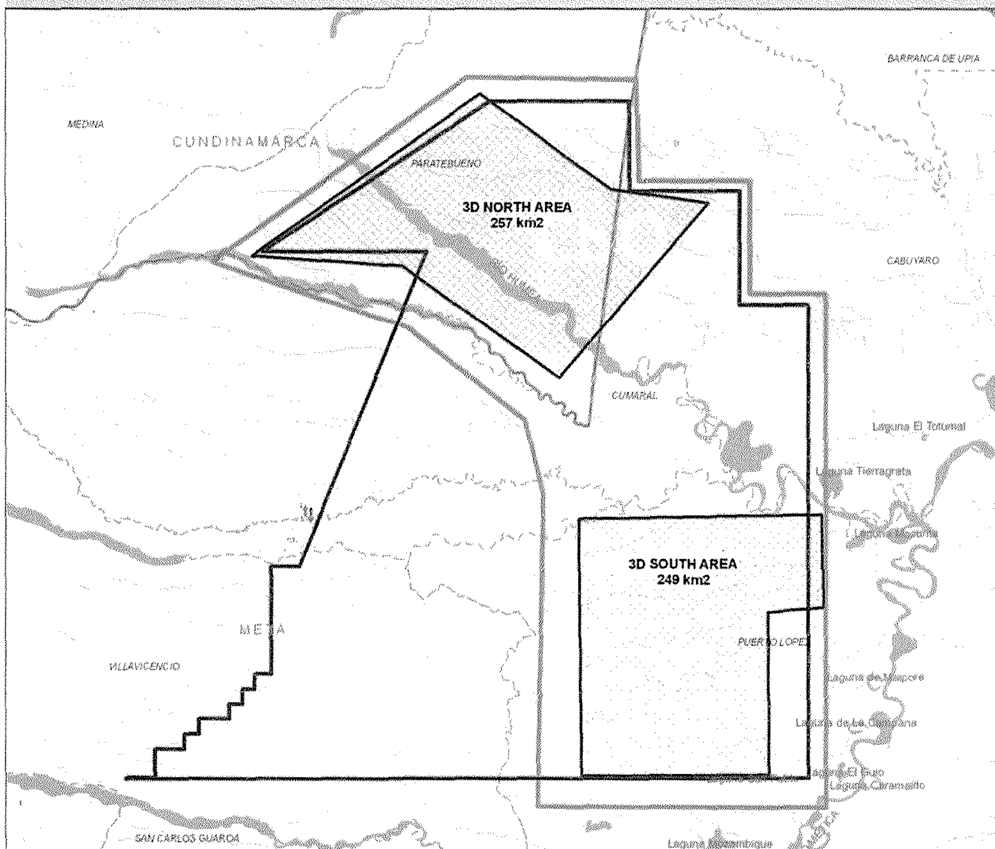
Revised PMA Area After Sep. 11 TCM

CPO-4



Environmental Management Plan – PMA

- Service Contract : SIPAC Colombia Ltda.
- Start date : August 31st , 2009
- End date : October 7th , 2009
- Estimated Cost : USD 70,000
- Permits from environmental authorities: November 30th , 2009
- Estimated Cost of Permits : USD 19,500

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CPO-4 3-D Acquisition

Outline

- Acquisition polygons
- Background information based on 2-D
- Evaluation of proposals
  - CGL, Geoespectro, Global, Sismopetrol
- Summary

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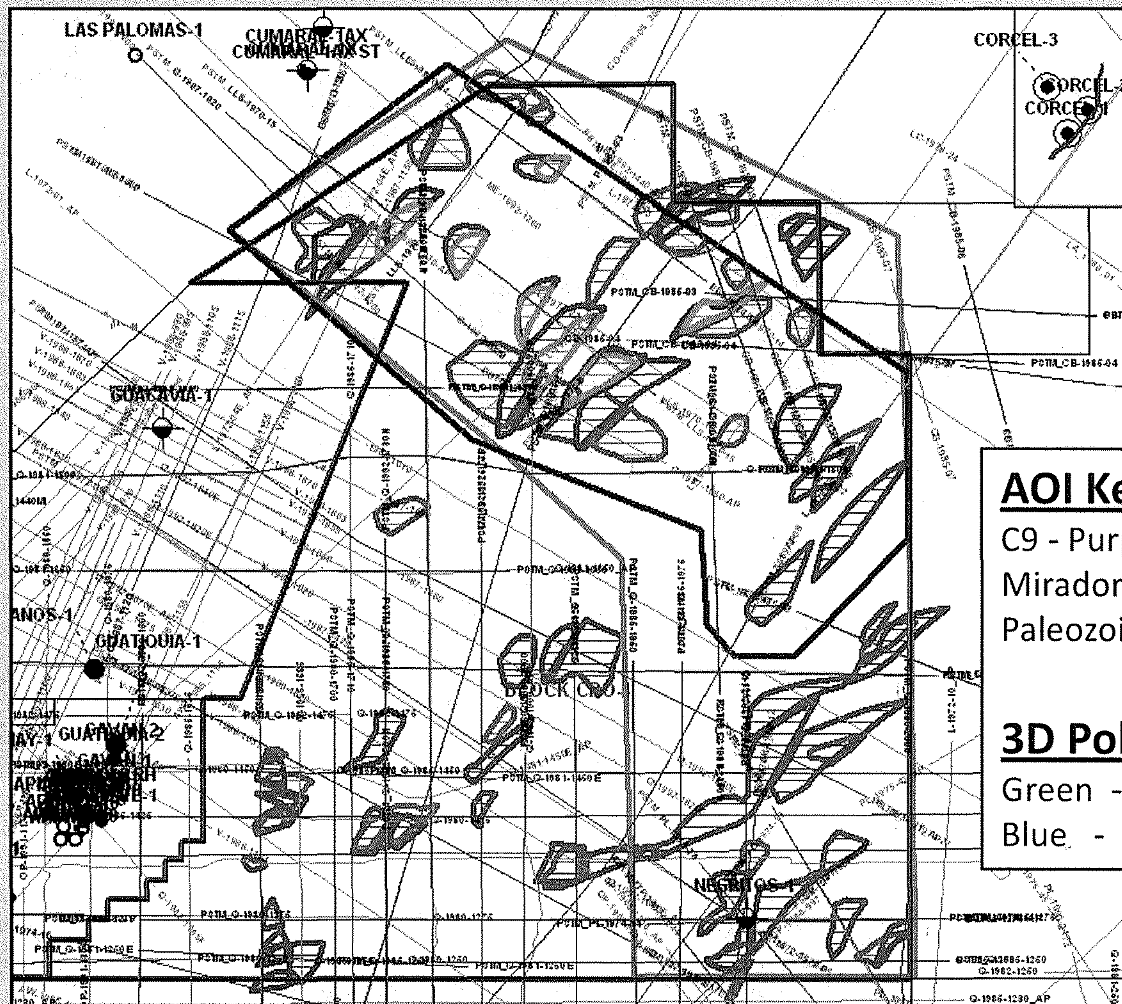
Acquisition Polygons



AOI Key

C9 - Purple

Mirador – Green

Paleozoic - Red

3D Polygons

Green - 900 sqkm

Blue - 500 sqkm

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Background Information

- Mild structural dip
- Near surface velocity lateral variations mild
  - A large line separation up to 1 km may be acceptable
- Elevation changes less than 200 m
- Any fold above 24 should be acceptable
- Charge size/SP: 1.5 – 12 lb ; 2 lb seems adequate
- All 2-D lines used 12 or 18 geophones/station; most lines used shot arrays (7 – 9 shallow holes)
  - Ground roll noise is a concern

Evaluation Assumptions

- The fee was for 500 km^2 (Surface Area)
- Global did not include the cost of Sismigel in the fee
- 1800 gr per shot point
- 7 standby days
- Other miscellaneous costs were not included

Proposed Schedule

For mob, drilling, recording, and demob,

- CGL – 32 weeks
- Geoespectro – 22 weeks, assuming two operations with some overlapping for the north and south
- Global – 15 weeks
- Sismopetrol – 24 weeks, assuming two separate operations without any overlapping for the north and south

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Proposal Evaluation (I)

Parameters	CGL	Geoespectro	Global	Sismopetro
Receiver line bearing (deg)	45	125	135	135
Source line bearing (deg)	135	35	45	45
Receiver line interval (m)	500	600	500	500
Receiver spacing (m)	50	60	50	50
Source line interval (m)	750	720	900	750
Source spacing (m)	100	120	100	100
Number of geophones per station	6	6	6	6
Shot holes (No.x m)	1 x 10; 2 x 5; 3 x 3.3	1 x 10; 2 x 5	1 x 10; 2 x 5; 3 x 3.3	1x10; 2x5
Charge size (gr)	1800	TBD	TBD	1800
Active receiver lines per source	20	12	20	20
Active channels per line	180	144	180	180
Active channels per source	3600	1728	3600	3600
Nominal fold	60	36	50	60

* **Blue indicates deviation from the original specification.**

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Proposal Evaluation (II)

Parameters	CGL	Geoespectro	Global	Sismopetro
Fee	11,990,722	13,137,916	9,532,860	10,101,695
Mob/demob	270,000	500,000	150,000	120,000
Stanby per day	46,704	46,628	111,800	66,385
Cap (12 m)	13.7	7.5	9.5	16.0
Sismigel (900 g)		10	12	16
(fee+Mob/demob)/500 km**2	24,521	27,276	19,366	20,443
(cap+sismigel)/km**2	Included	Included	378.9	Included
(fee+mob/demob+shot)/km**2	24,521	27,276	**19,745**	**20,443**
(fee+mob/demob+shot+7 day standby)/km**2	25,175	27,929	**21,310**	**21,373**

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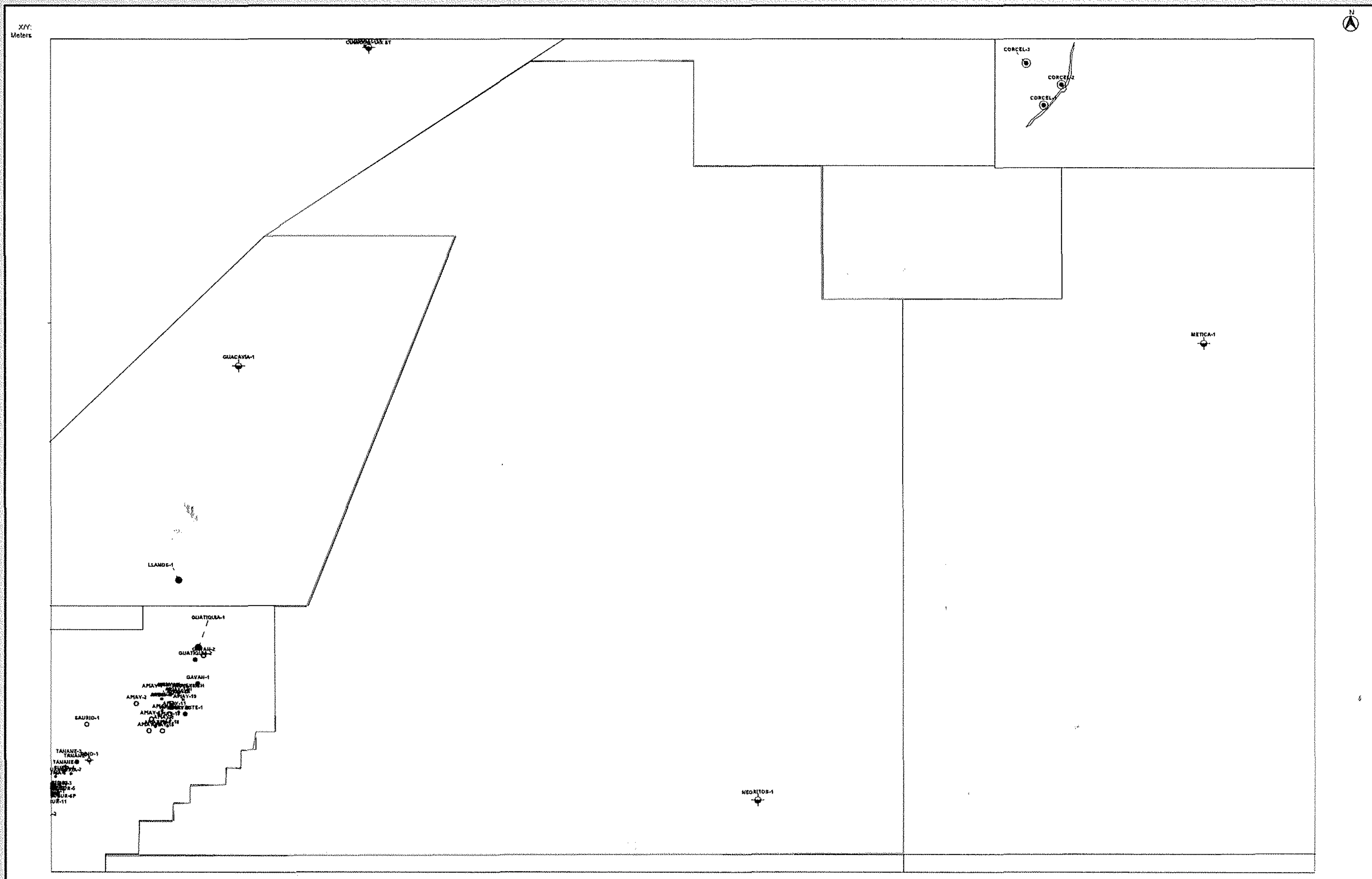
Summary

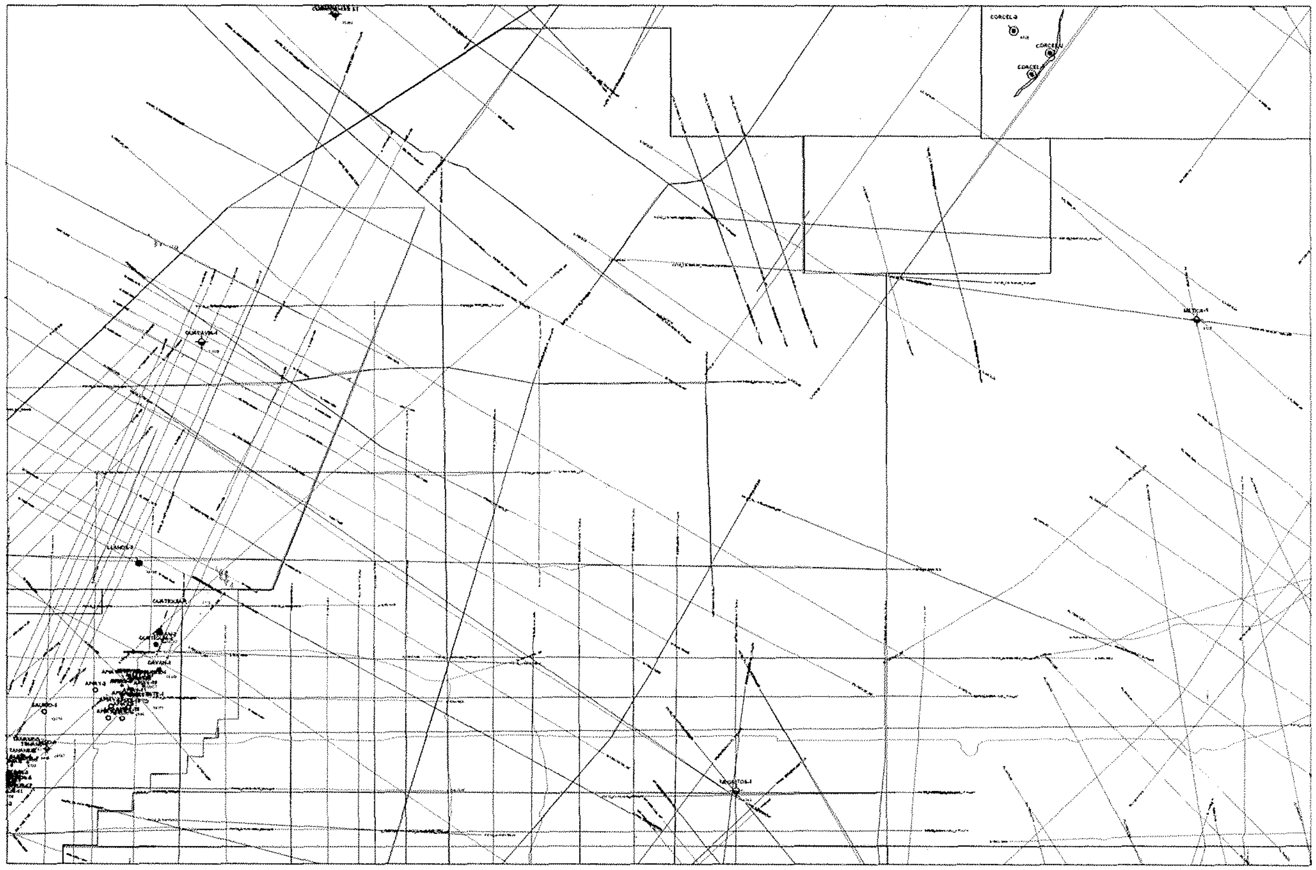
- If fold > 24, SLI < 1000 m, 4 lb per SP are acceptable, the acquisition cost will increase in the following order:
  - Global, Sismopetrol, CGL, Geoespectro
- Global's standby cost is exceptionally high
- Global and Sismopetrol's proposals were thorough and meticulous; Sismopetrol most experienced in Colombia
- Since it is impractical to cover the ground of 80 m diameter with geophones, 6 geophones per station seems adequate.
- Sismopetrol seems to be a strong candidate.

Seismic Interpretation

BLOCK OUTLINE & SURROUNDING FIELDS



CPO-4 All Seismic Available



Vintage	Type		Km
	Tapes	Images	
1970	4	3	140
1972	4	4	157
1974	8		180
1975	6	3	98
1980	9	1	177
1981	10	1	289
1982	2	1	15
1983	1		35
1985	17		274
1987	12		35
1988	6		142
1992	11		158
1994	3		97
1994	1		28
Total	**94**	**14**	**1825**

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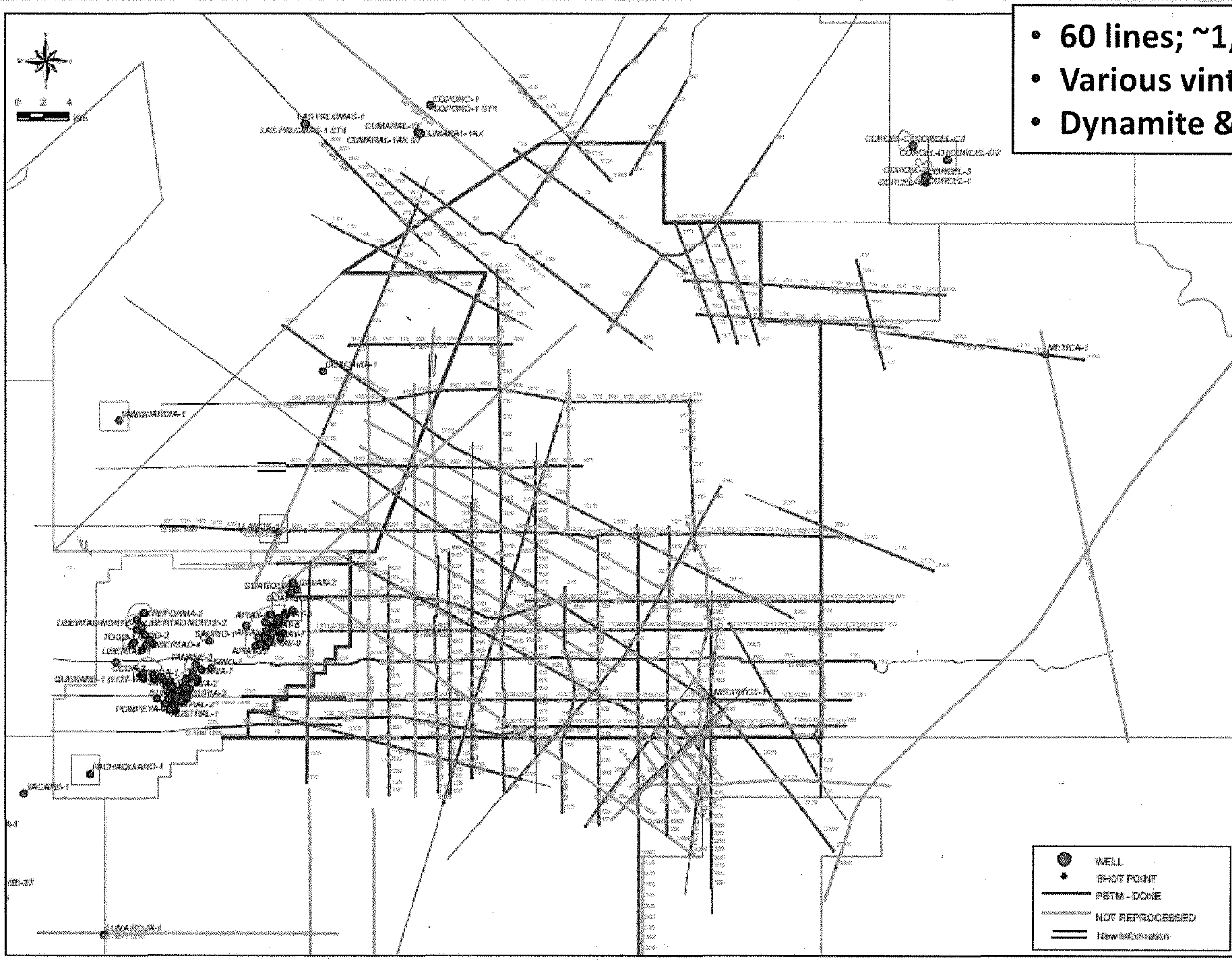
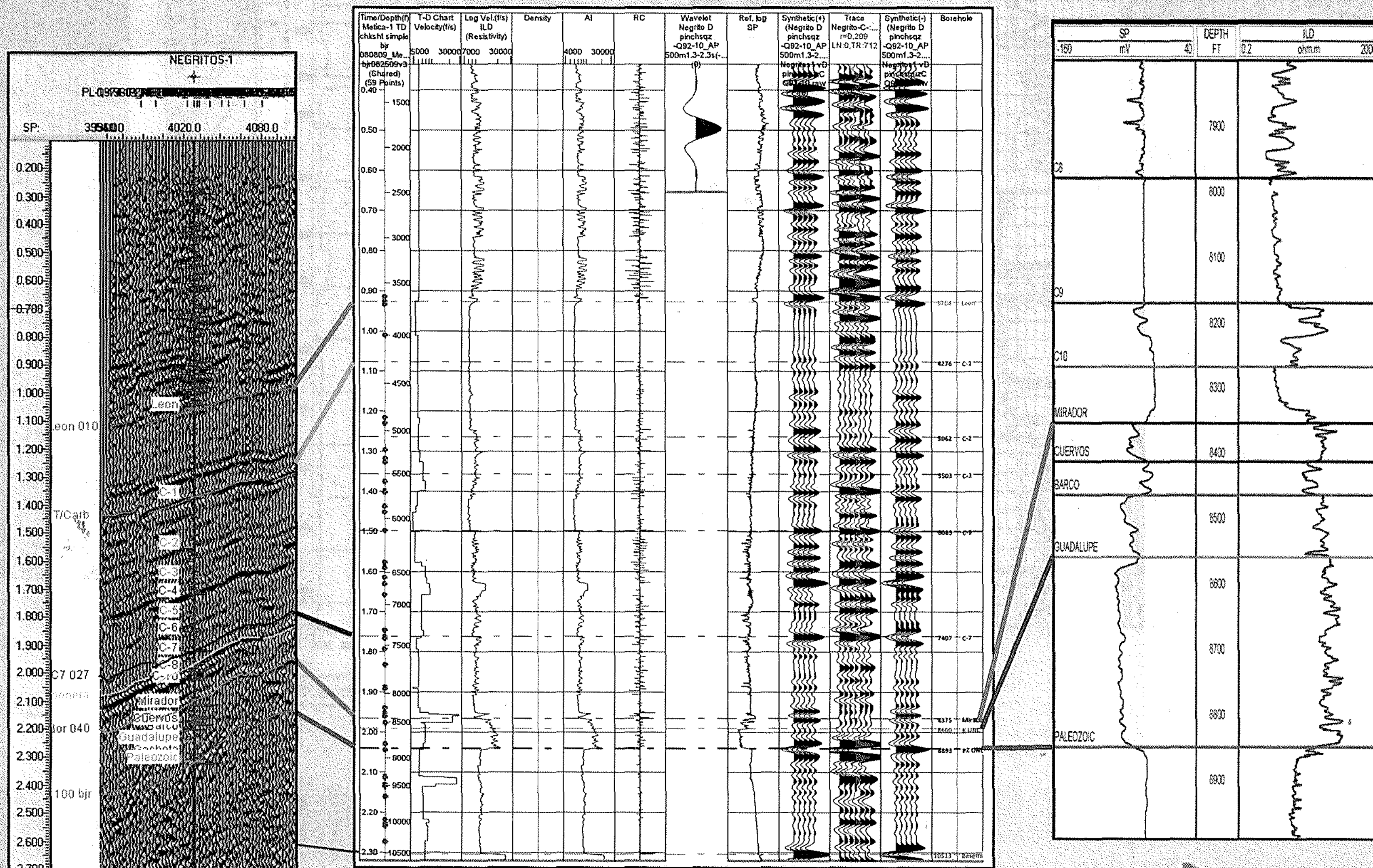
REPROCESSED SEISMIC DATA BASE



- 60 lines; ~1,289 km
- Various vintages
- Dynamite & vibrator

Synthetic Well Tie (Negritos)



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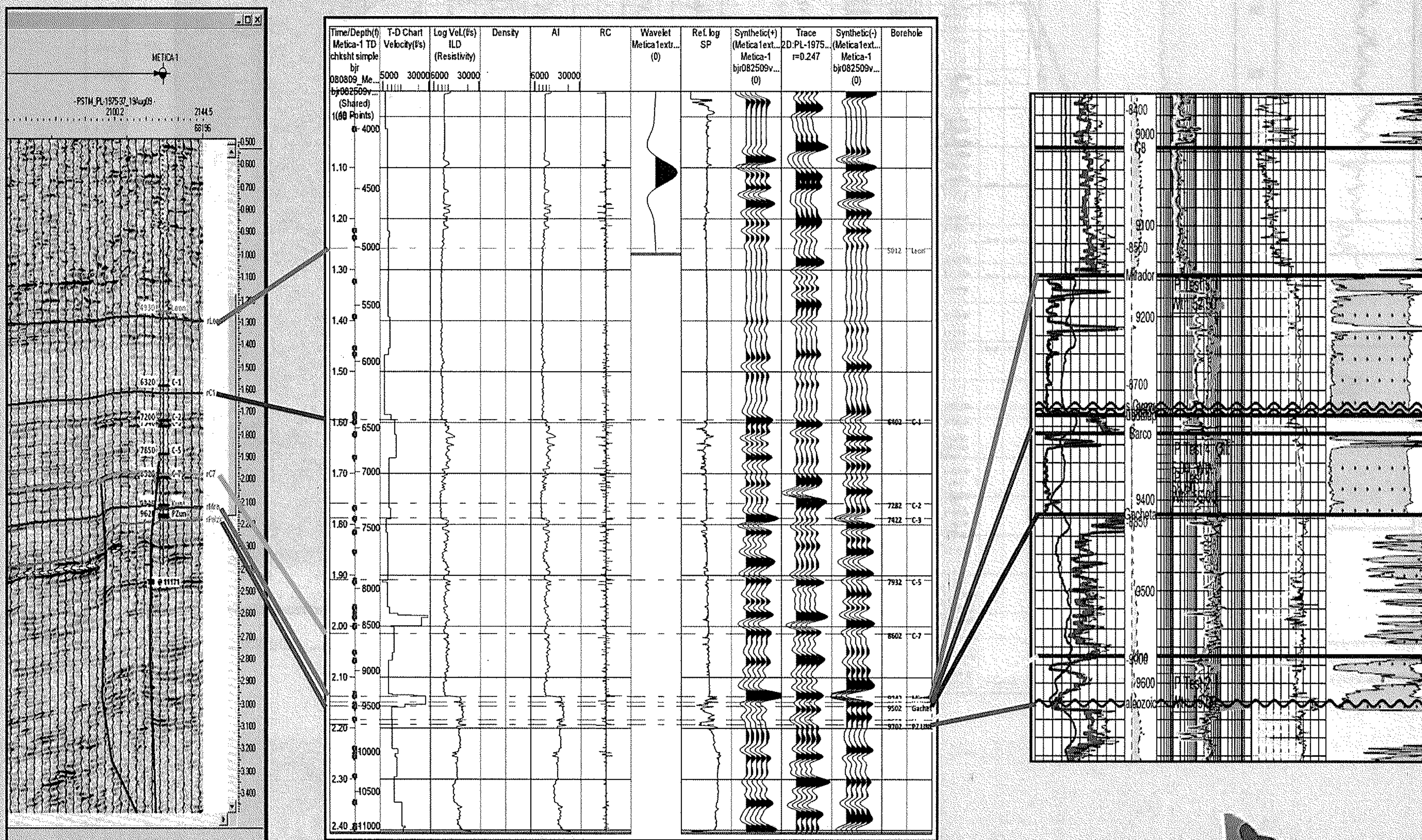
Synthetic Well Tie (Metica)



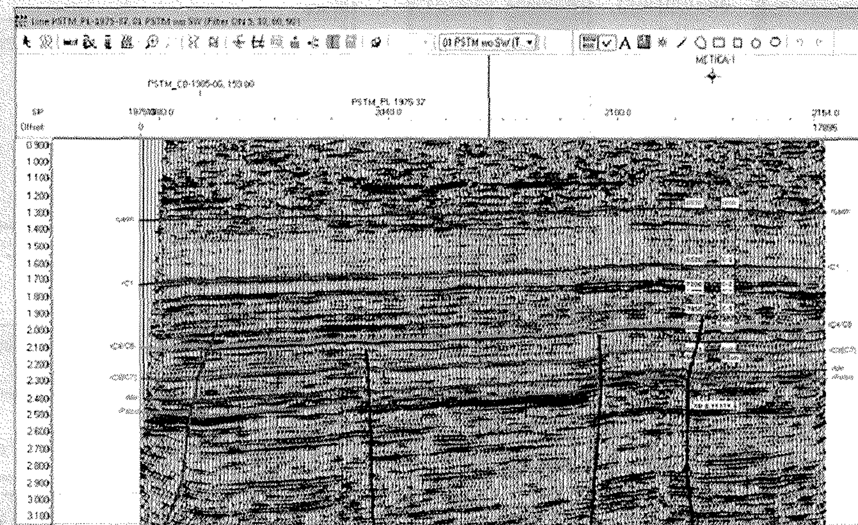
Interpretation Plan

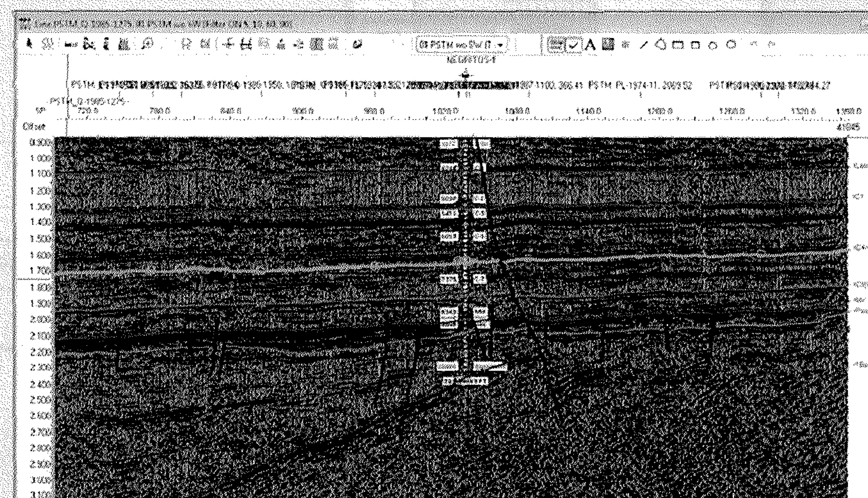
7 Horizons

- Top of Leon
- Top of C1
- Top of C5
- Top of C7
- Top of Mirador
- Top of Paleozoic
- Top of Basement

2 Maps

- Time Structural Map
- Iso-chron Map





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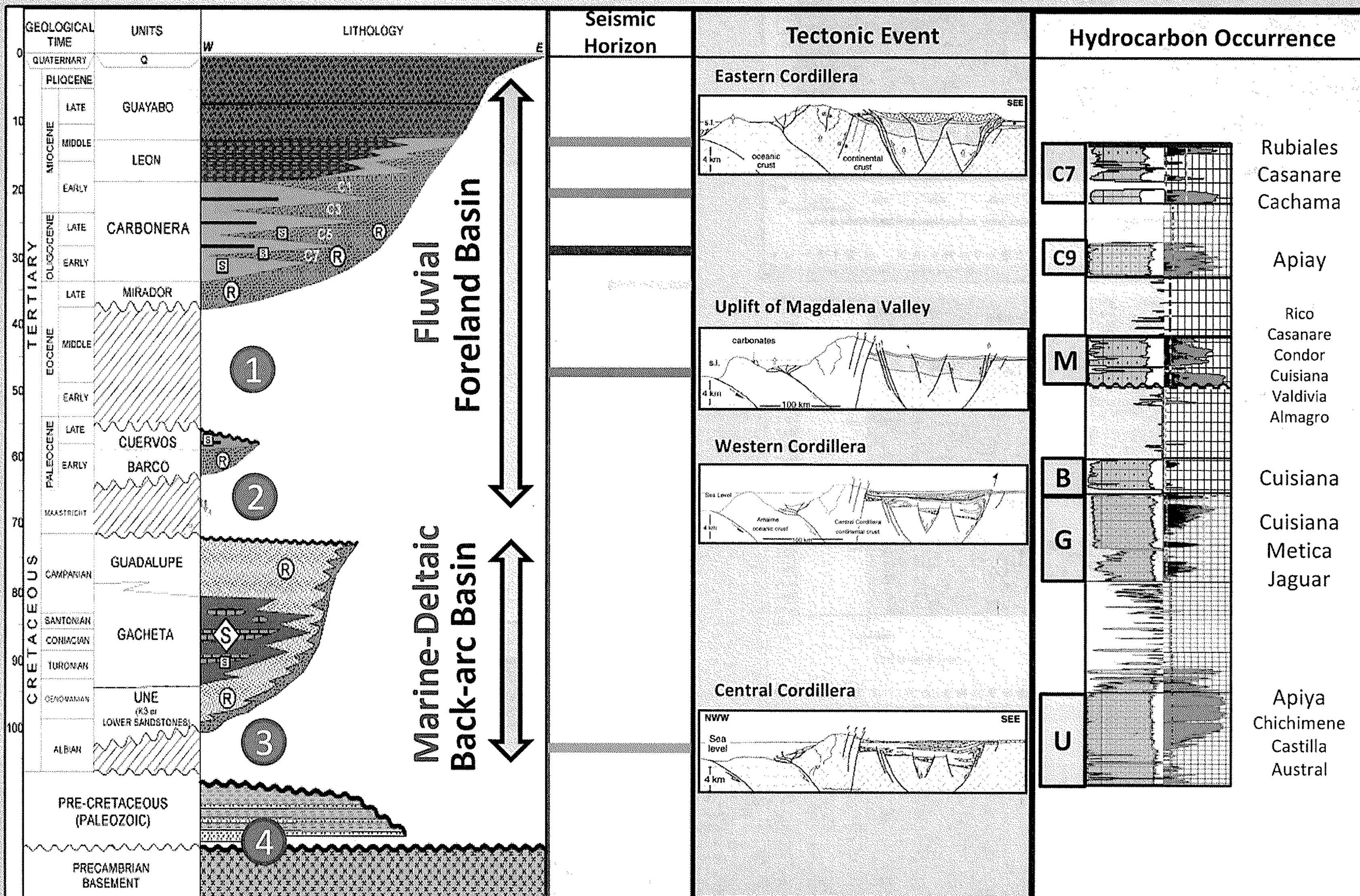
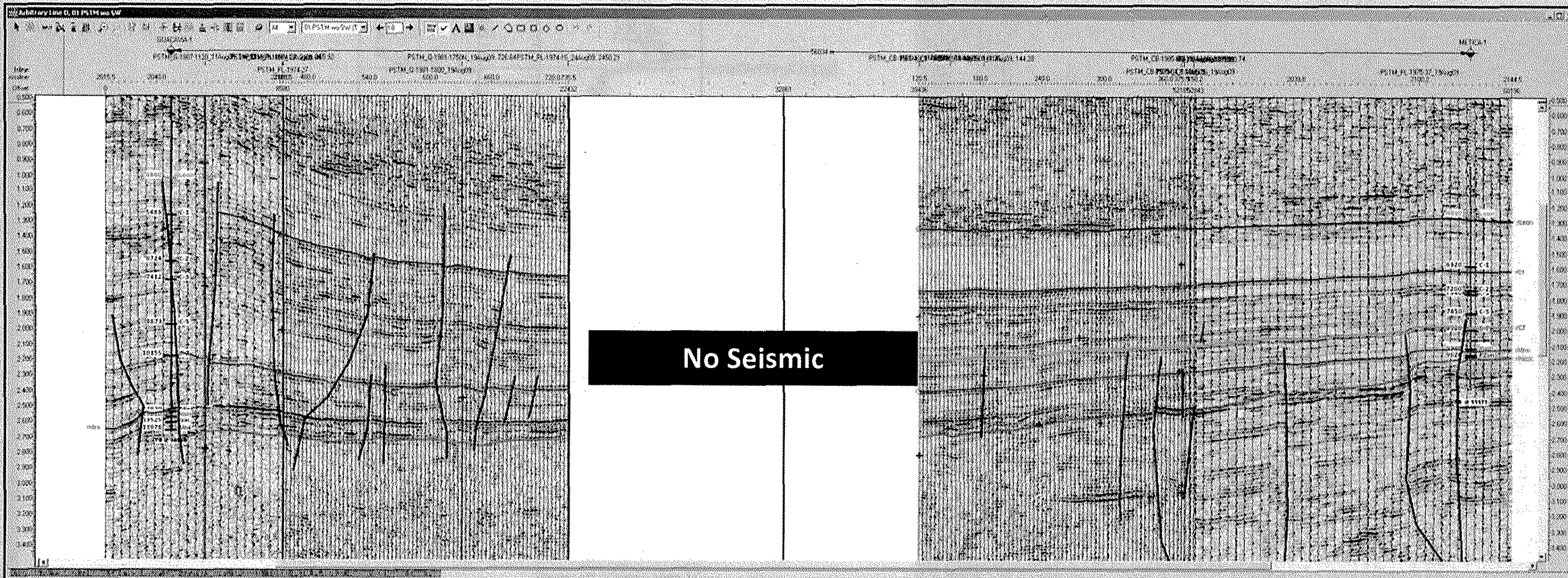
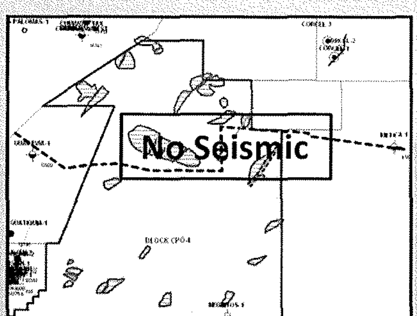
General Geology

CPO-4



Reprocessed Data: Consistent Across Area i.e. Metica – Guacavia Well Tie



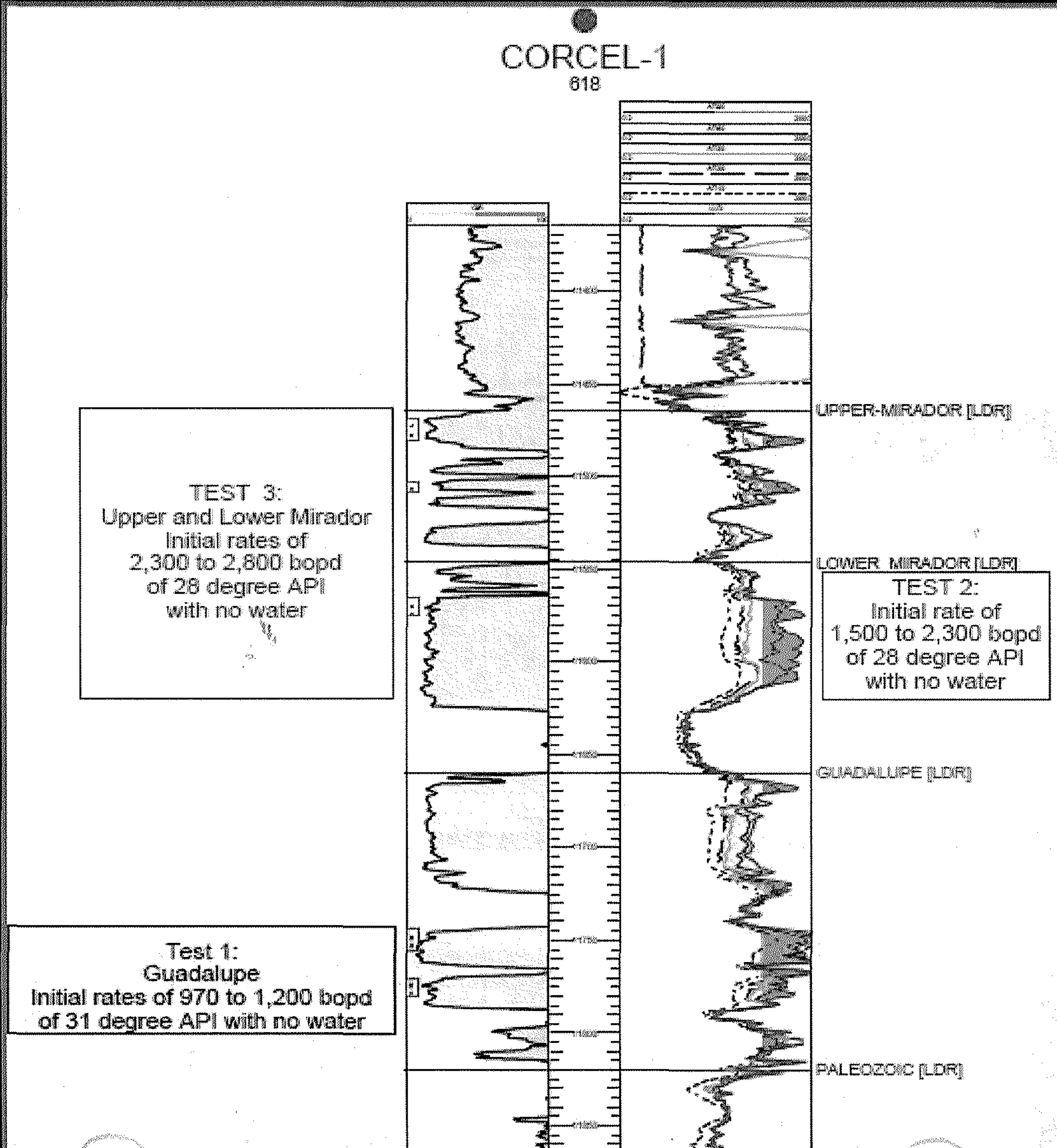


SK energy

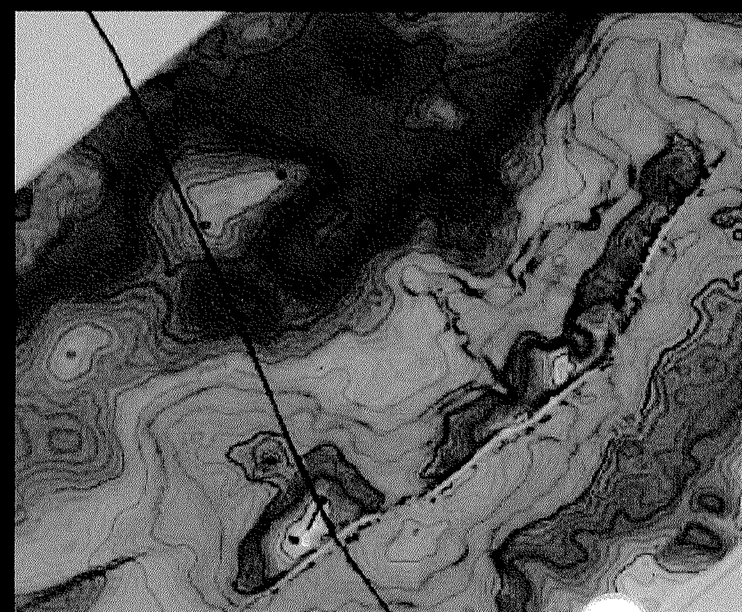
CORCEL

Corcel-1

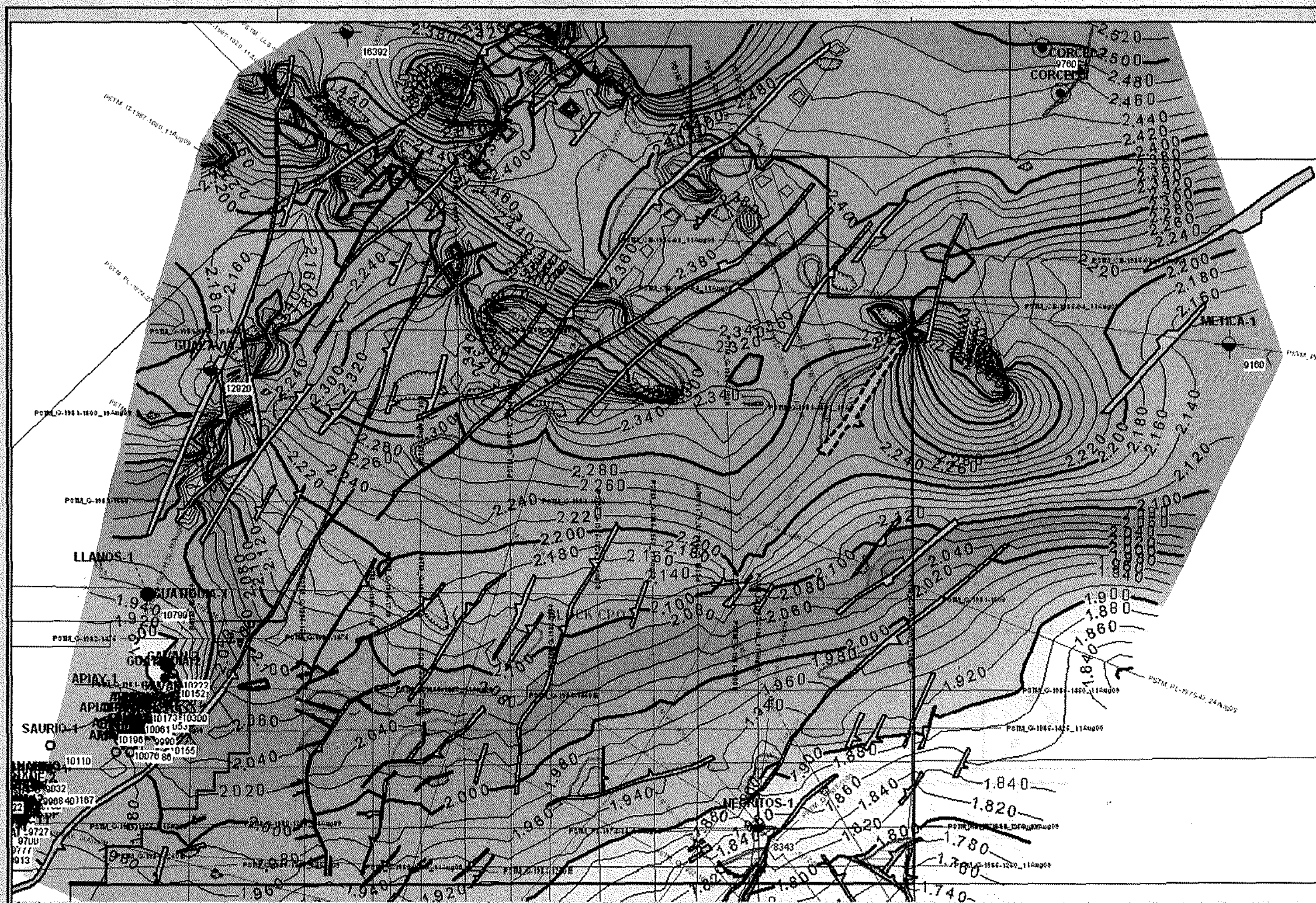
Petrominerales



- Combined productive capacity > 10,000 bpd
- Completed 6-day test at restricted rates of up to 3,321 bpd
- 6-month test at 4,000 bpd commenced September 7th

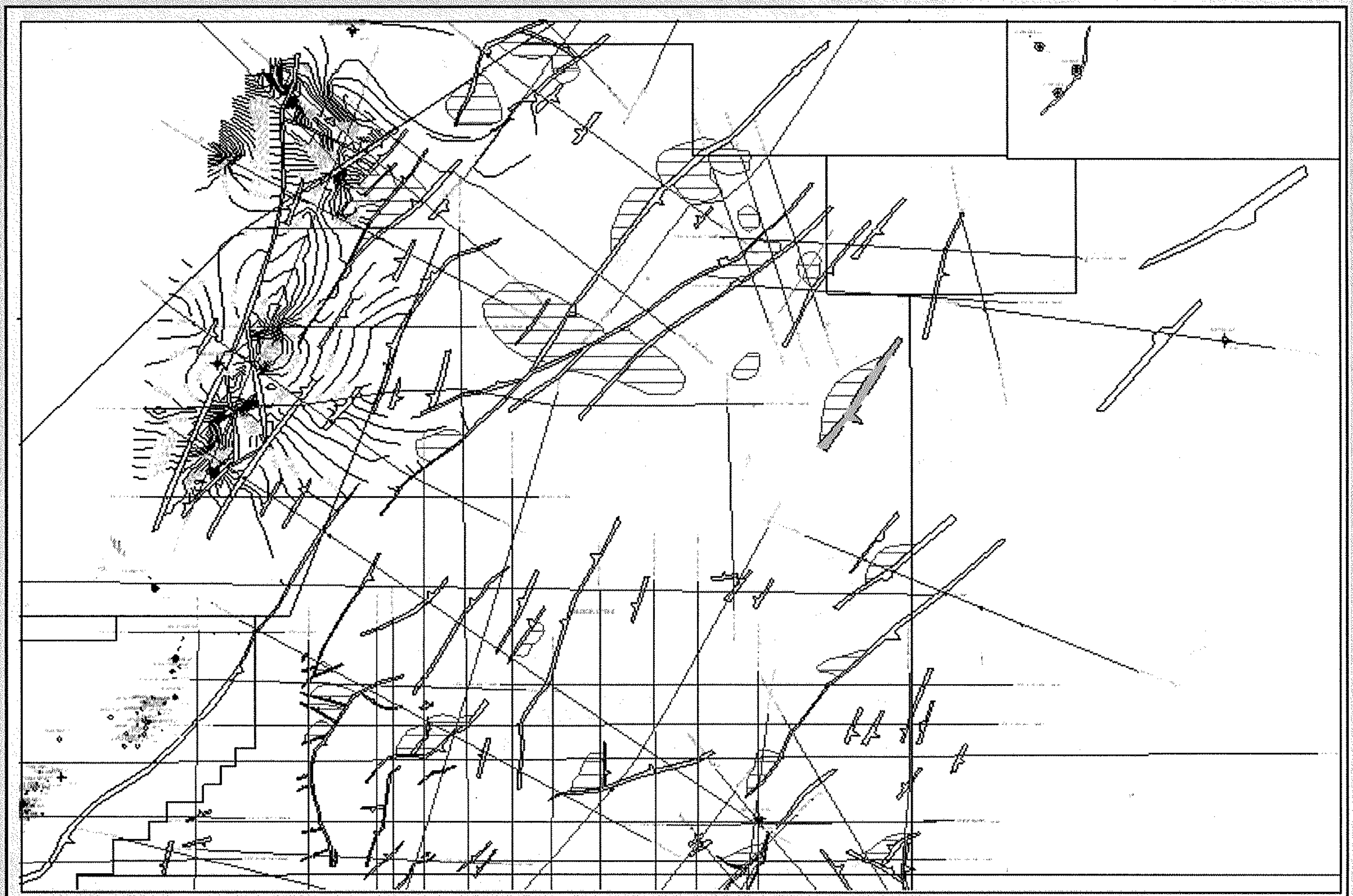


C 9 STRUCTURAL MAP



SK energy

C9 AOI



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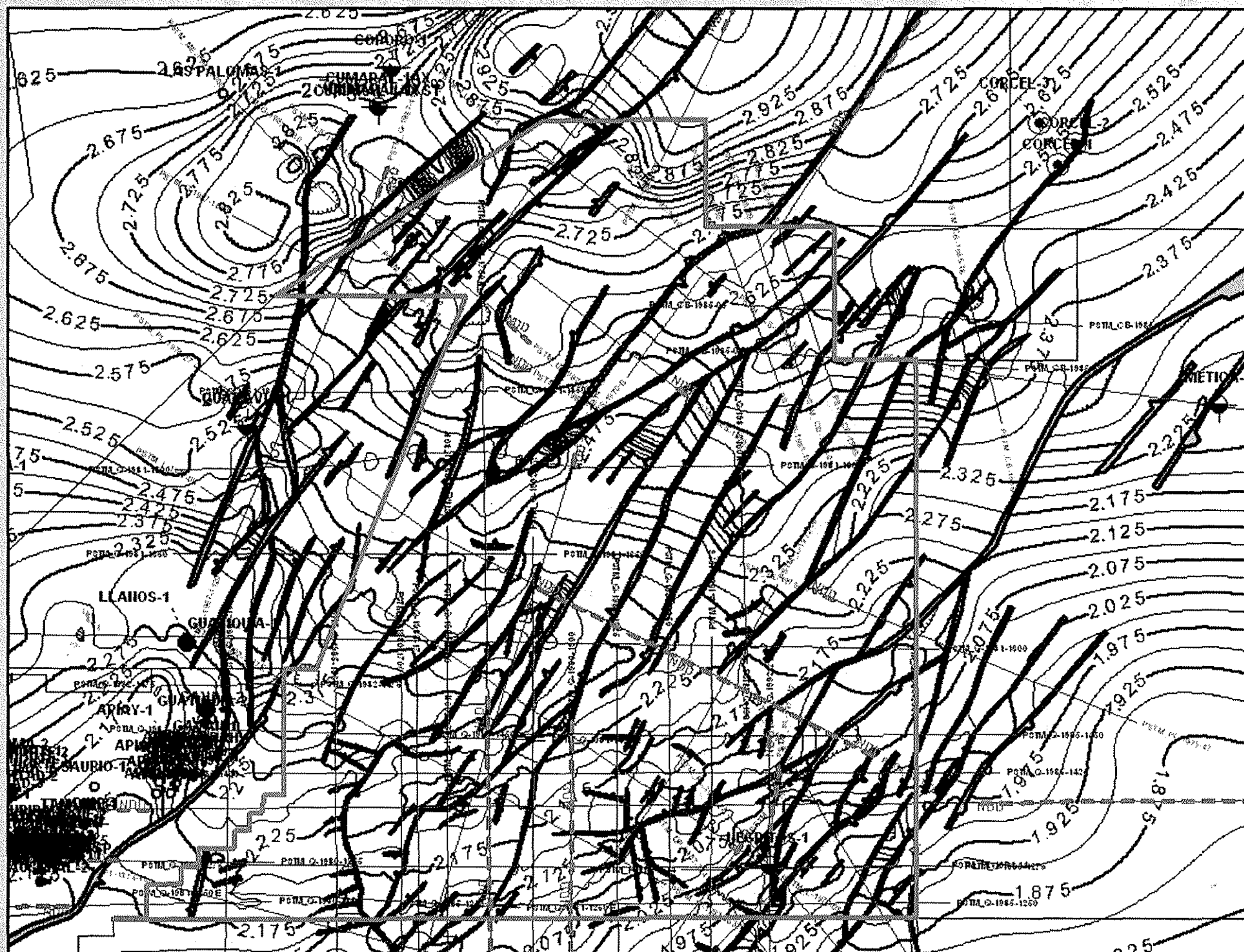
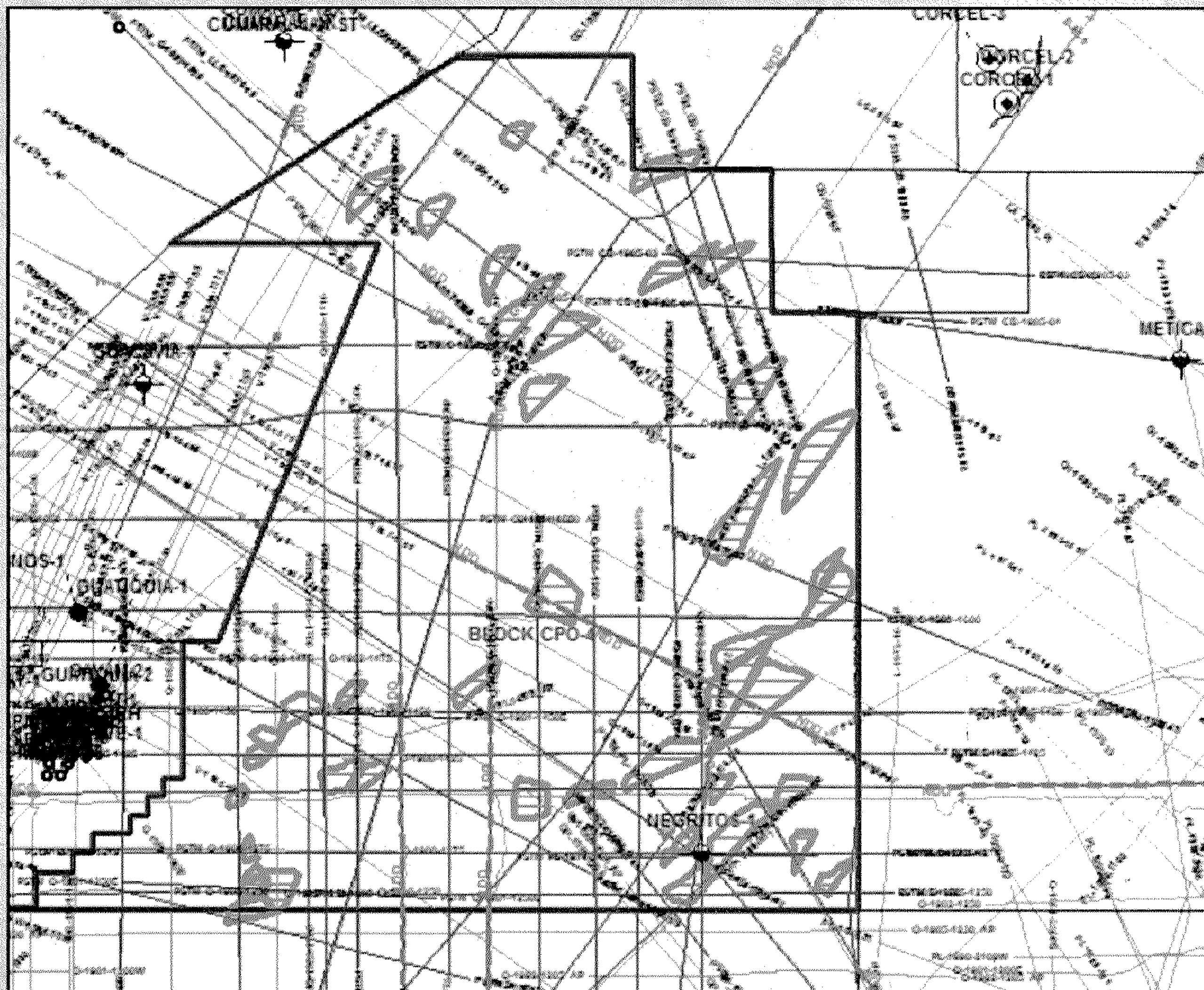
Mirador Structural Map

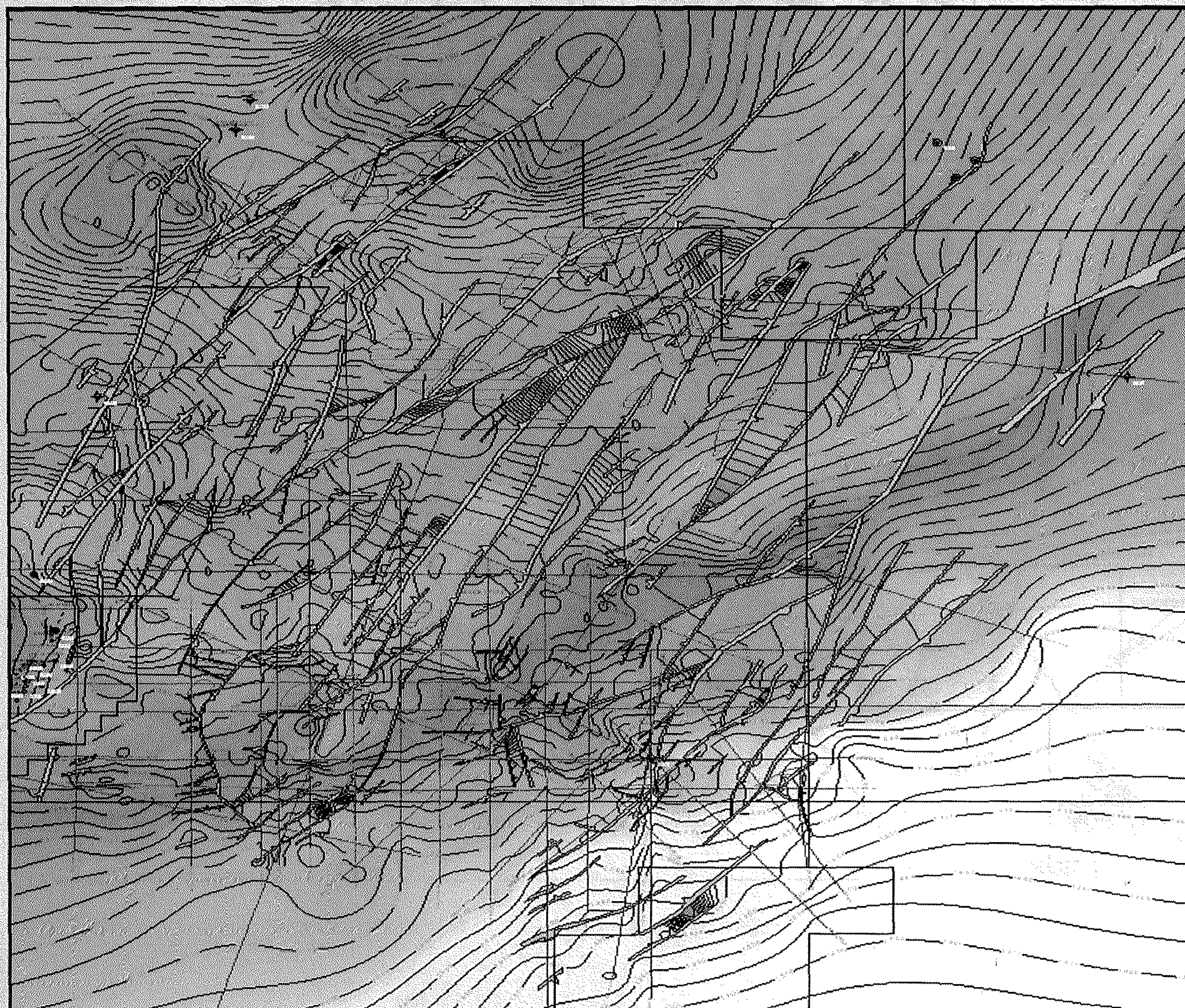


Mirador AOI



SK energy

PALEOZOIC STRUCTURAL MAP



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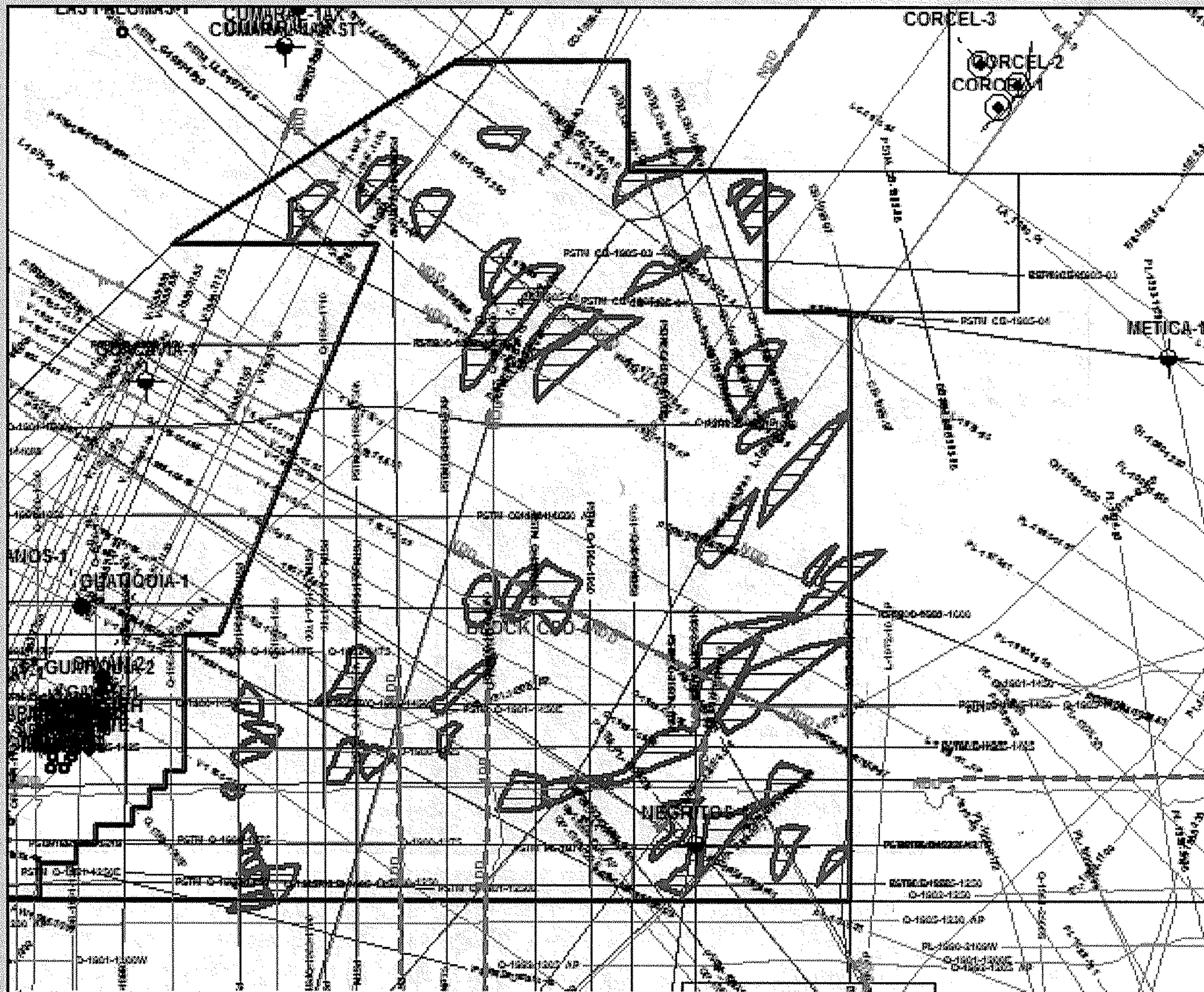
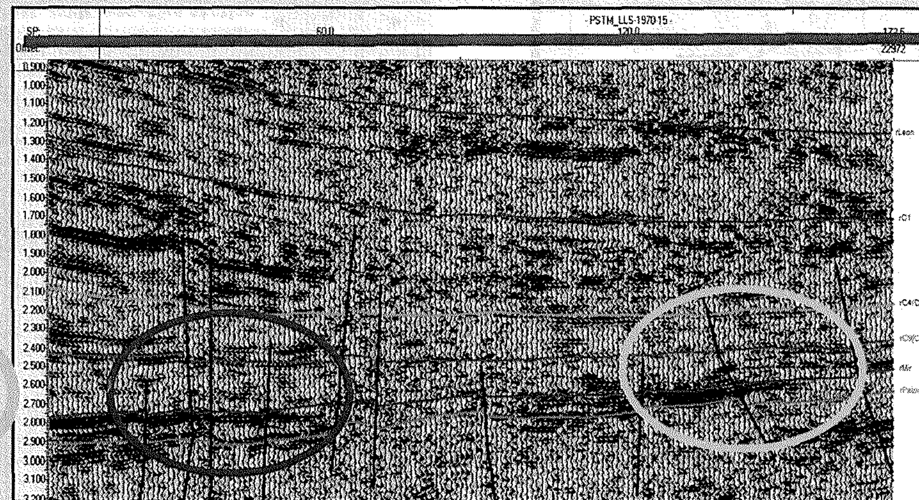
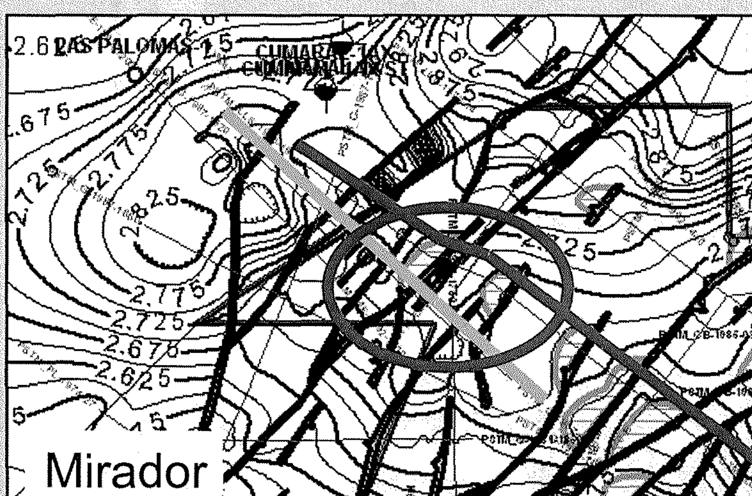
Paleozoic AOI

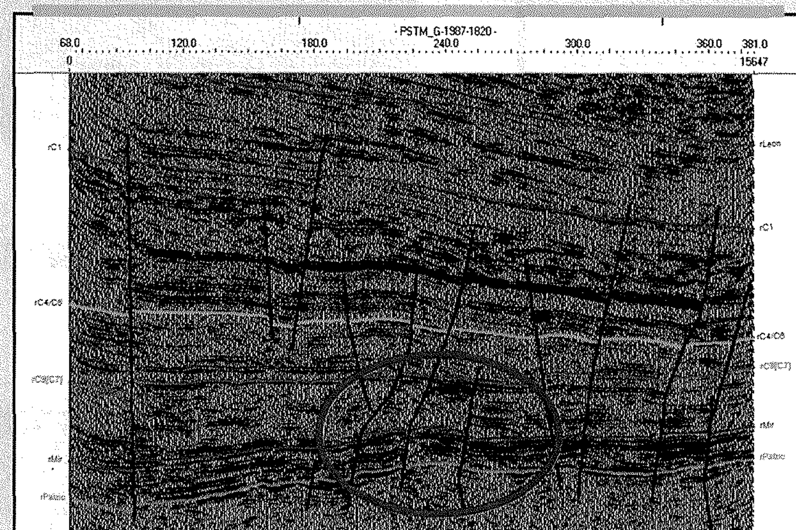


SK energy

COMPOSITE STRUCTURE MAPS WITH LEADS
Northwest

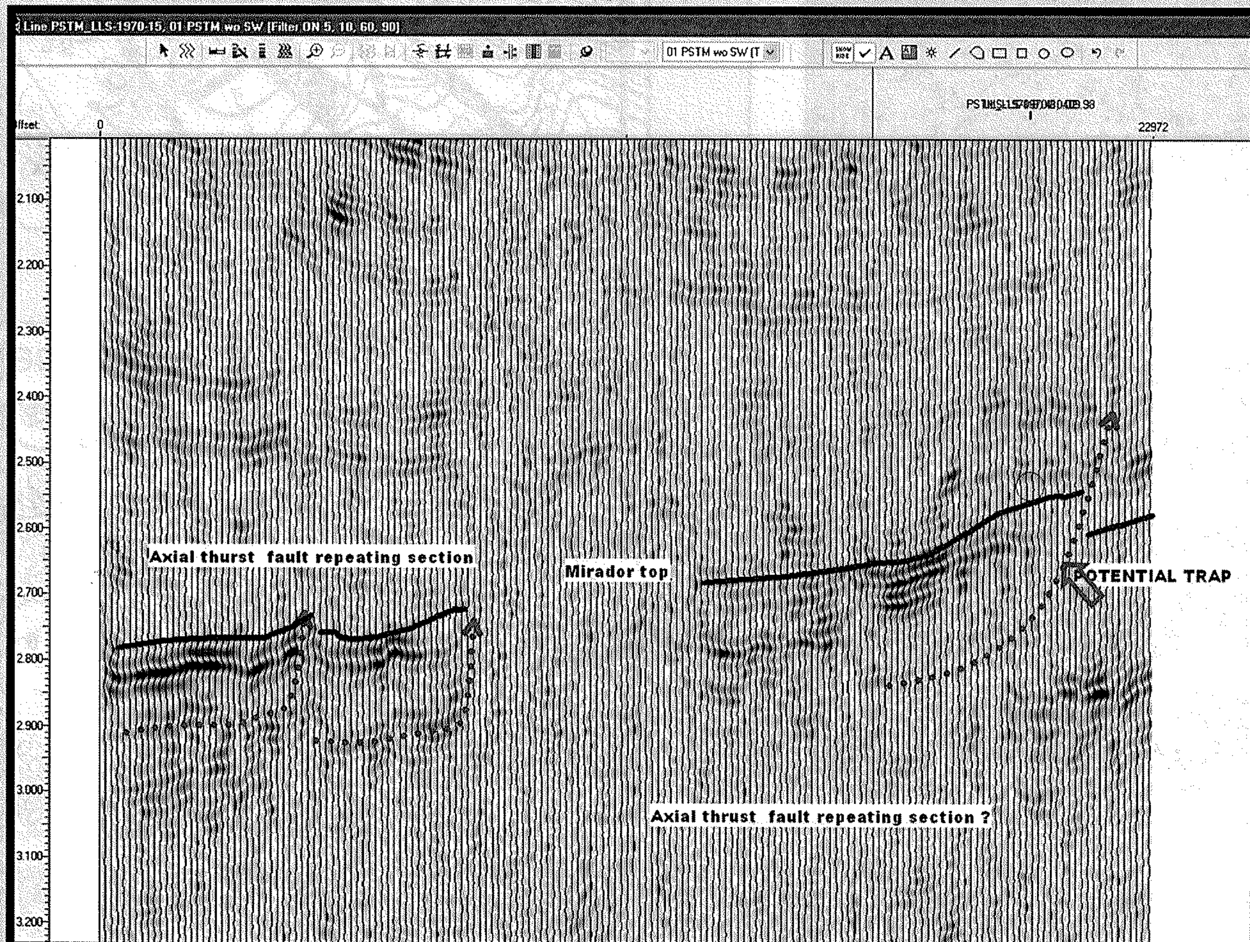




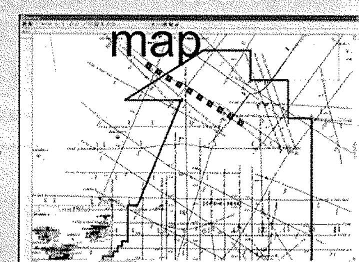


SK energy

Seismic line PSTM –LLS-1970-15 showing over thrust faulting possible TRAPPING HYDROCARBON in the Mirador - Cretaceous Reservoir

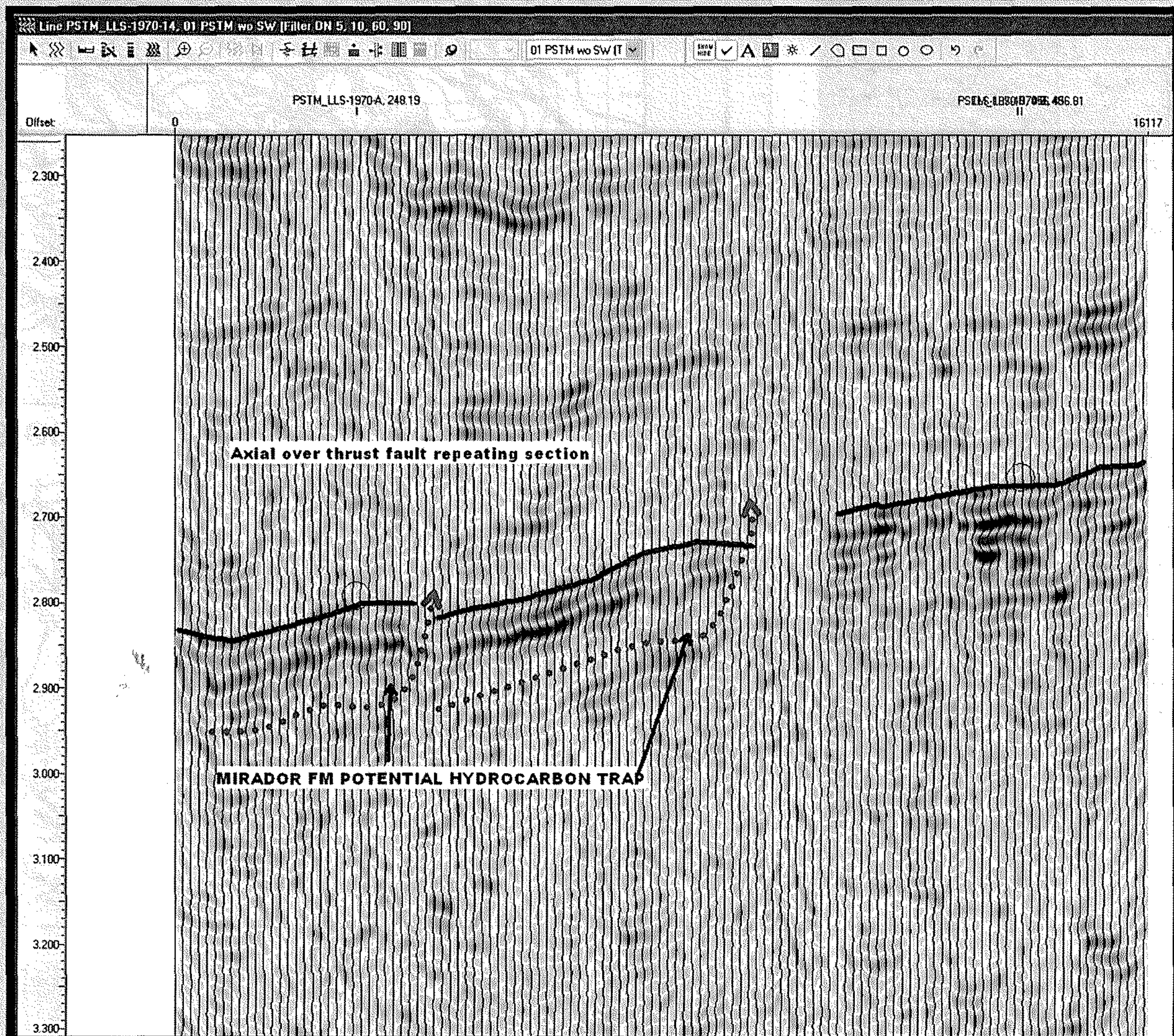


Index map

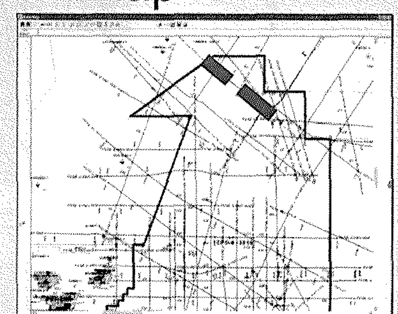


SK energy

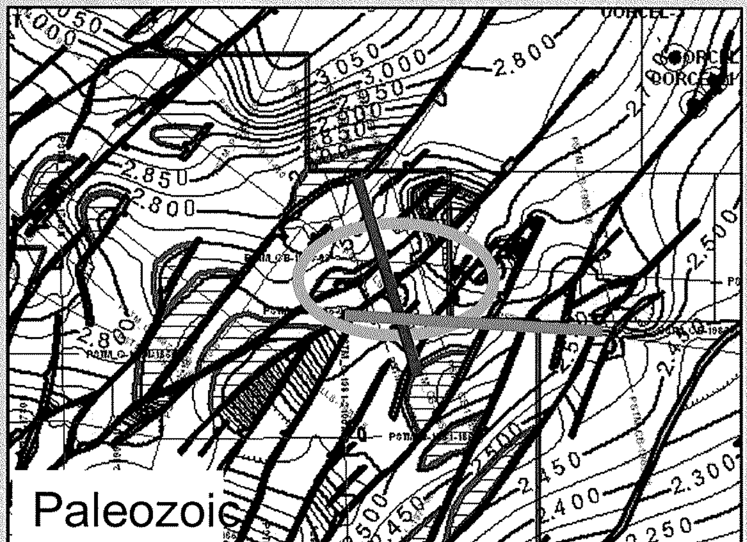
Seismic line PSTM-LLS-1`970-14 showing over thrust faulting possible TRAPPING HYDROCARBON in the Mirador - Cretaceous Reservoir

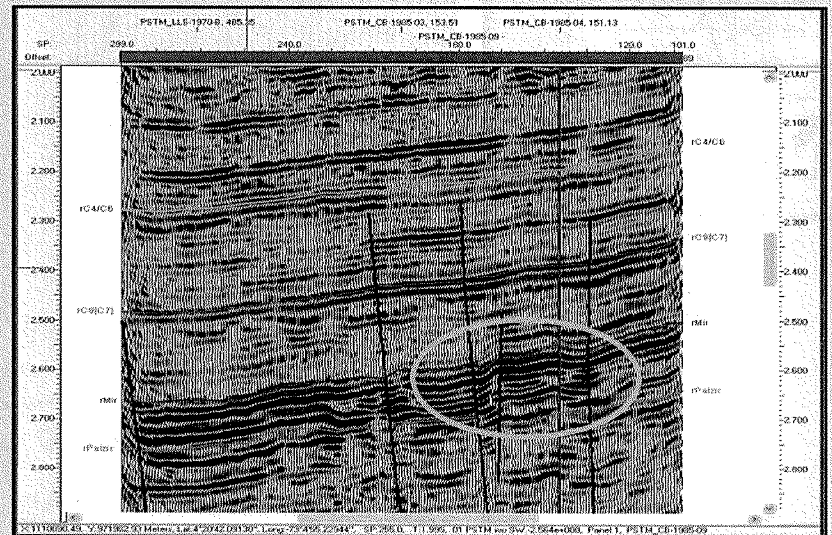


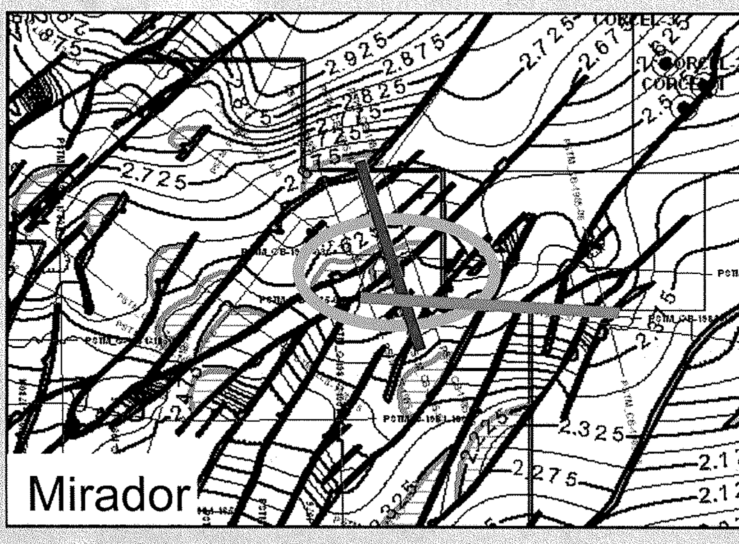
Index map

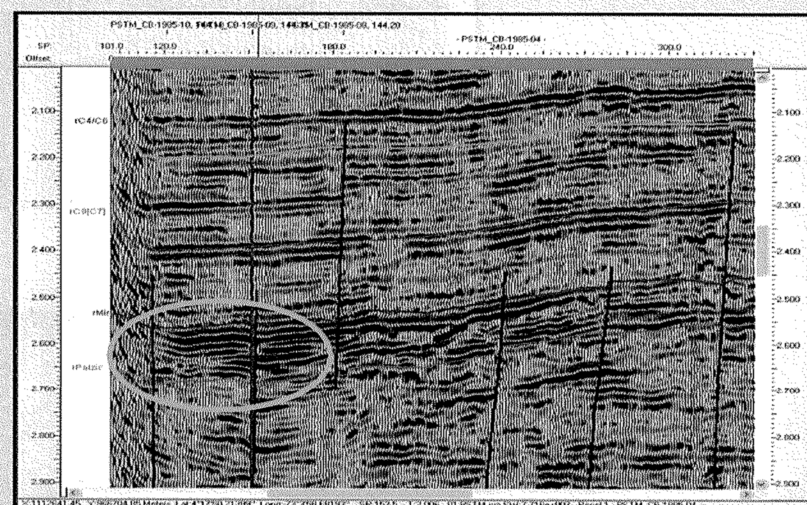


COMPOSITE STRUCTURE MAPS WITH LEADS
Northeast









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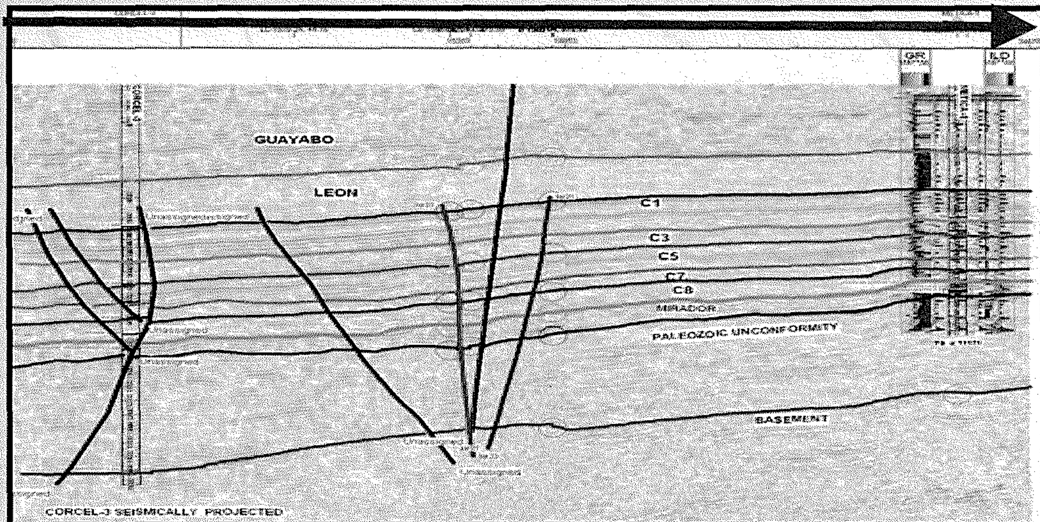
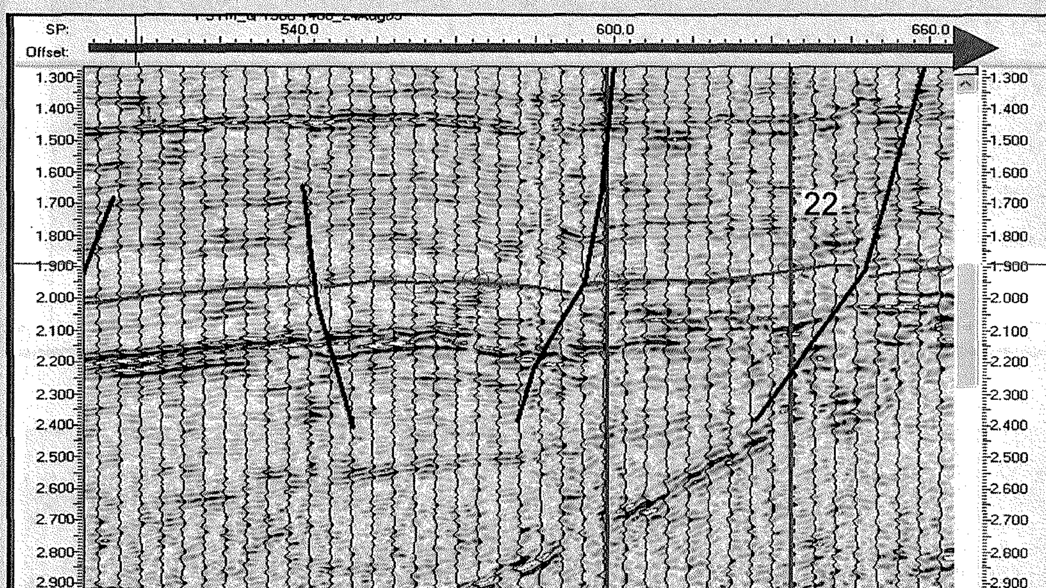
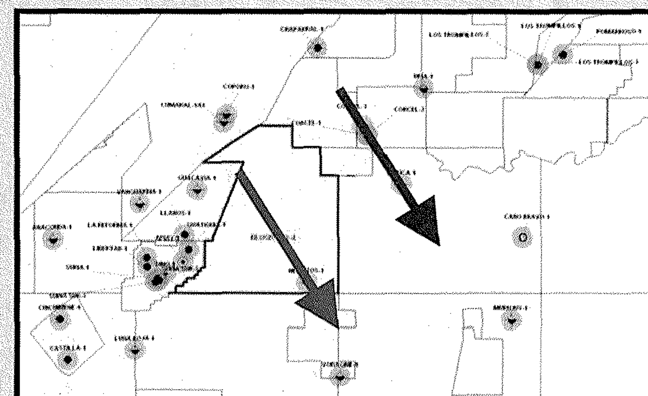
Corcel Analogy

CPO-4







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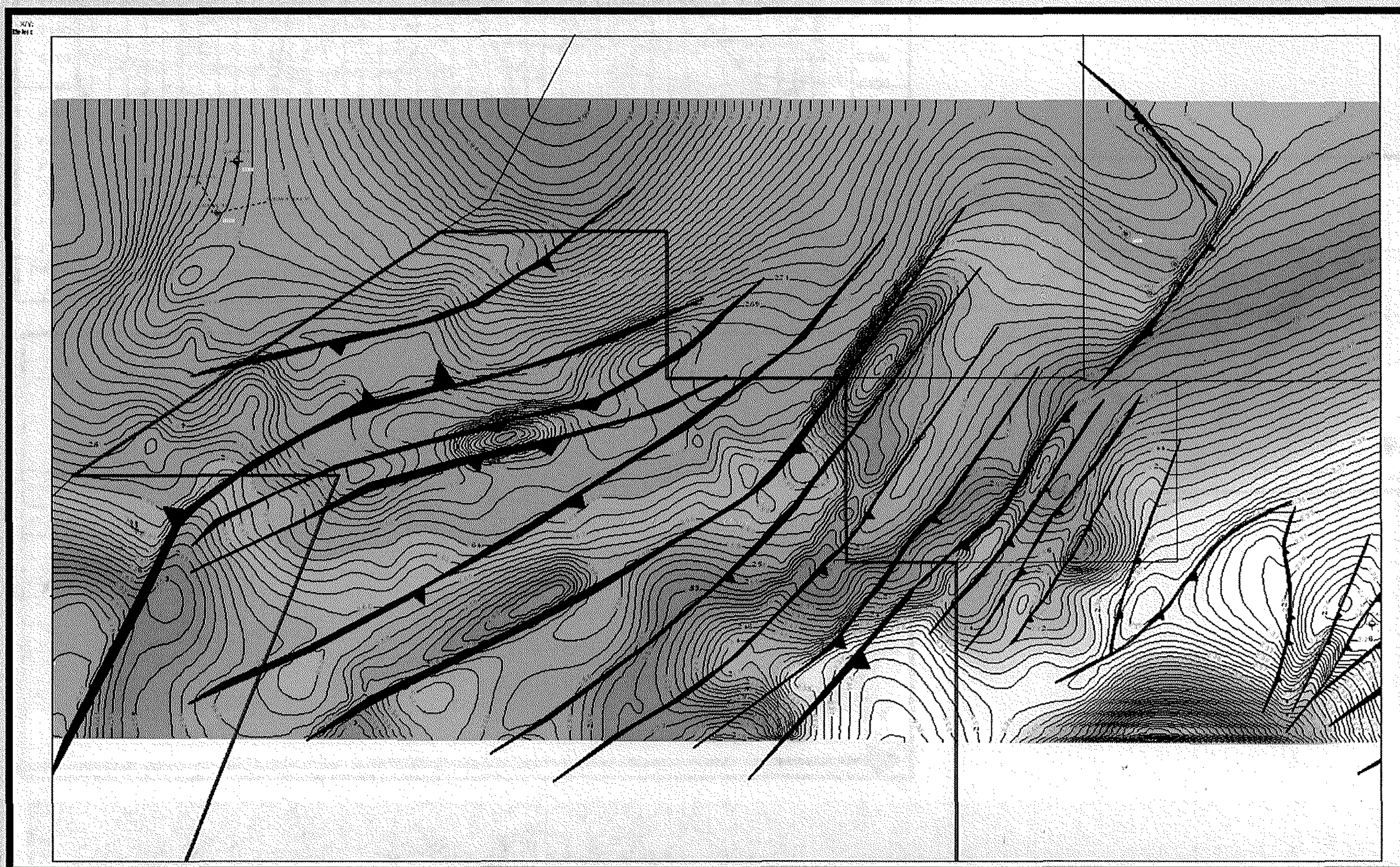
MIRADOR TIED TO CORCEL FIELD



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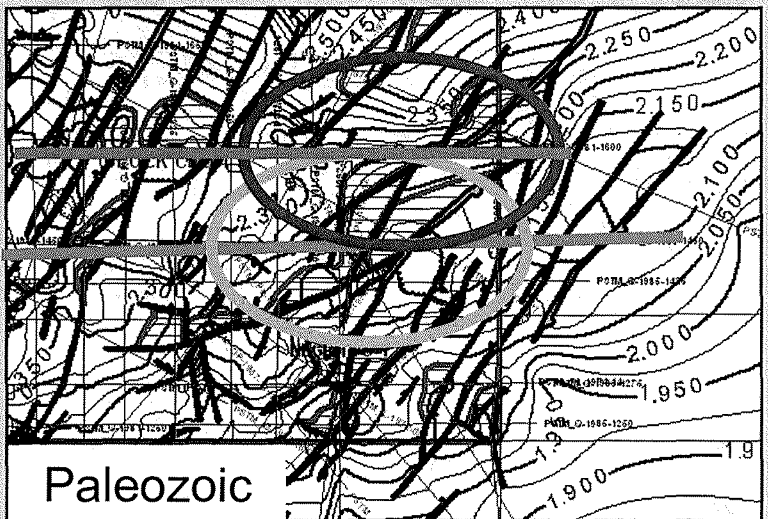
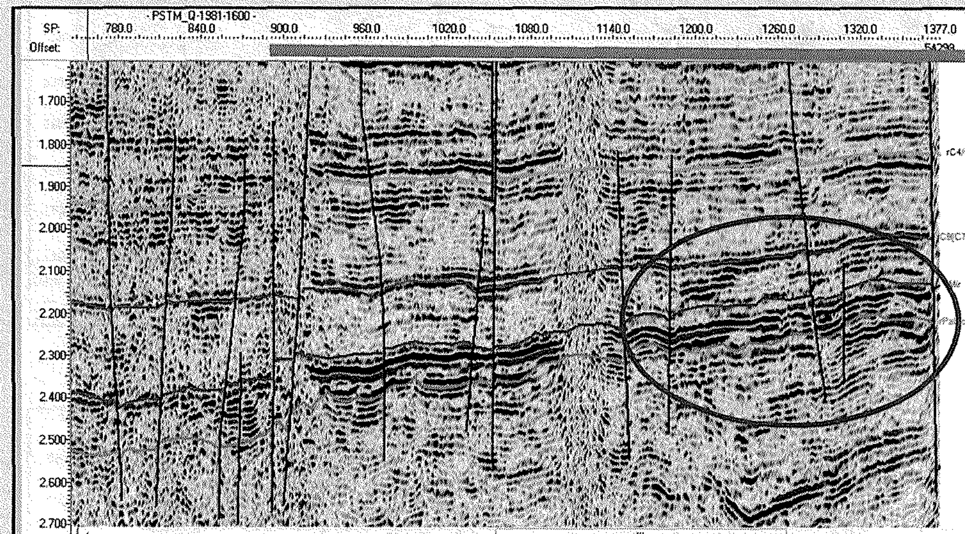
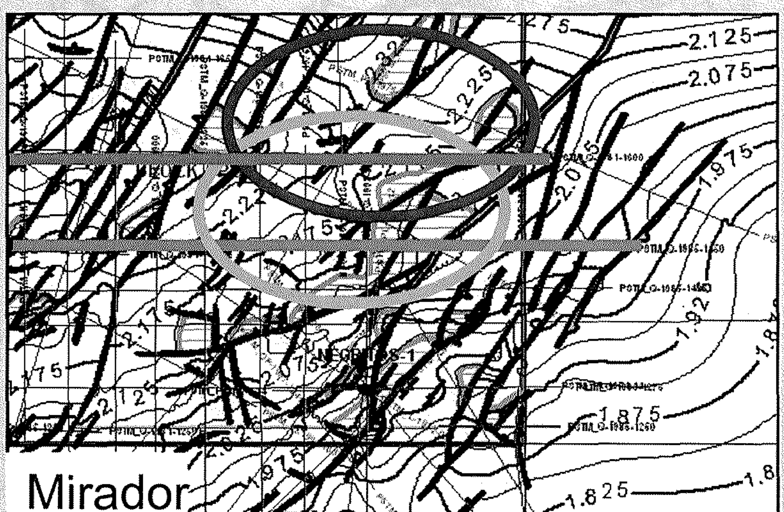
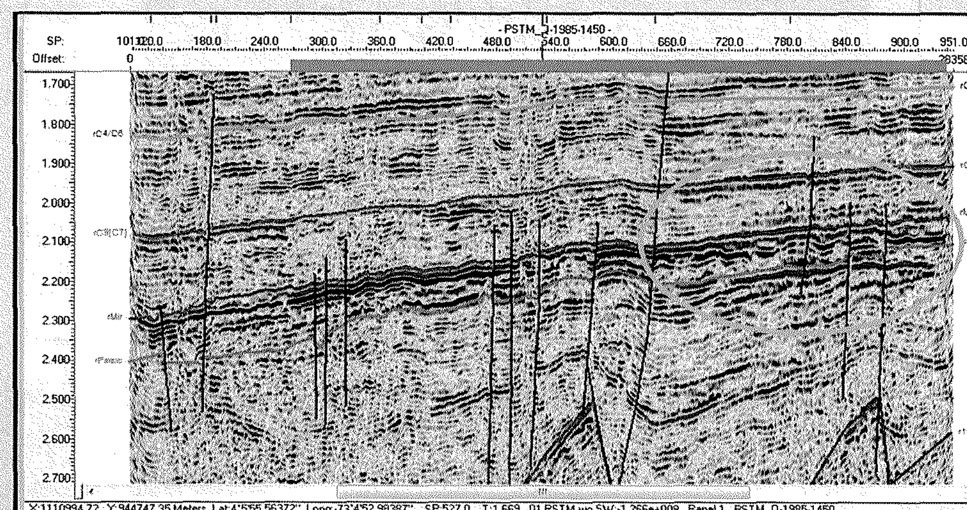
COMPOSITE STRUCTURE MAPS WITH LEADS
Southeast



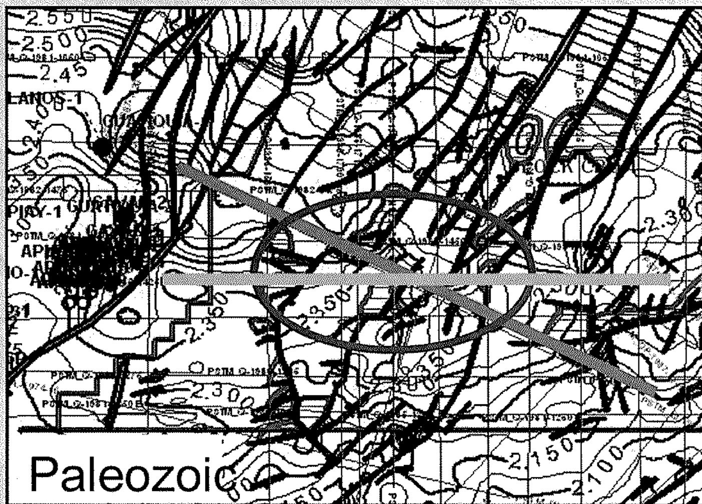


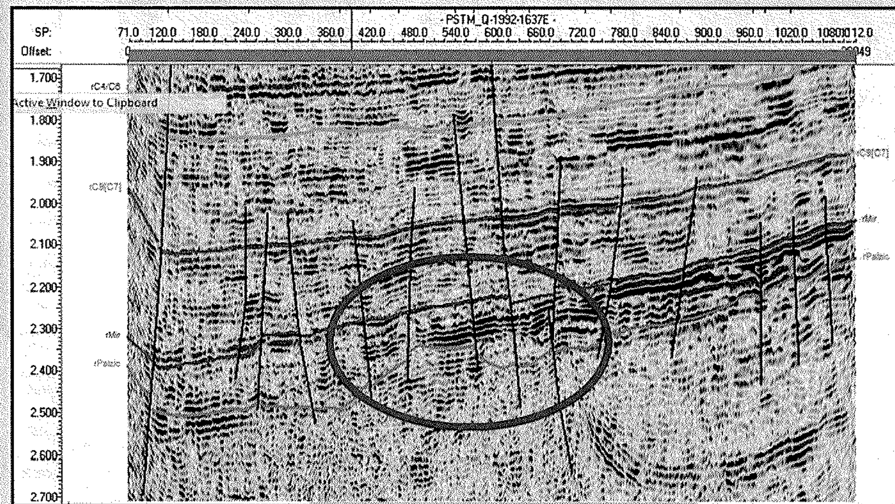


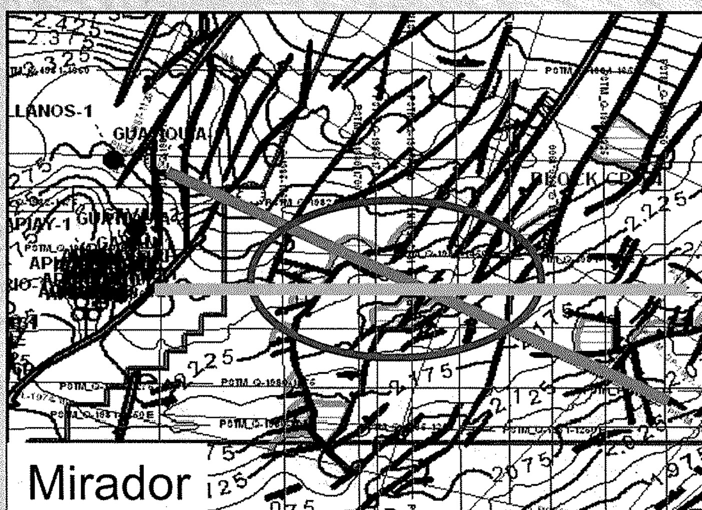


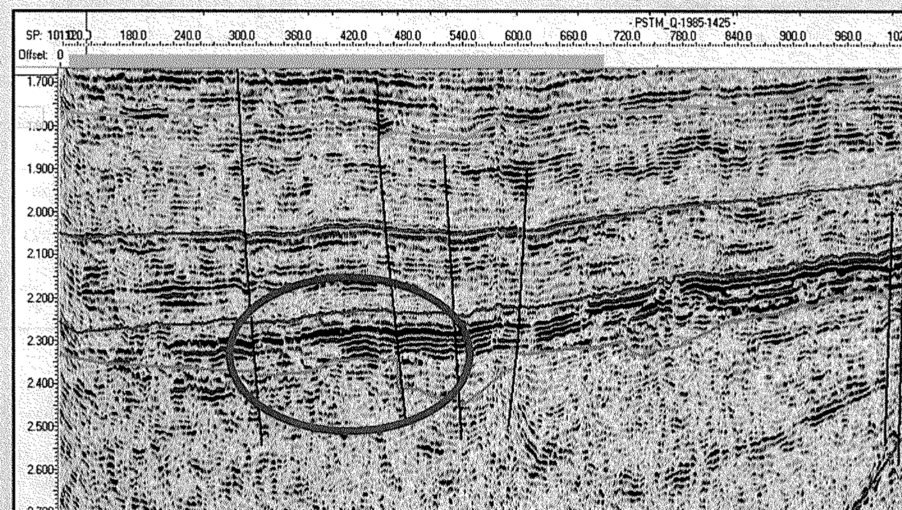
SK energy

COMPOSITE STRUCTURE MAPS WITH LEADS
West



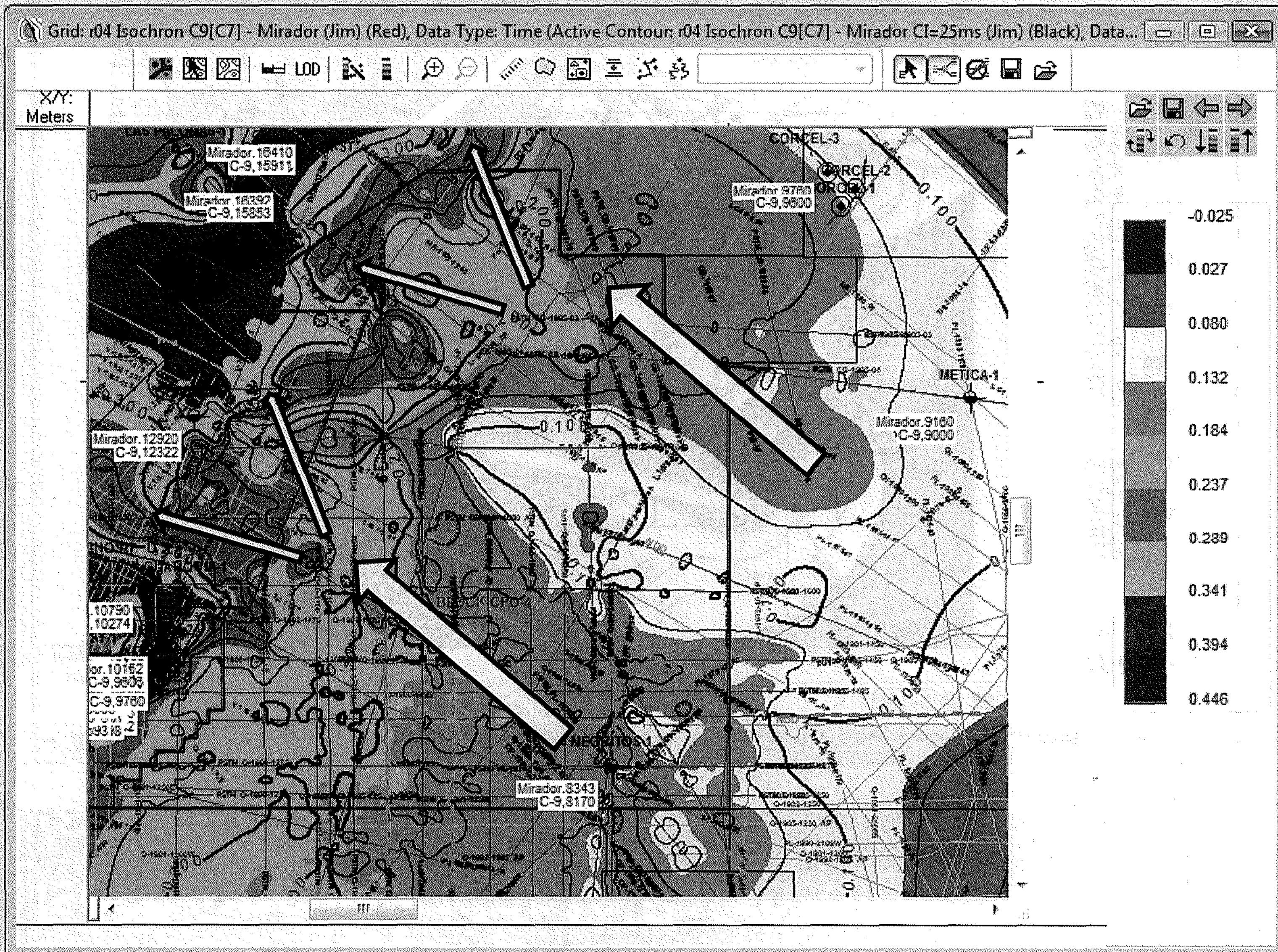






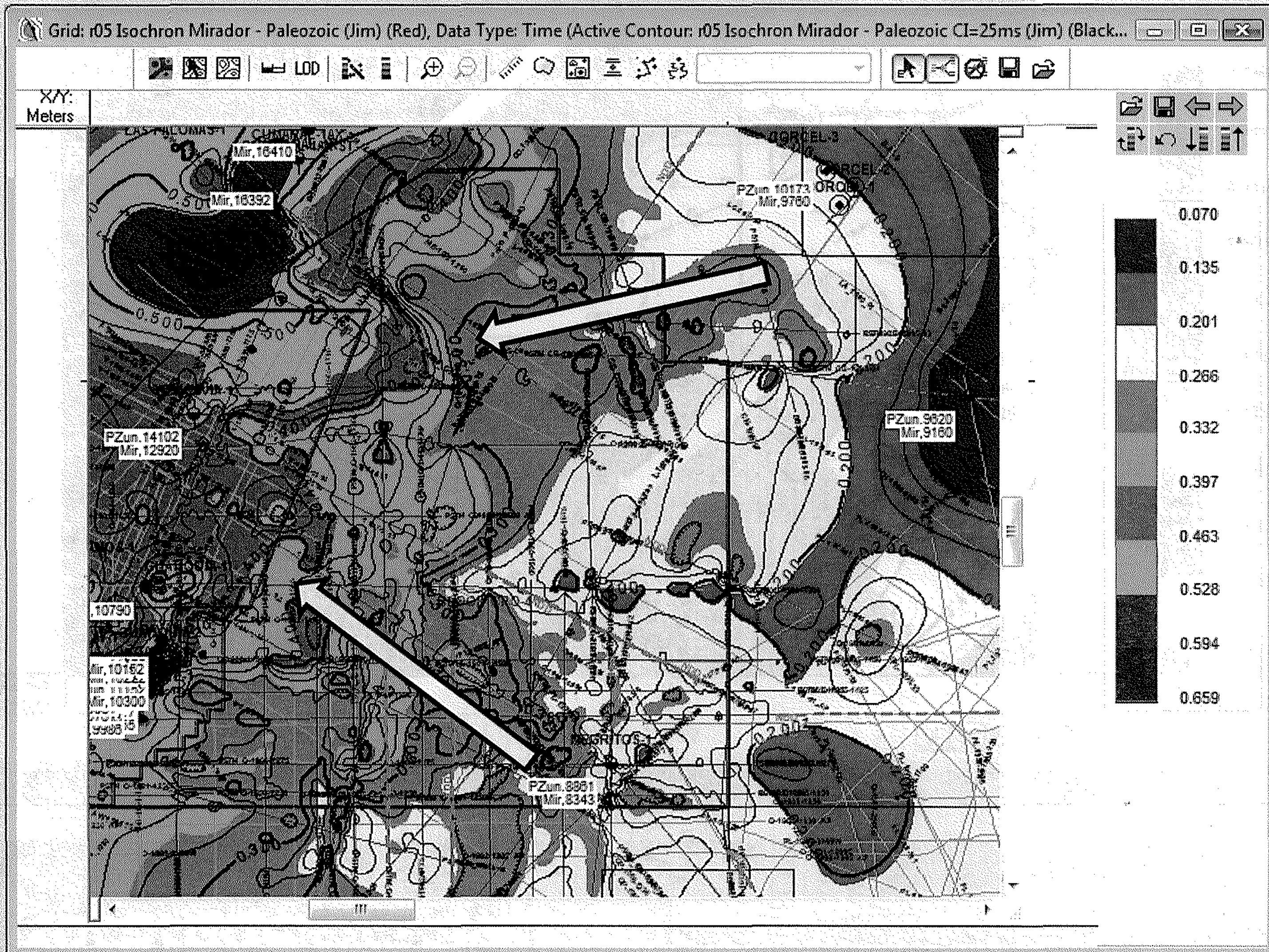
energy

Isochrone C7 ~ Mirador



SK energy

Isochrone Mirador to Paleozoic



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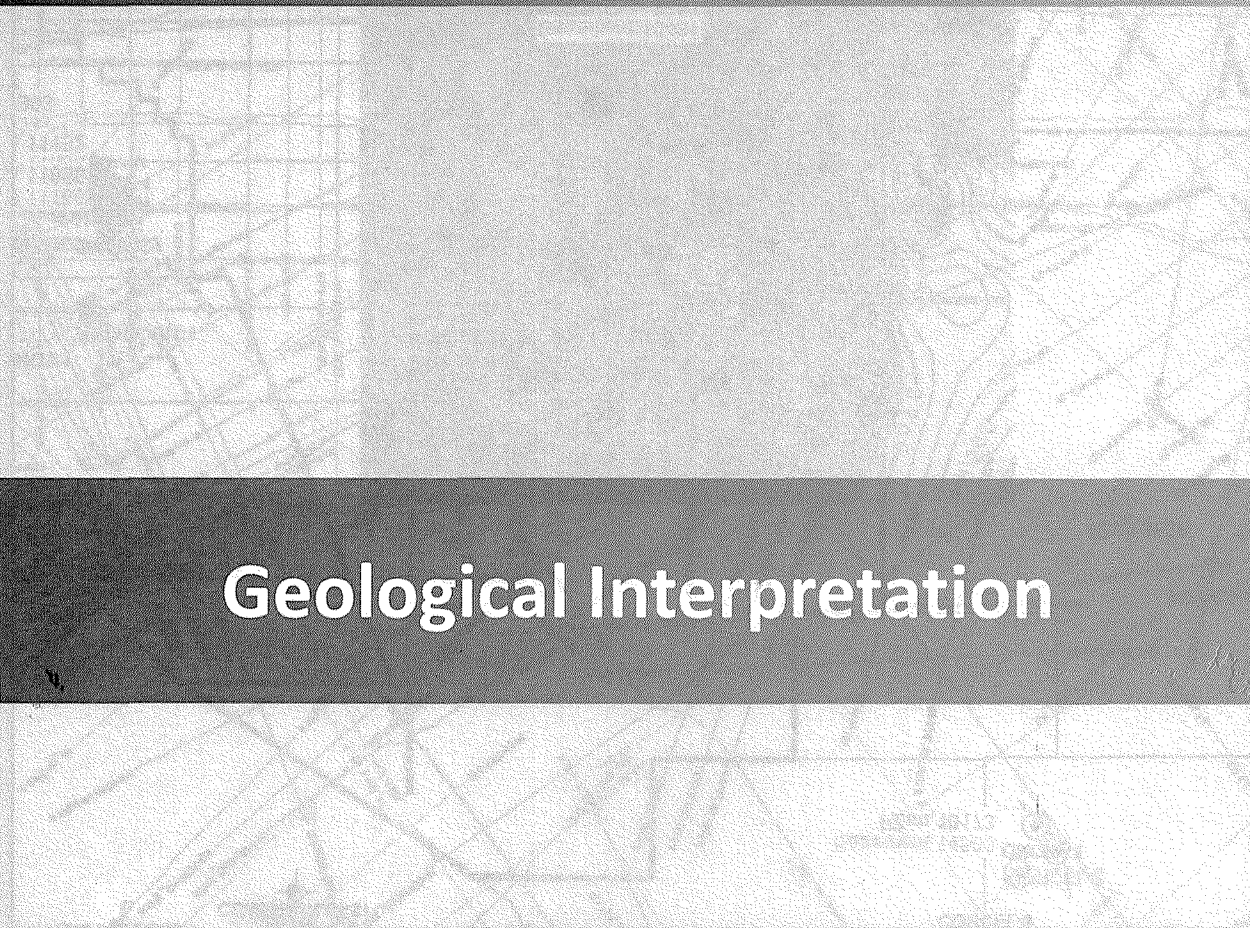
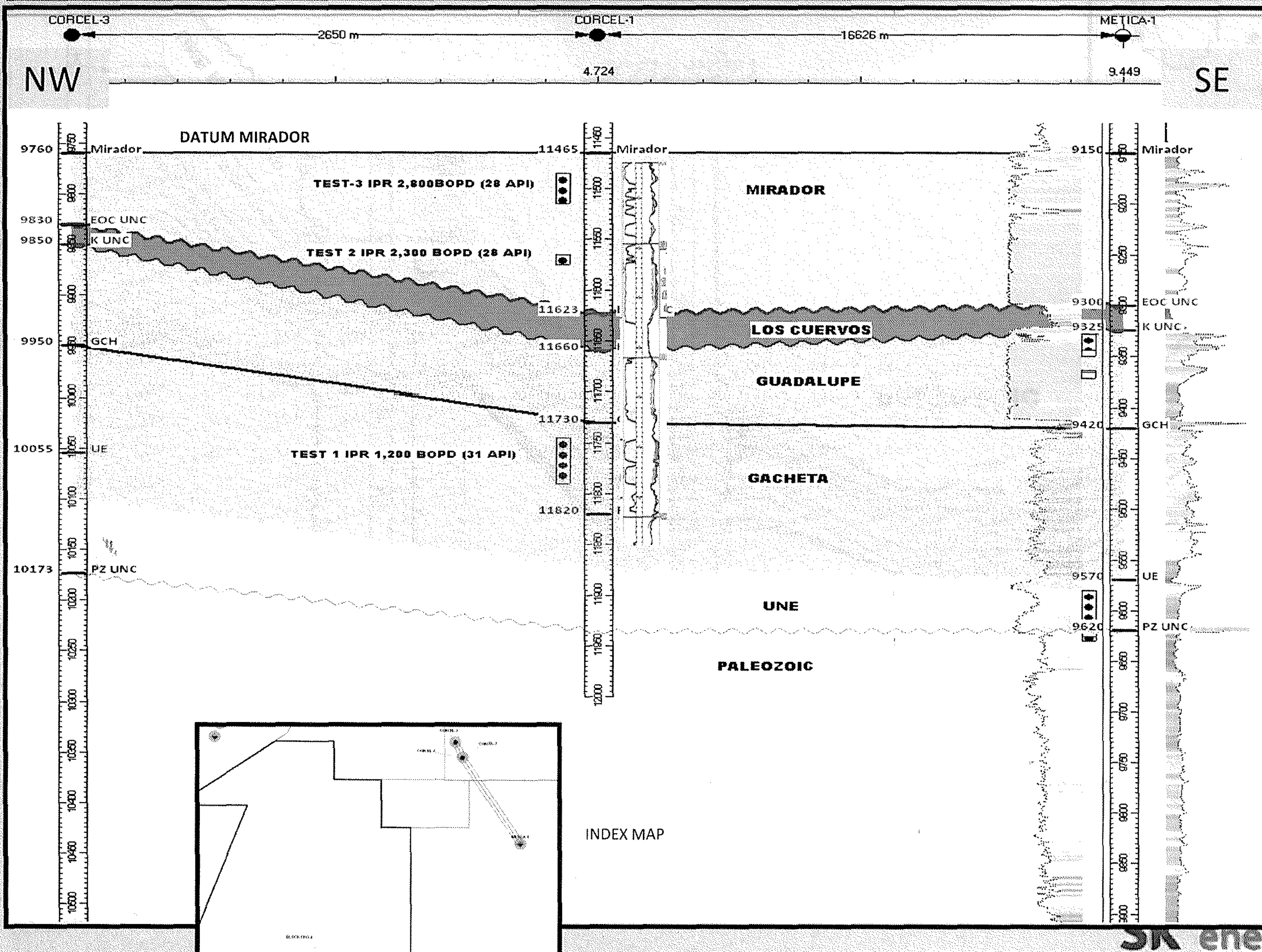
Basement Structural Map



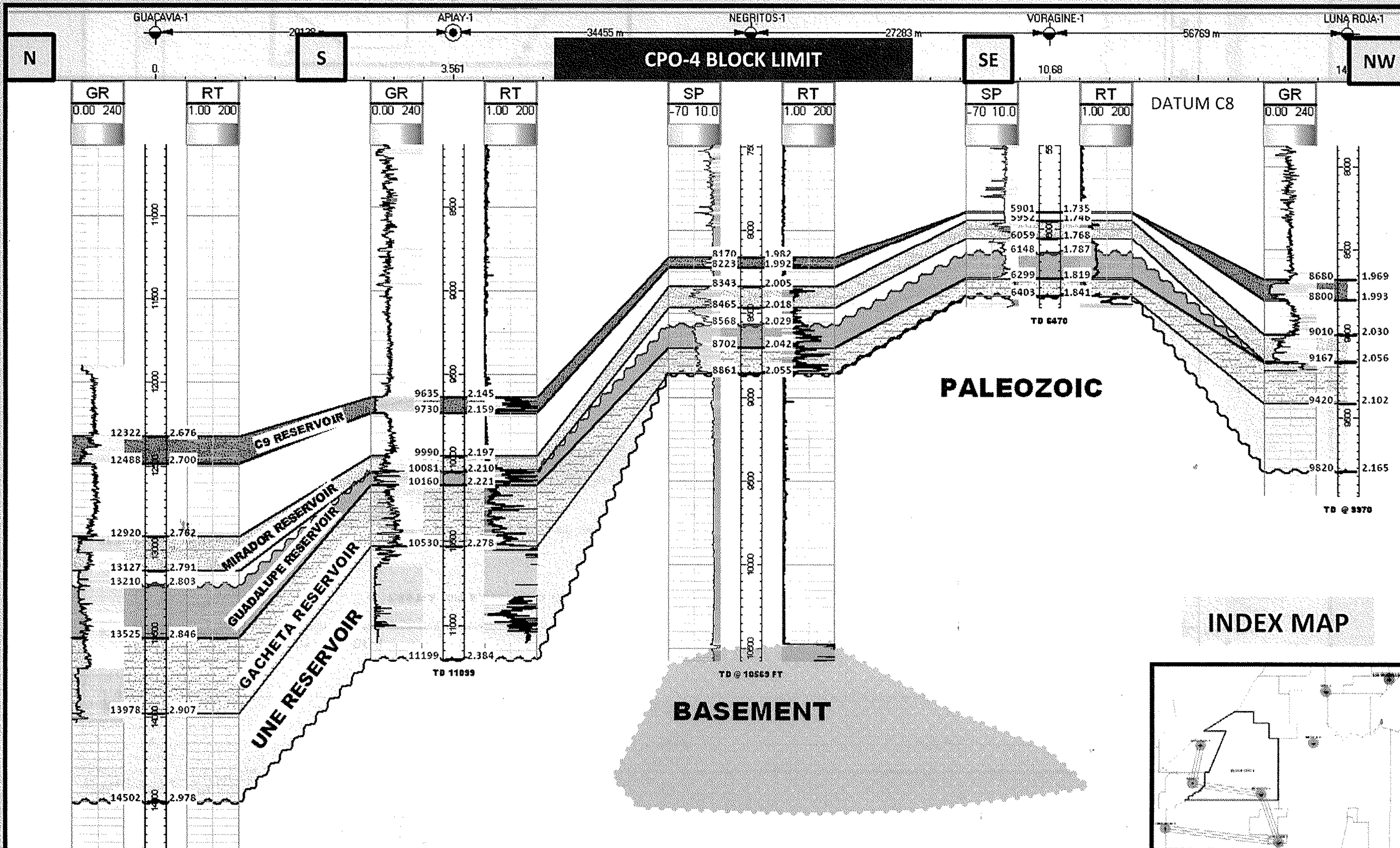
Geological Interpretation

Strat. Correlation of Corcel 1 & 3 Wells & Metica-1



SK energy

Strat. Correlation Wells Guacavia-1, Apiay-1, Negritos-1,Voragine-1, Luna Roja -1; Showing Main Tertiary & Cretaceous Reservoirs



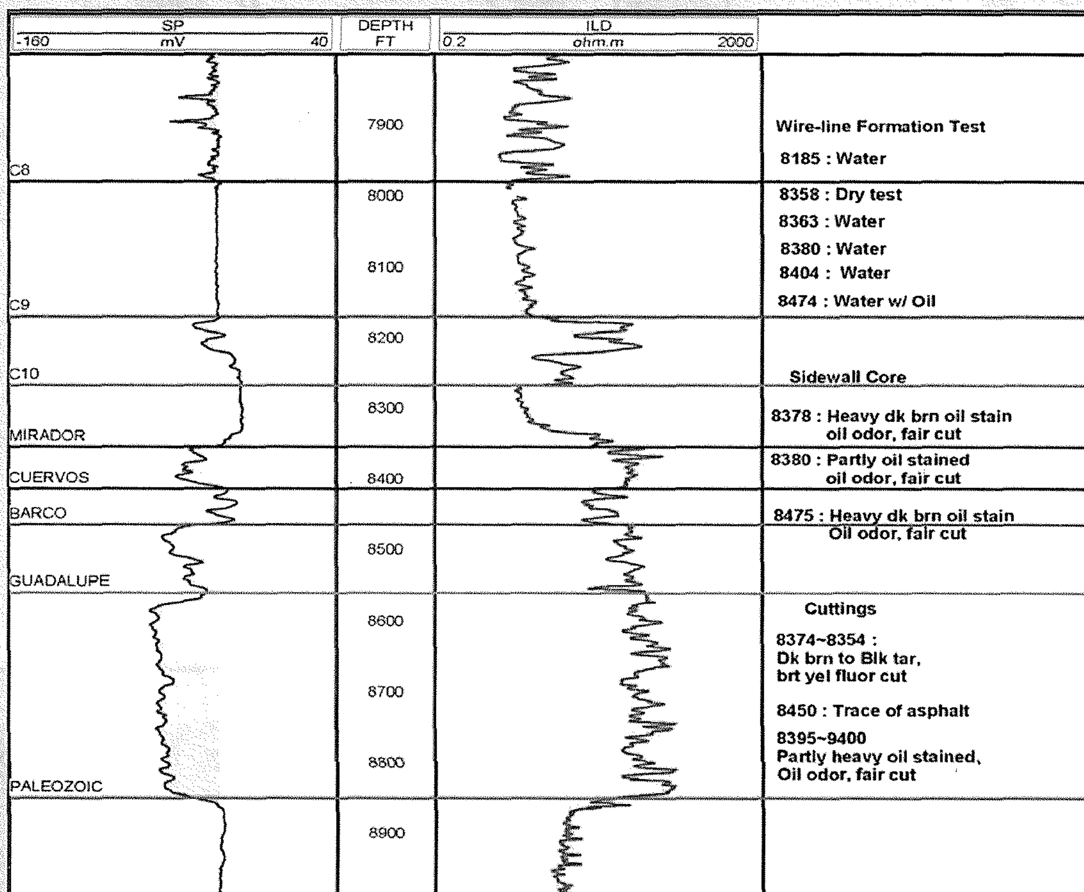
SK energy

Summary of Negritos-1

Operator : Int'l Petroleum Ltd.   Location : N937236.68 E1111111.61

Spud : Jun. 5, 1962   P&A : Aug. 8, 1962

Ground : 613'   RKB : 624'   TD : 10,569' Basement



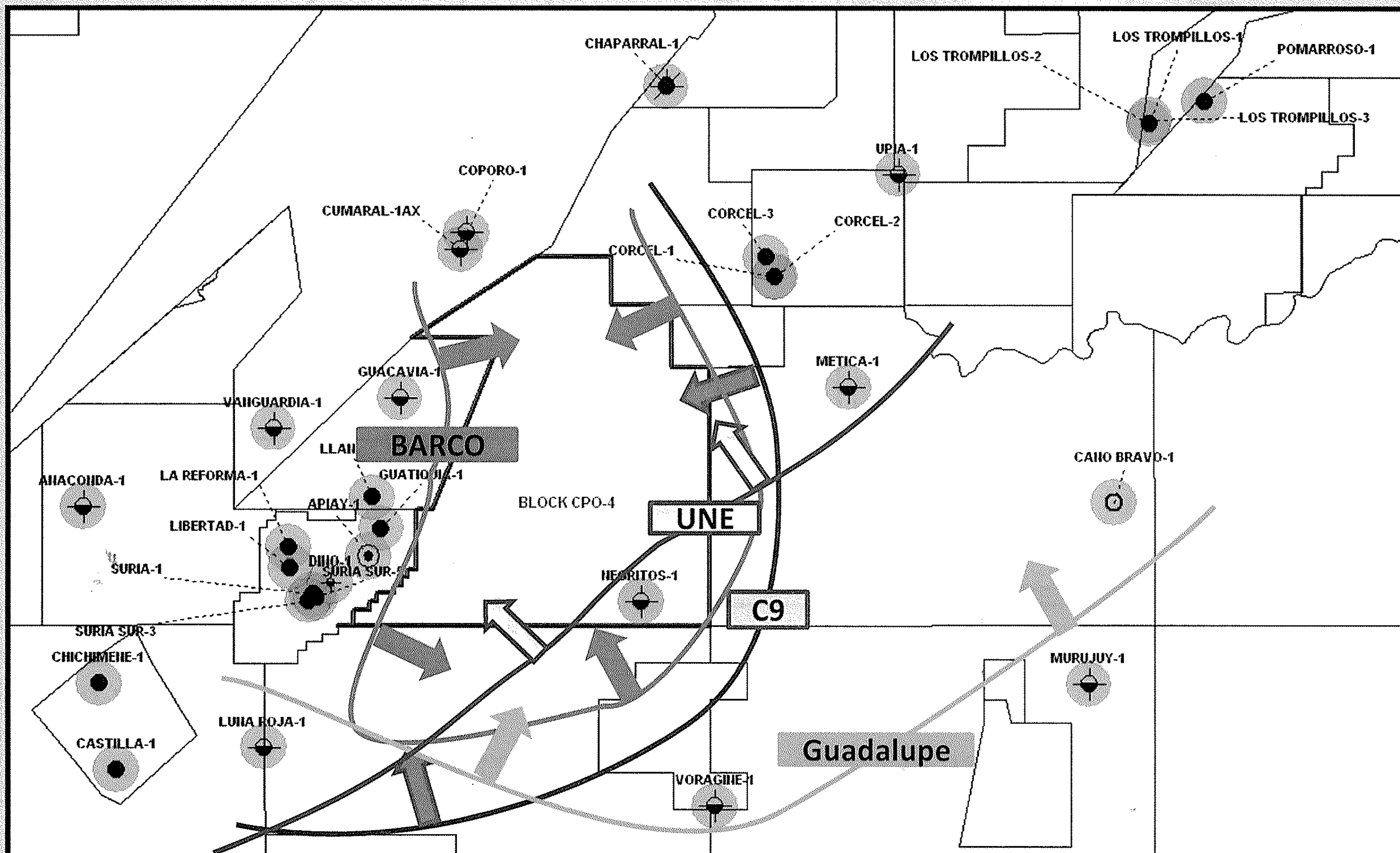
Not Tested

Oil Show

2009.5 DSC

SK energy

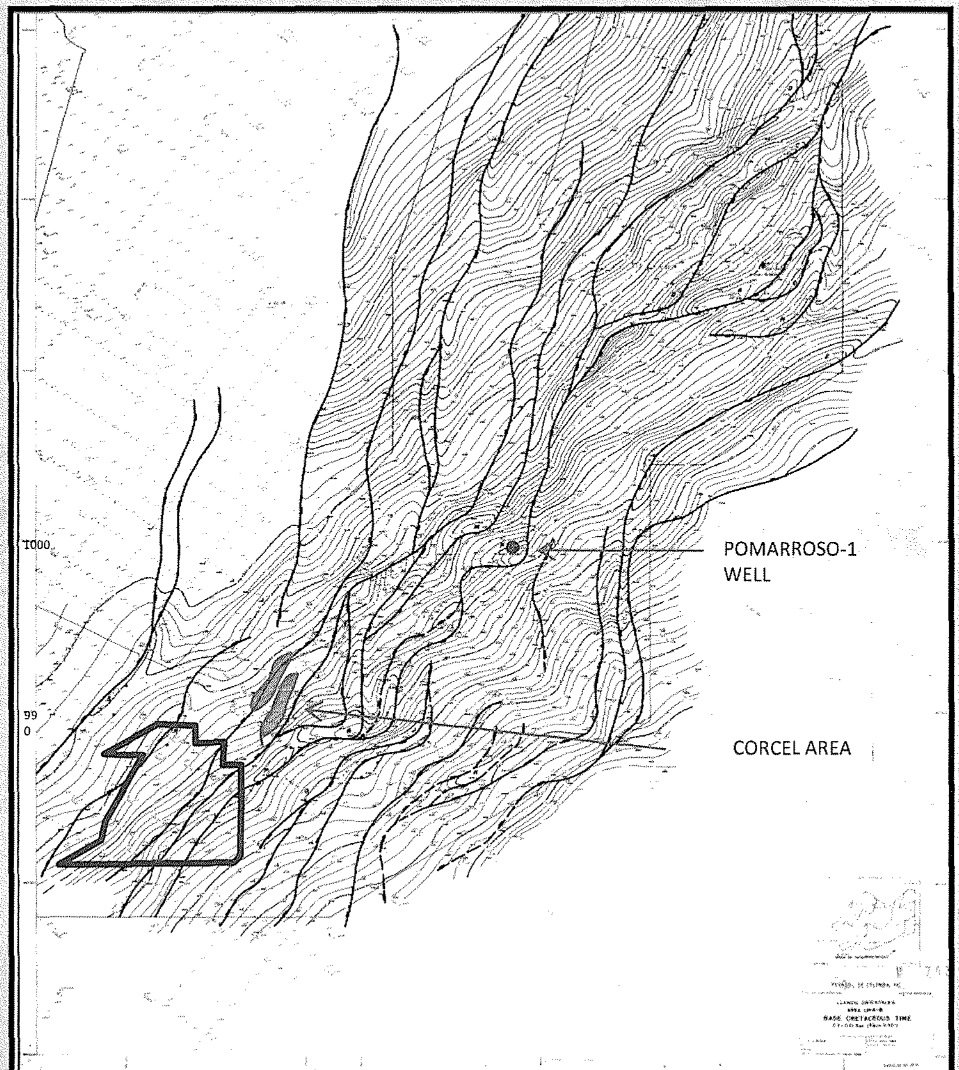
Reservoir Distribution



SK energy

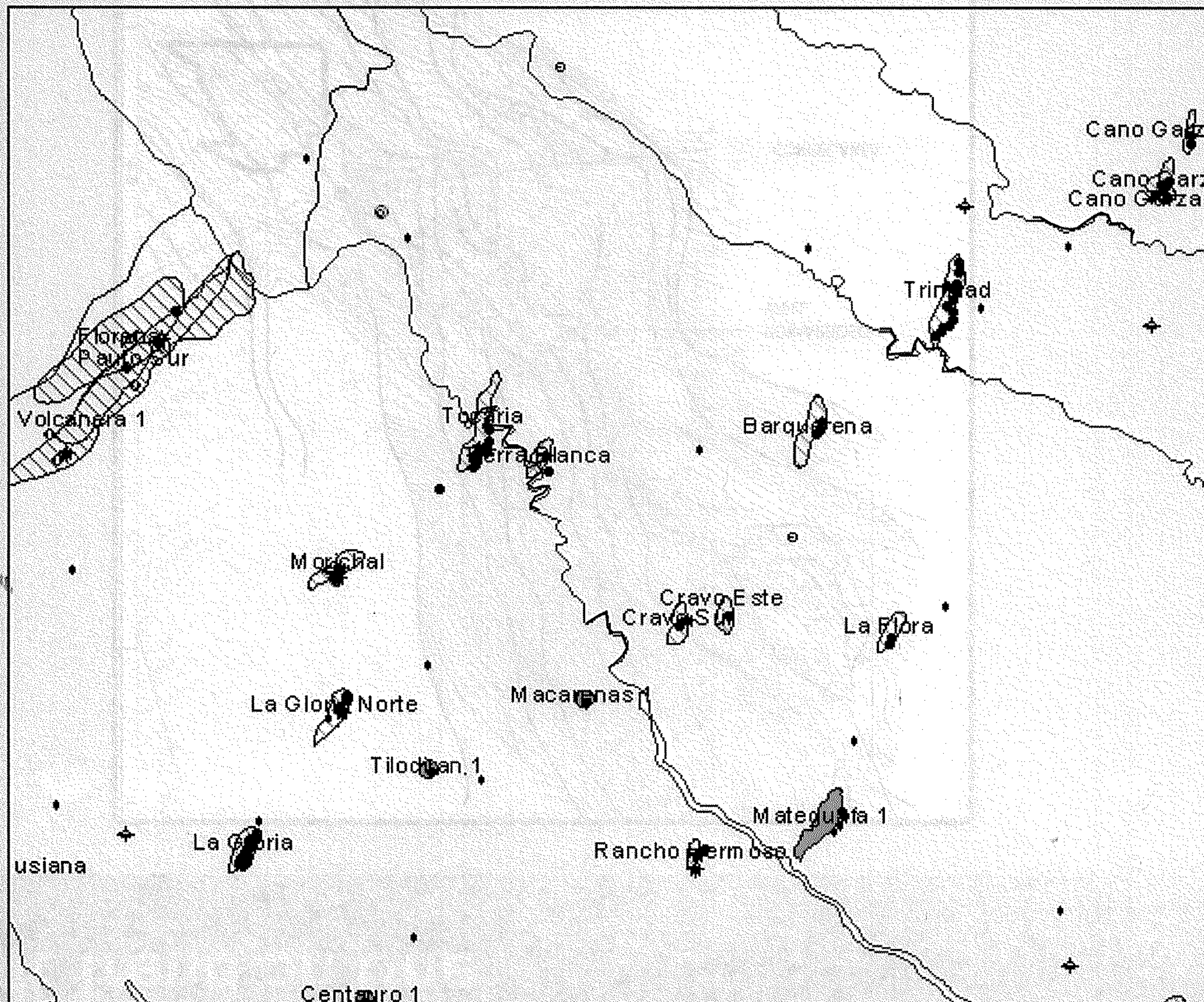
Fault Trend on Une

CPO-4

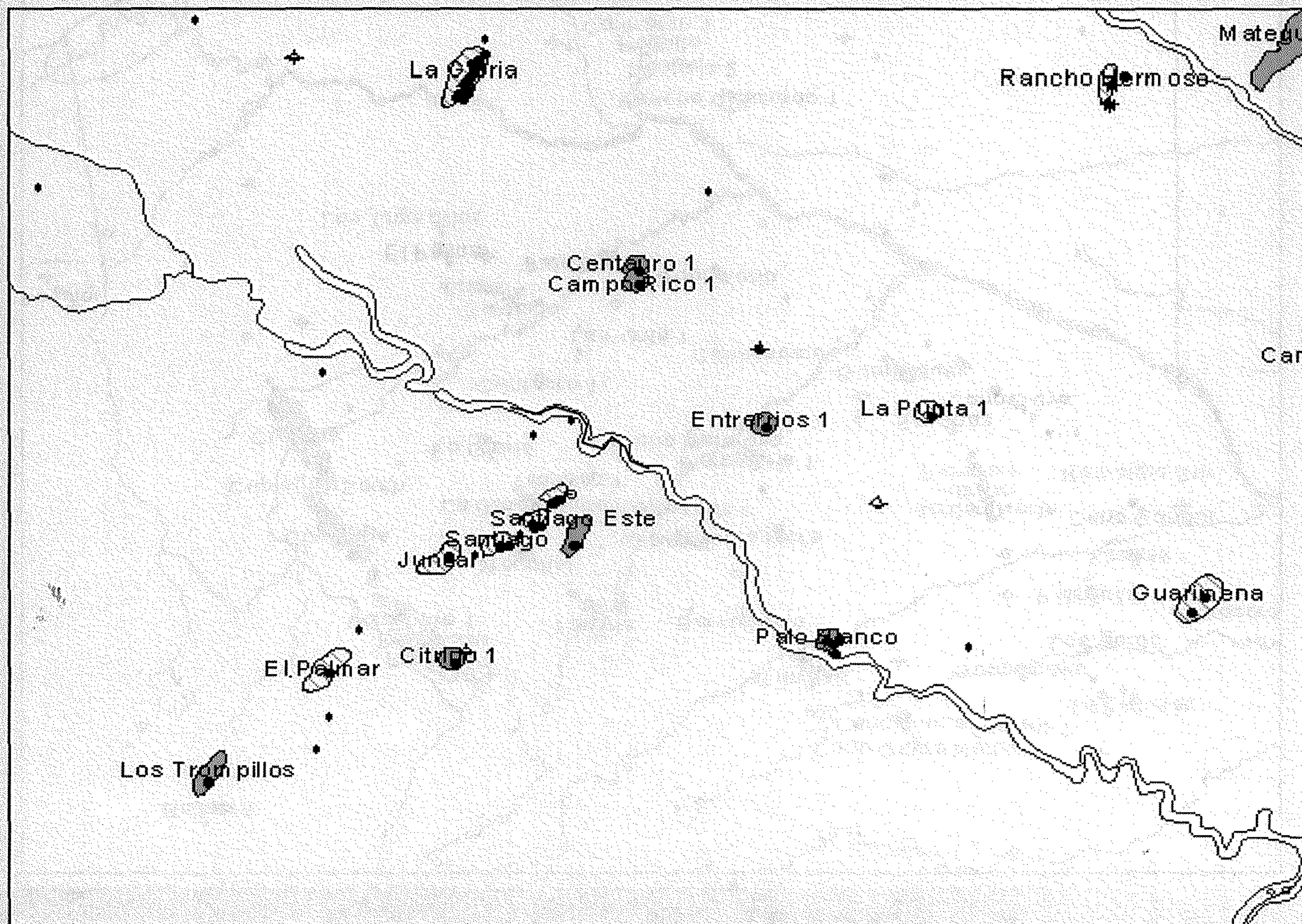


SK energy

DRAINAGE PATTERN vs FIELDS

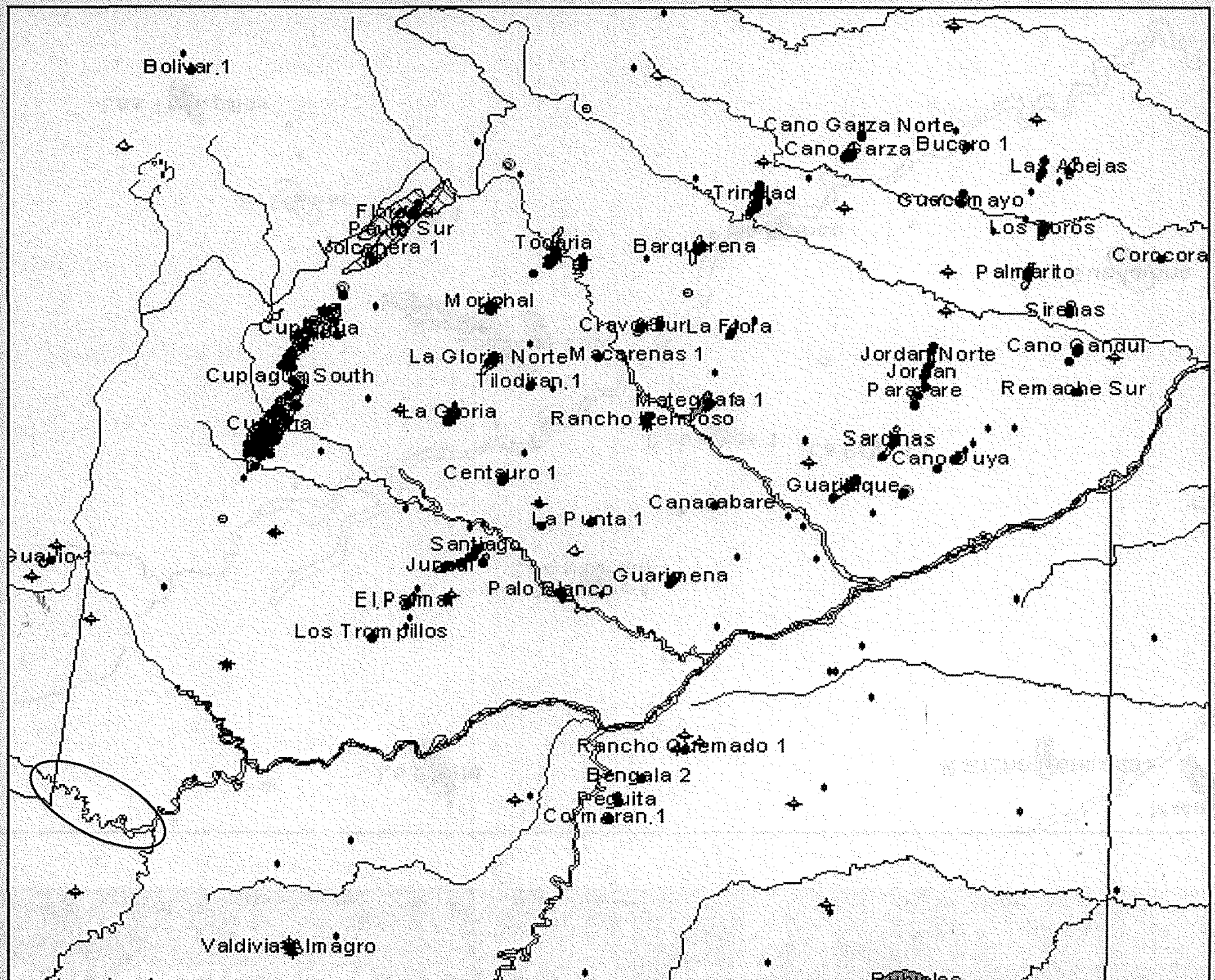


DRAINAGE PATTERN vs FIELDS



SK energy

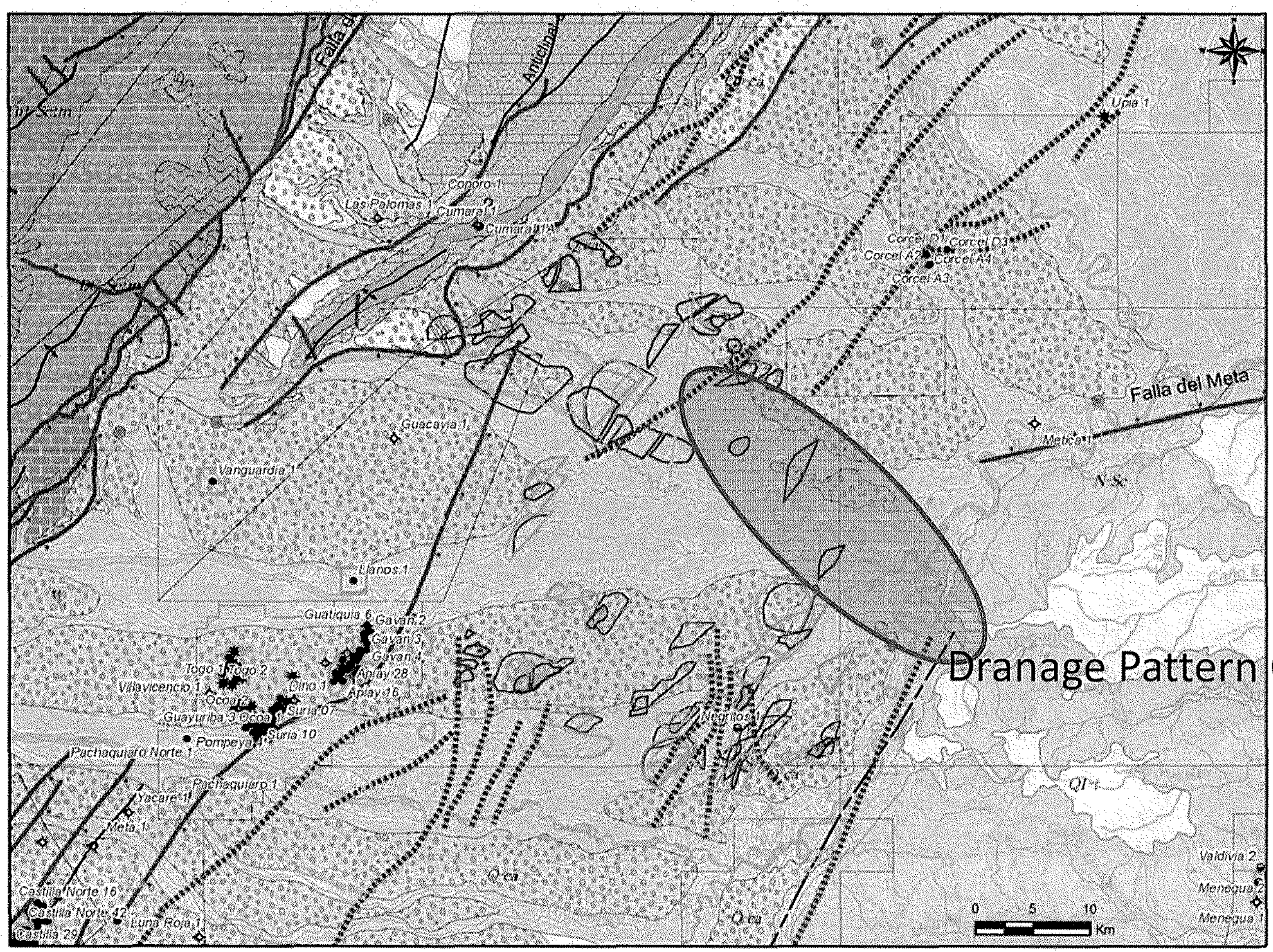
DRAINAGE PATTERN vs FIELDS



SK energy

Drainage Pattern along the Rio Meta

Surface Structural Pattern



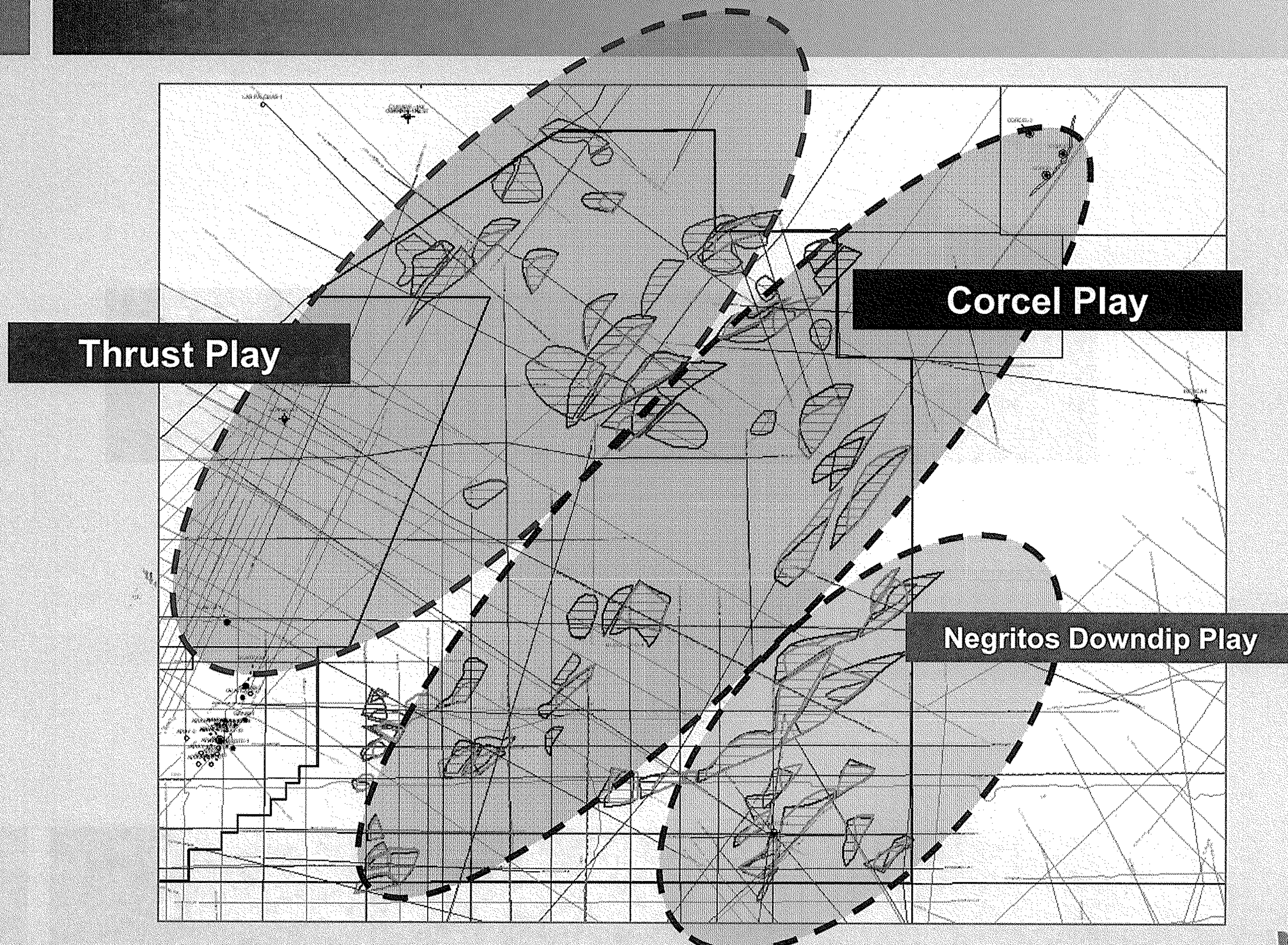
Faults INGEOMINAS Geologic Map 1:500.000, 2006 ········ Faults depth, ECOPETROL. Petroleum Systems Project, 1997

SK energy

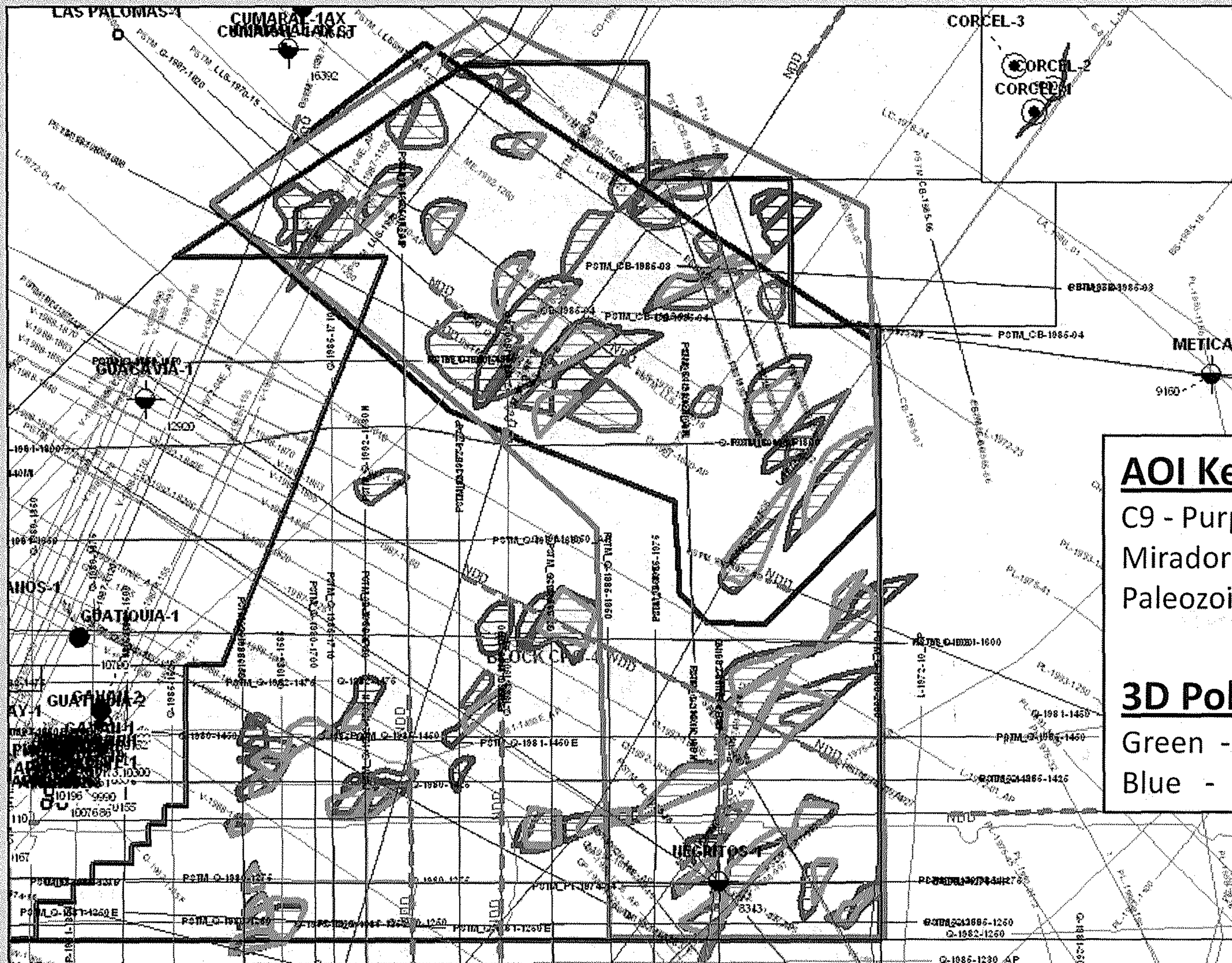
Recommendation of 3 D Area

SK energy

COMBINED AOI'S



2 PROPOSED POLYGONS

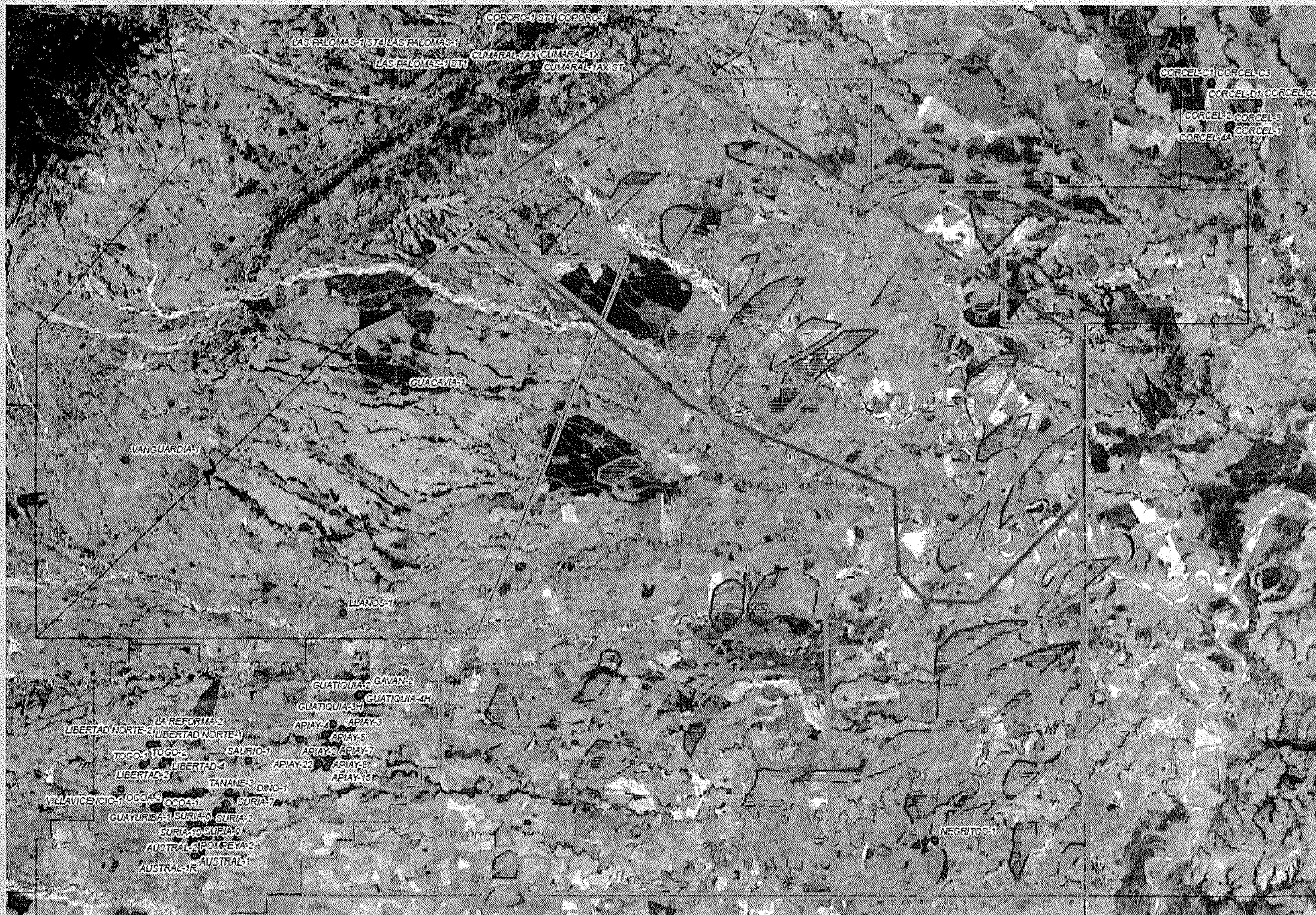


AOI Key
C9 - Purple
Mirador – Green
Paleozoic - Red

3D Polygons
Green - 900 sqkm
Blue - 500 sqkm

SK energy

LANDSAT IMAGE WITH AOI'S & 3D AREAS



SK energy

Partner's Feedback

CPO-4

Thank you!

CPO-4
Llanos Basin

Colombia

Farm-in Opportunity

2009. 10. 21.

SK energy

PLAINTIFF'S EXHIBIT
PX-028

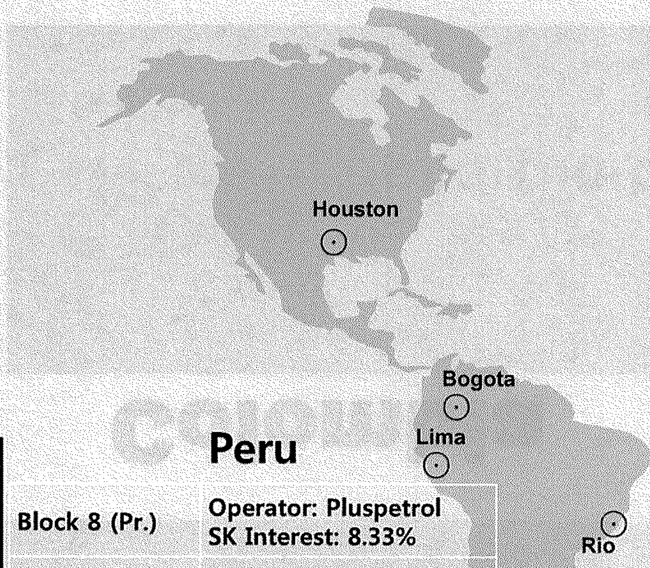
SK Energy E&P Activities

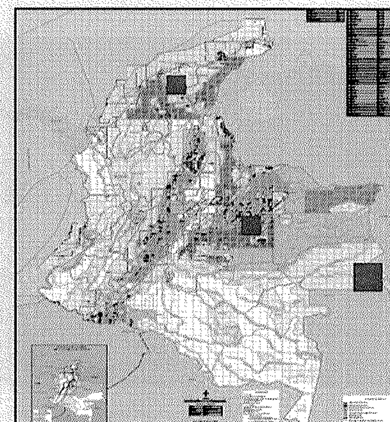
SK Energy

34 Blocks (11 Dev./Prod. and 23 Exp.) and 4 LNG Businesses in 19 Countries

- Reserves: 520 MM Boe at the end of 2008

- ⊙ Branch Offices
- ■ E&P Activities
- ☼ LNG Business



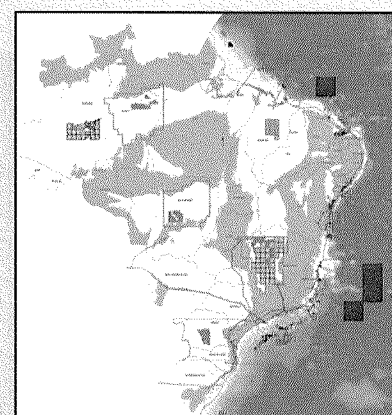


Colombia

CPE-5 (Ex.)	Operator: BHP SK Interest: 28.6%
CPO-4 (Ex.)	Operator: SK SK Interest: 75%
SSJN-5(Ex.)	Operator: SK SK Interest: 50%

Peru

Block 8 (Pr.)	Operator: Pluspetrol SK Interest: 8.33%
Block 56 (Pr.)	Operator: Pluspetrol SK Interest: 17.60%
Block 88 (Pr.)	Operator: Pluspetrol SK Interest: 17.60%
Z-46 (Ex.)	Operator: SK SK Interest: 90%
Peru LNG	Operator: Hunt SK Interest: 20%



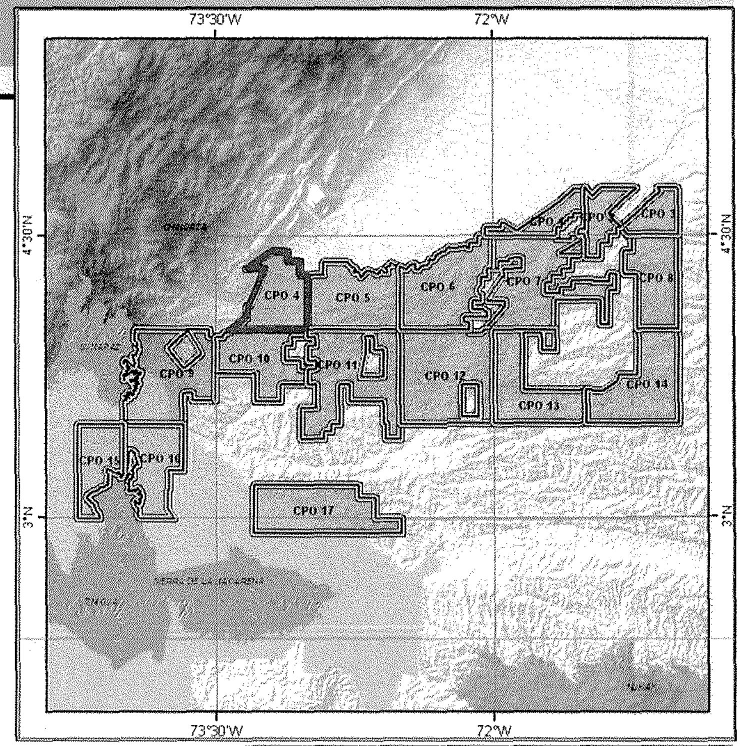
Brazil

BMC-8 (Pr.)	Operator: Devon SK Interest: 40%
BMC-30 (Ex.)	Operator: Anadarko SK Interest: 20%
BMC-32 (Ex.)	Operator: Devon SK Interest: 26.67%
Bar-3 (Ex.)	Operator: Devon SK Interest: 30%

SK energy

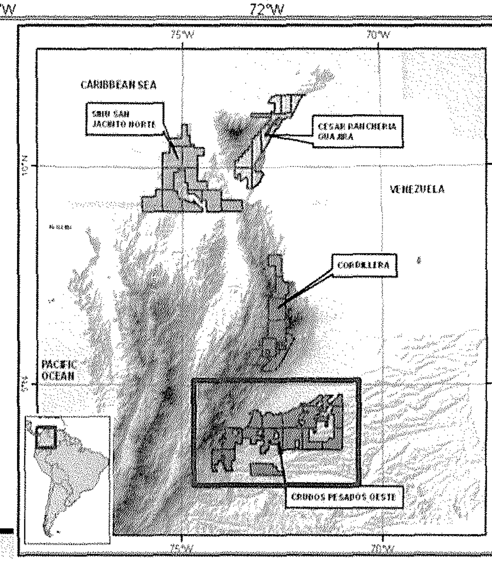
CPO-4 Overview

Overview



- Location : Onshore, Central Colombia
- Basin : Western Llanos Basin
- Area : 139,859 ha (1,398.59 km^2)
- Effective Date : December 18, 2008
- Contract Type : E&P Contract(Royalty & Tax)
- Participant
  - SK Energy : 75 % (Operator)
  - Houston American Energy : 25 %
- Exploration Period & Work Obligation

PHASE	PERIOD	WORK OBLIGATION
Phase 0	'08.12.18 ~ '09.6.17 (6 mos.)	Phase 0 Report (Letter) (2009. 6.15.)
Phase 1	'09.6.18 ~'12.6.17 (3 yrs.)	• 400 km 2-D Seismic Reprocessing • 620 km 2-D New Seismic Acquisition • 2 Exploration Wells
Phase 2	'12.6.18 ~ '15.6.17 (3 yrs.)	• 400 km 2-D Seismic Reprocessing • 3 Exploration Wells



Current Status

Phase 0

- 2008. 12. 18 ~ 2009. 6.17
- Data Gathering
  - ➢ Old Seismic : 1,121 Km (Received)
  - ➢ Well Data : 3 wells
  - ➢ Landsat, Geological Map, Geographical Map
- Reconnaissance Survey
  - ➢ Logistic Survey
  - ➢ Working Environment Survey
  - ➢ Geological Survey

Phase 1

- 2009. 6.18 ~2012. 6.17
- Reprocessing : Completed
  - ➢ Plan : 1,350Km (Inside & Outside well tie)
- Acquisition : Bid Preparation
- PMA : Completed

SK energy

Summary

Proven Area

- Source : Surrounded by Existing Fields
- Multi Reservoirs
- Trap Type : On trend of discovery
- Relatively High API Oil
- Expected Reserve : 40 ~ >150 MMBO Recoverable each

Excellent Working Environment

- Near P/L
- Ease of Access Roads
- No Indigenous Reservation Area

Main Risk : Existence of Trap (New Seismic will verify)

Farm-out Plan

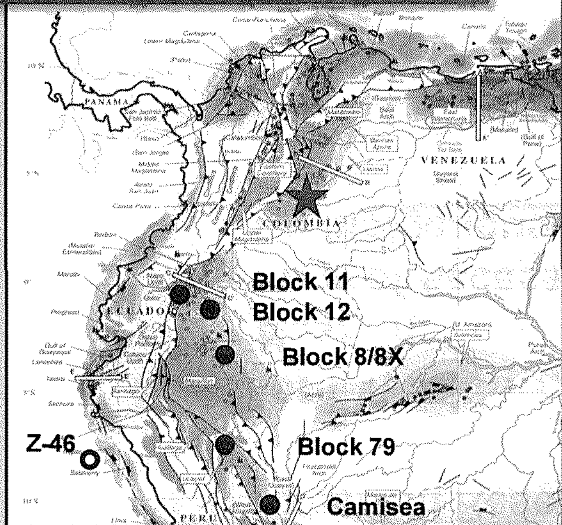
- Available Interest : Up to 25 % (Minimum Operator's interest: 40%)

SK energy

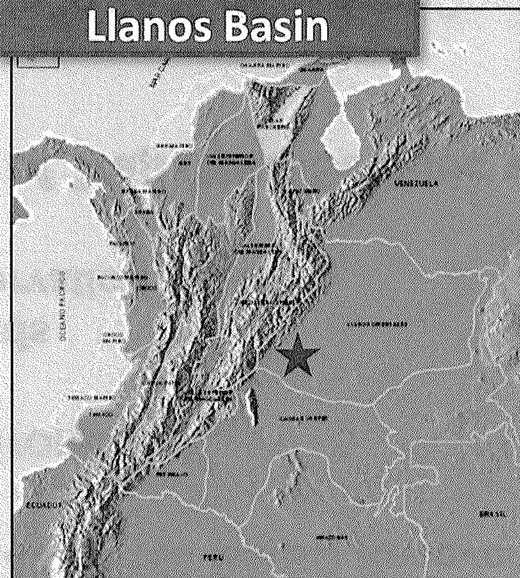
Location of CPO-4

Location

Andean Foreland Basin

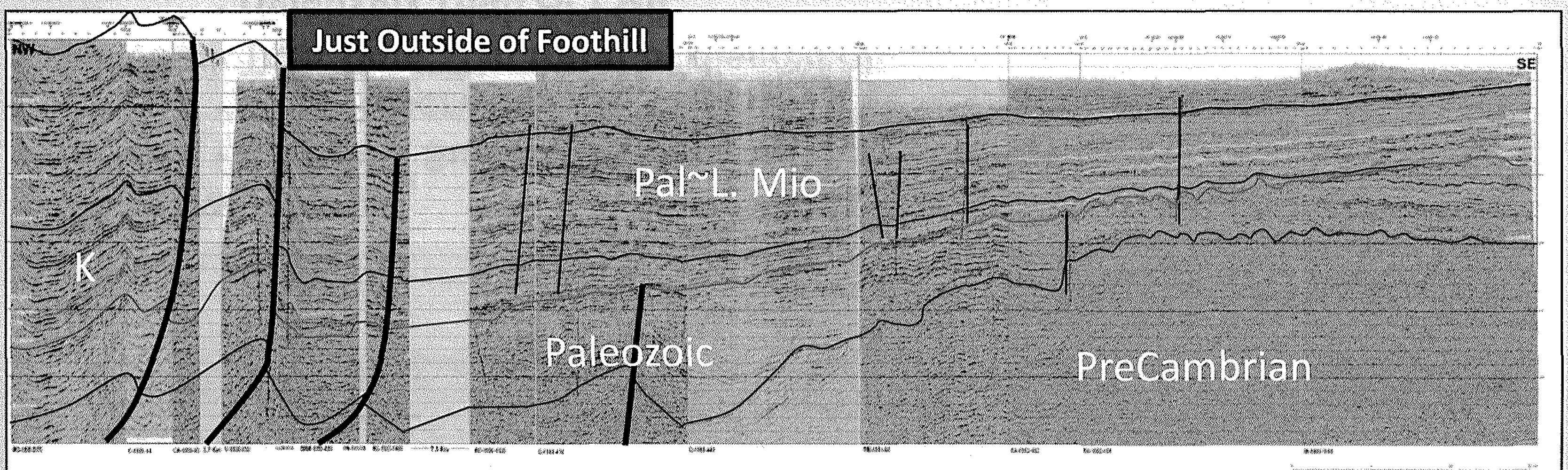


Llanos Basin



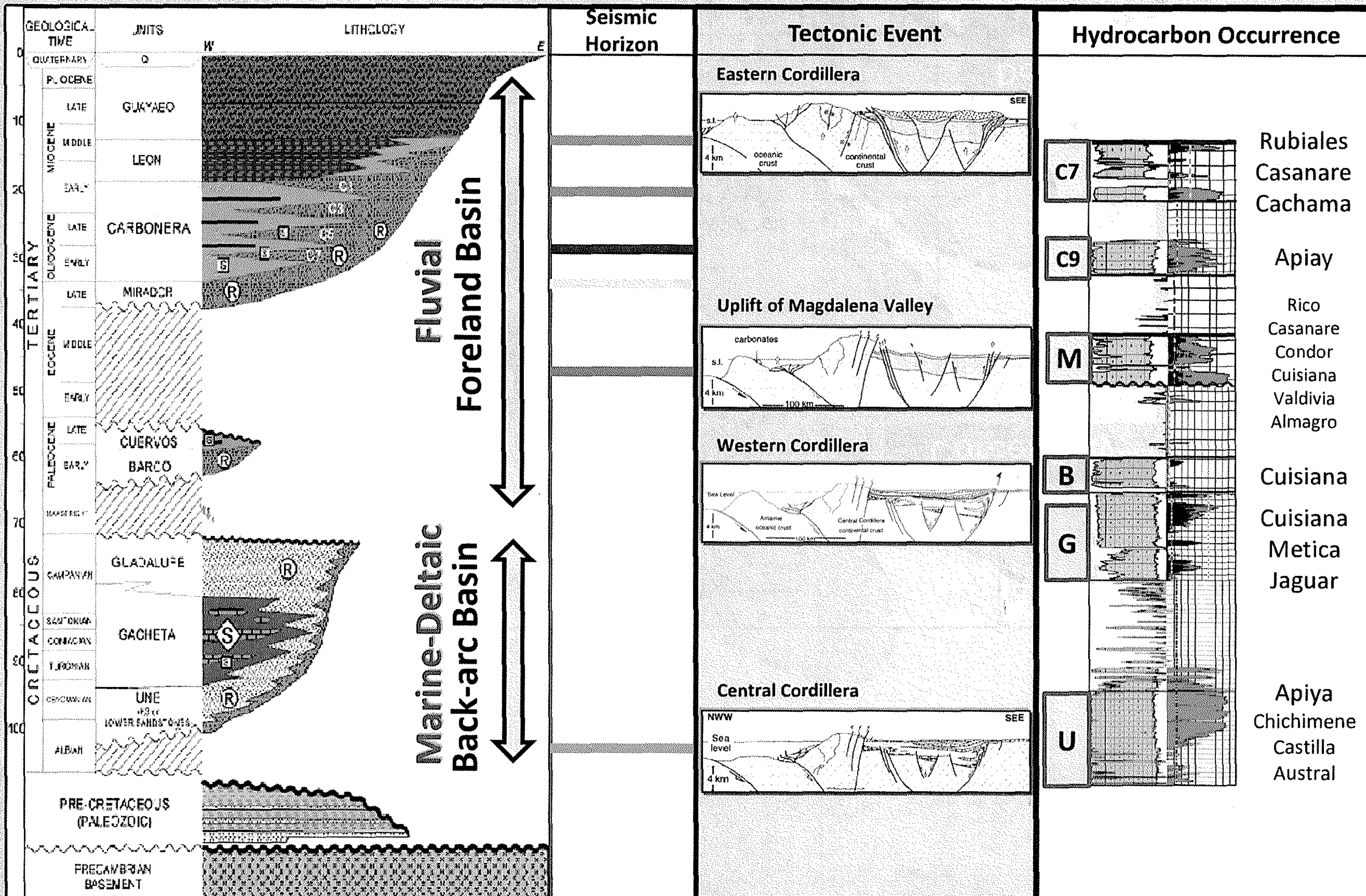
- 220,000 ㎢ (55 MM Acres)
- 4 Billion Barrels Proven
- History
  - '44 : San Martin-1, shell
  - '69 : Castilla-1, Chevron
  - '81 : Apiay-1, Ecopetrol
  - '81 : Rubiales, Intercol
  - '83 : Cano Limon, OXY
  - '88 : Cusiana, BP

Just Outside of Foothill



SK energy

General Geology



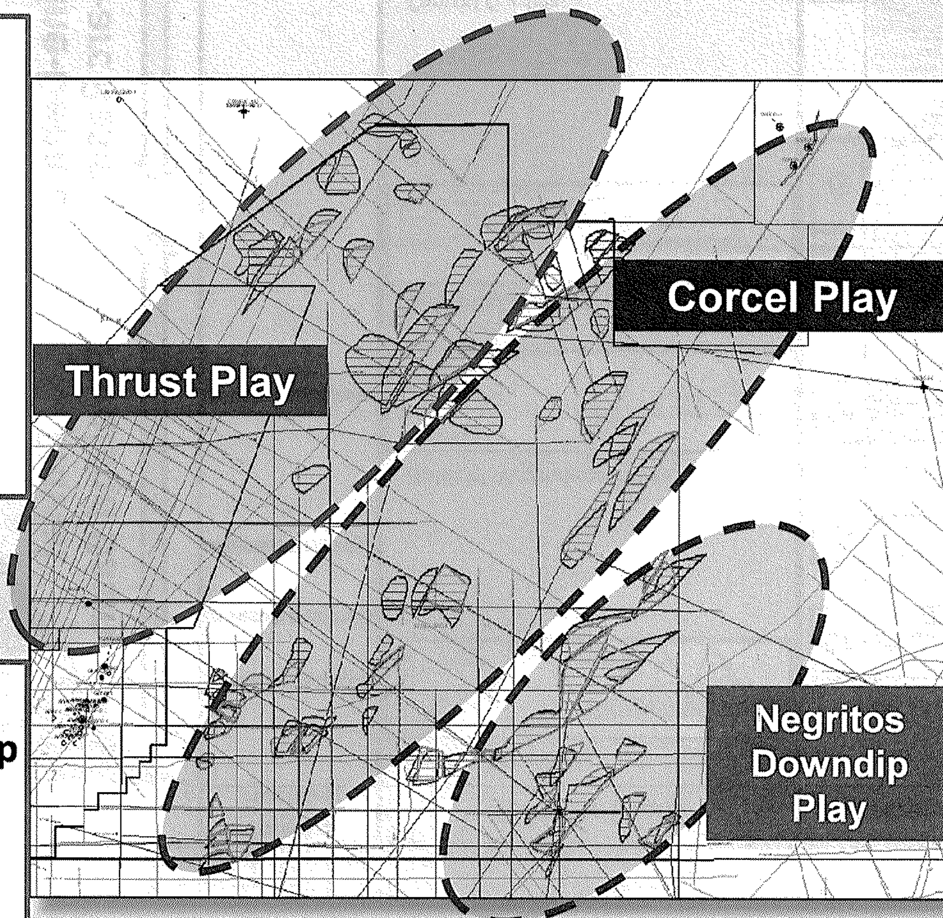
Hydrocarbon Play

API

- Light Oil (25~35 API)
  - NW
  - K Ss
  - Young Structure
- Heavy Oil (15~25 API)
  - SE
  - T Ss
  - Old Structure

Trap

- Thrust Play : NW
- Fault Bounded 3 Way Dip
  - Inversion
  - Antithetic
  - Synthetic
- Stratigraphic Trap
  - Une (SE)



Reservoir

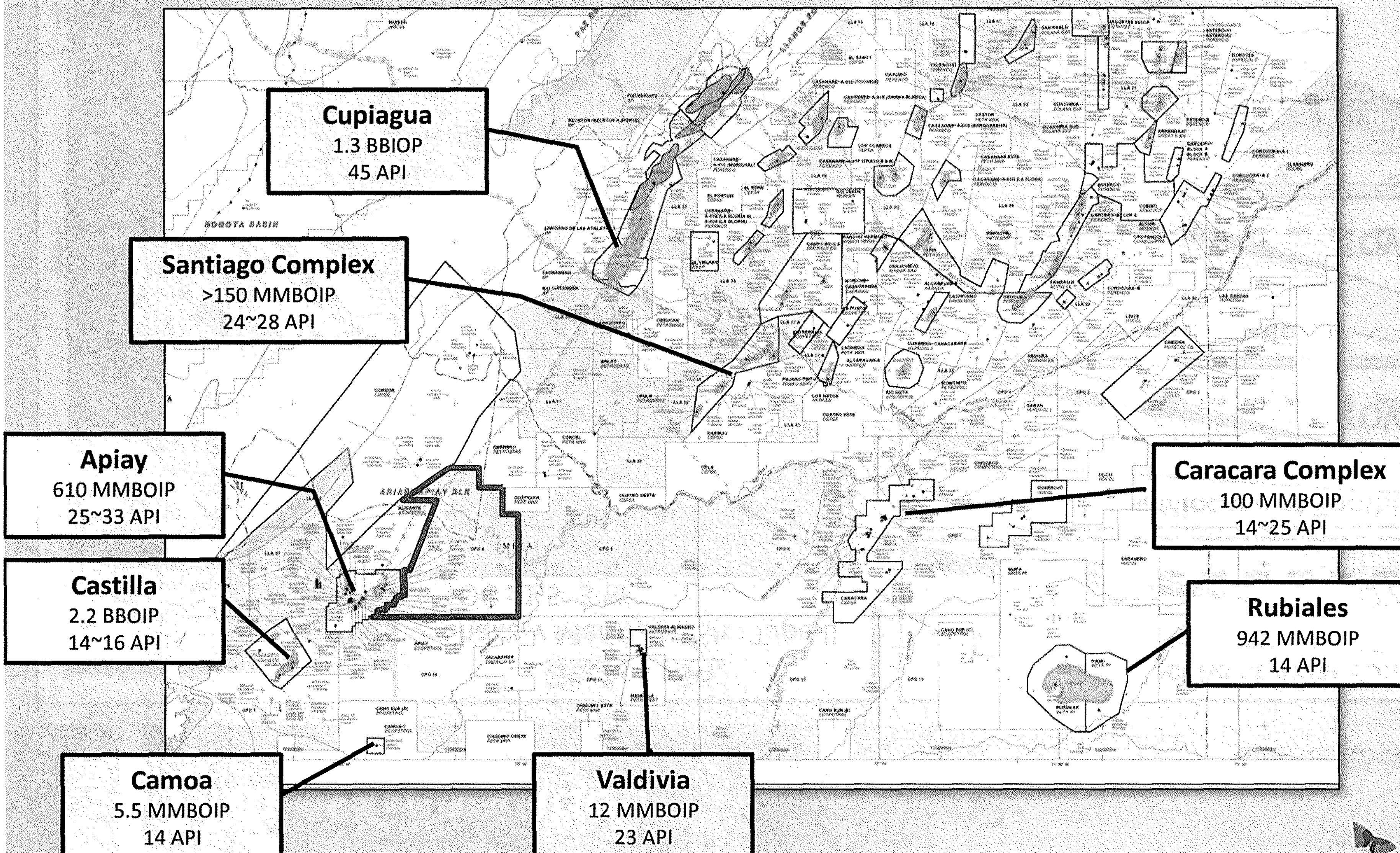
- Multi Target
  - C9
  - Mirador
  - Barco
  - Guadarupe
  - Une

Seal

- 4 Way Dip Closure Thrust
- Fault Seal Juxtapose

Surrounded Area by Existing Fields

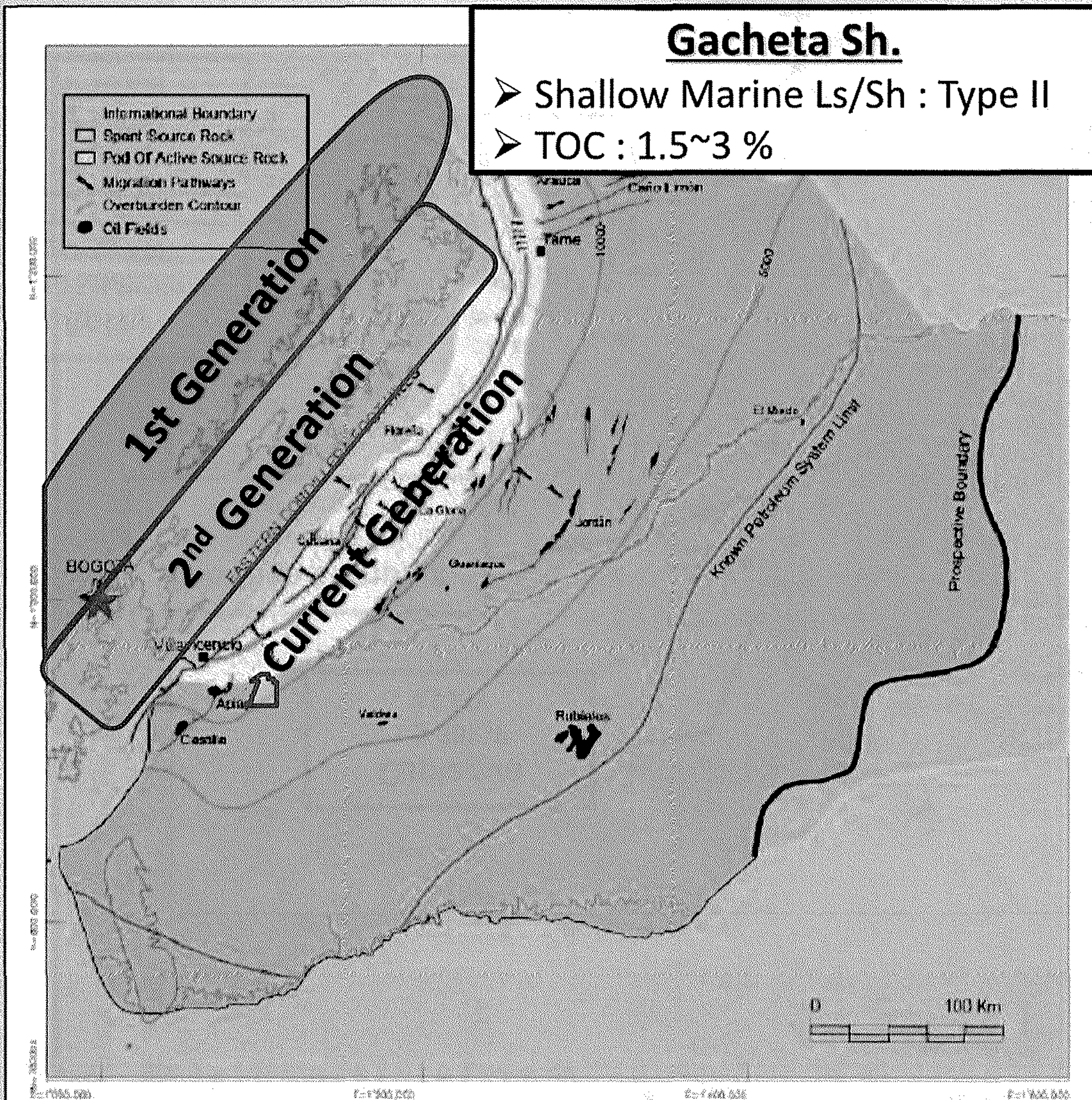
Source Rock



SK energy

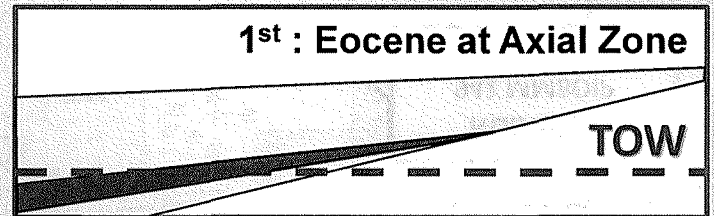
3 Times Generation

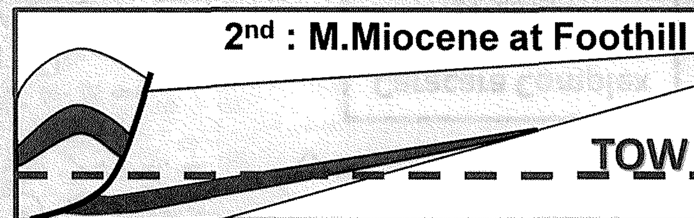
Source Rock

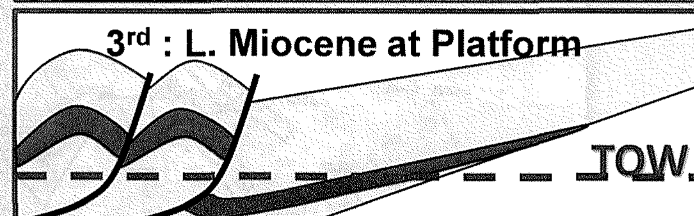


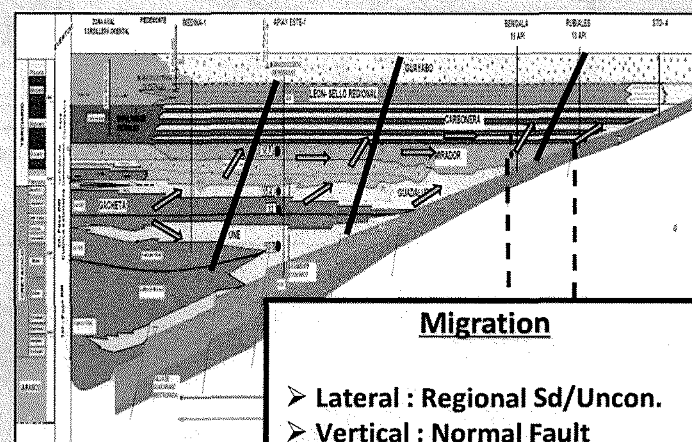
Gacheta Sh.

- Shallow Marine Ls/Sh : Type II
- TOC : 1.5~3 %









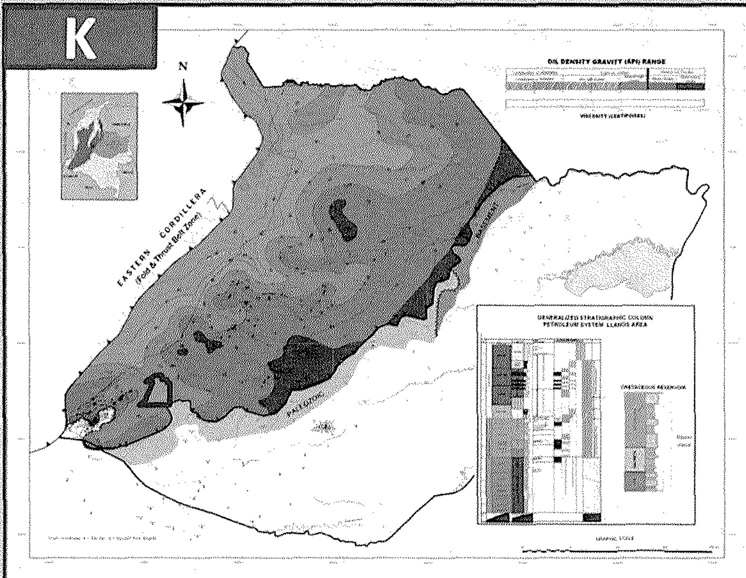
Migration

- Lateral : Regional Sd/Uncon.
- Vertical : Normal Fault

Regional API Distribution

Source Rock

K



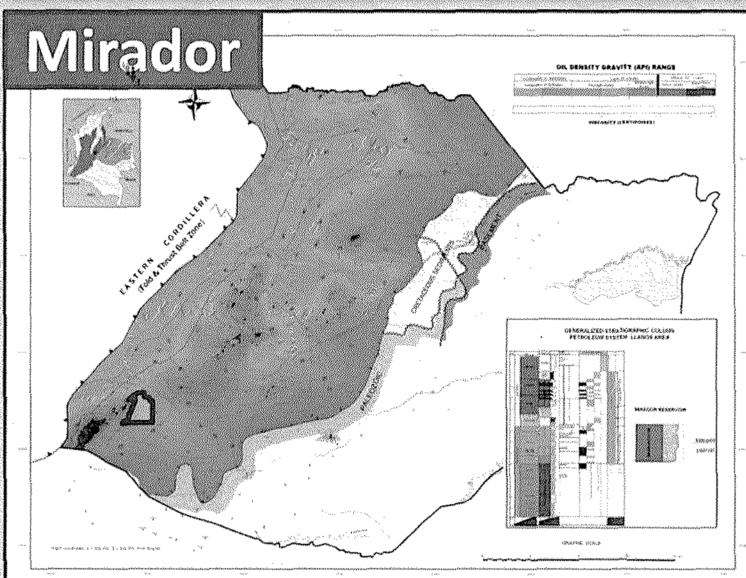
Regional Trend

- Biodegradation by fresh water
  - from Brazillian shield (East)
  - from Mountain (West & south)
- K > Mirador > Cabonera

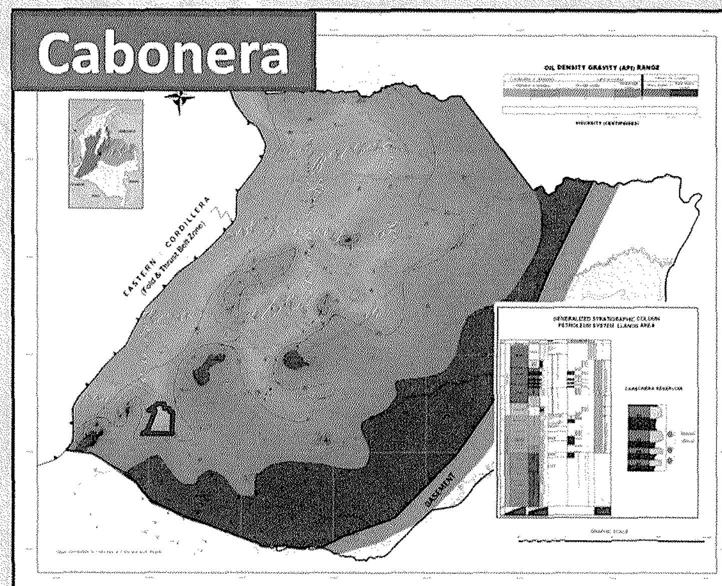
CPO-4

- ± 25 API

Mirador



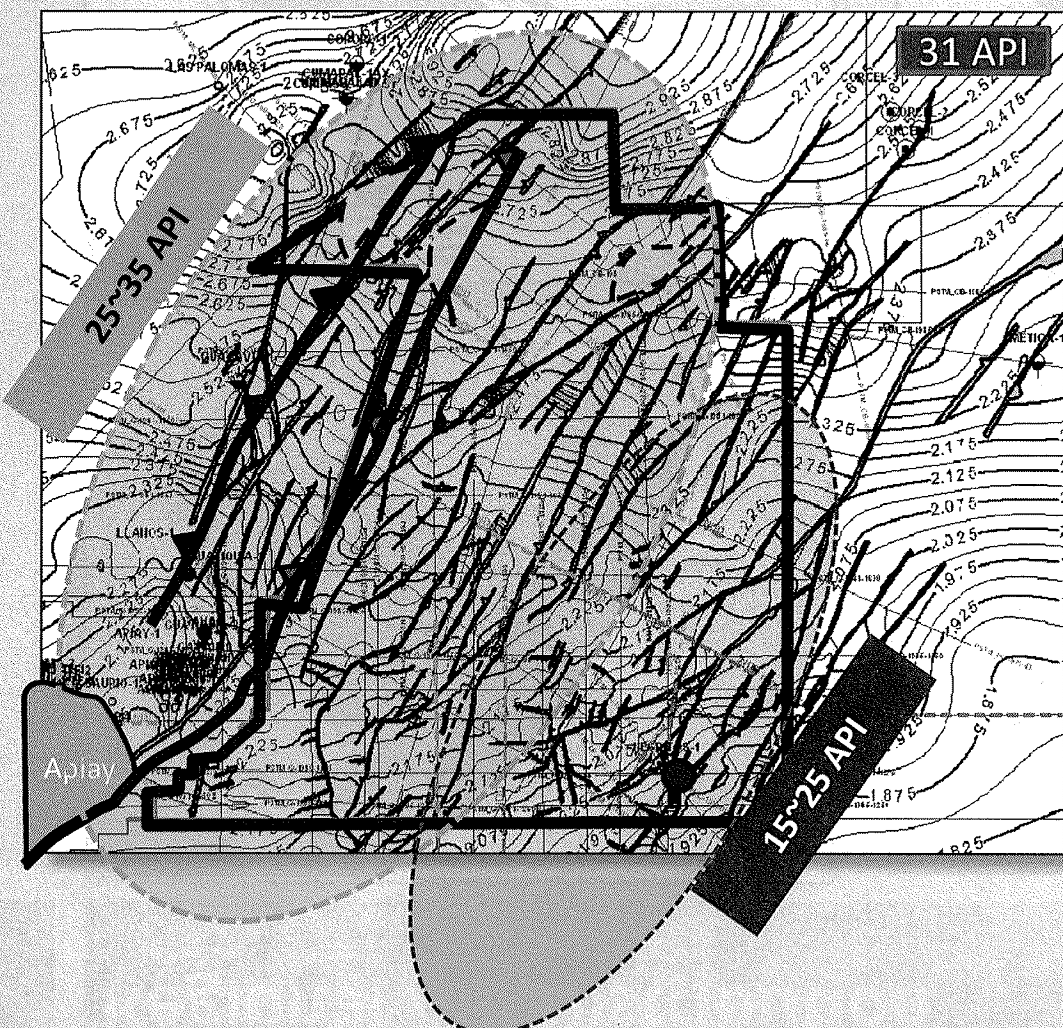
Cabonera

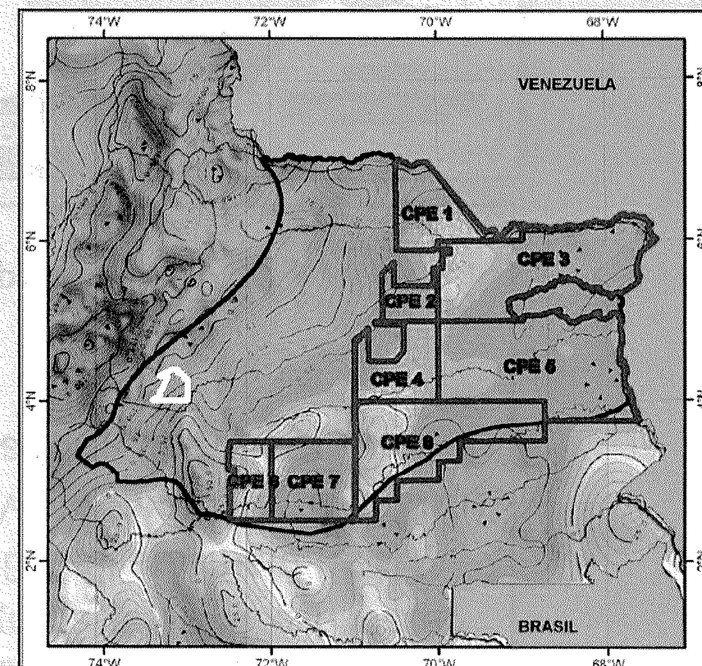


SK energy

Expected API MAP on CPO-4

Source Rock

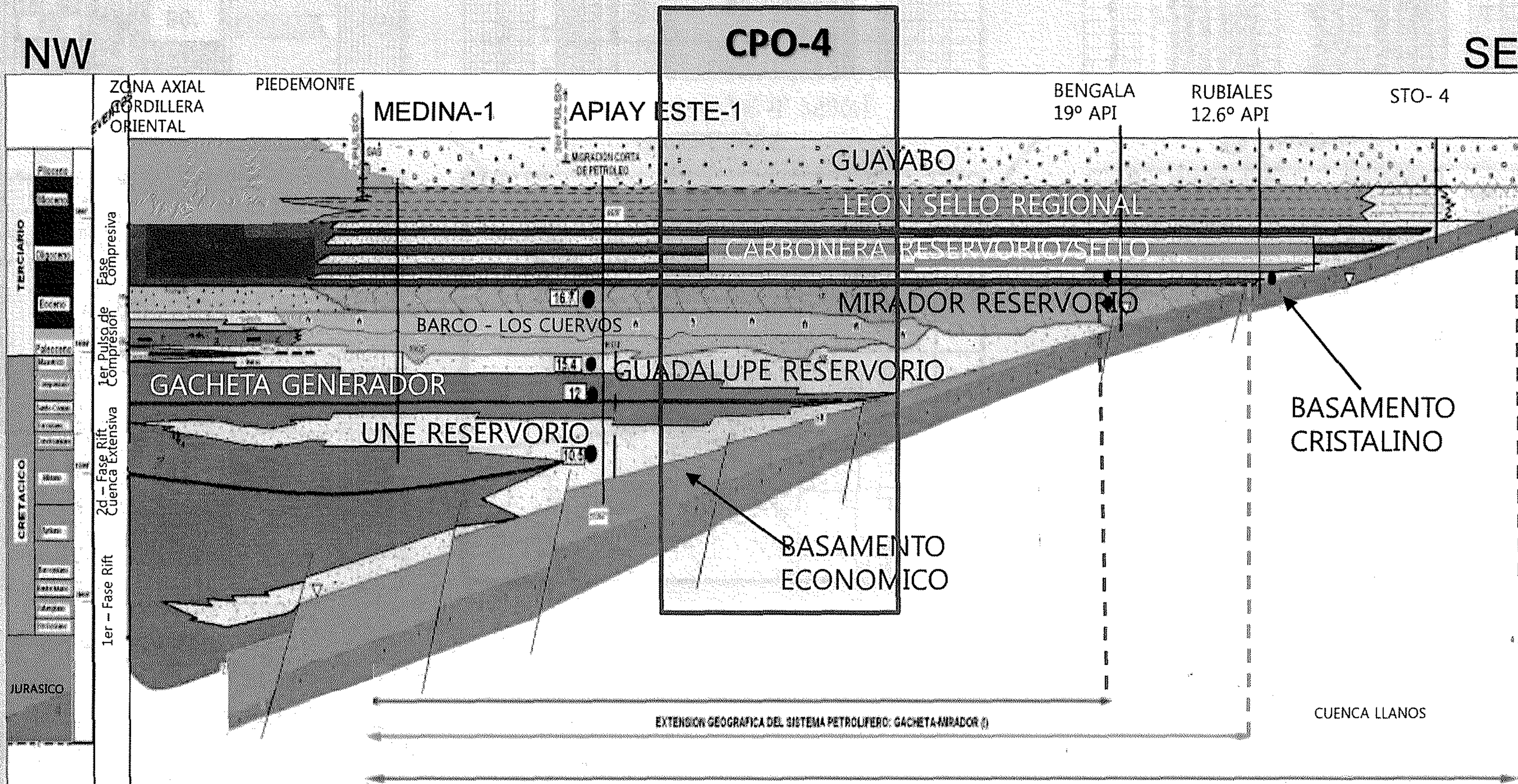




SK energy

Multi Reservoir

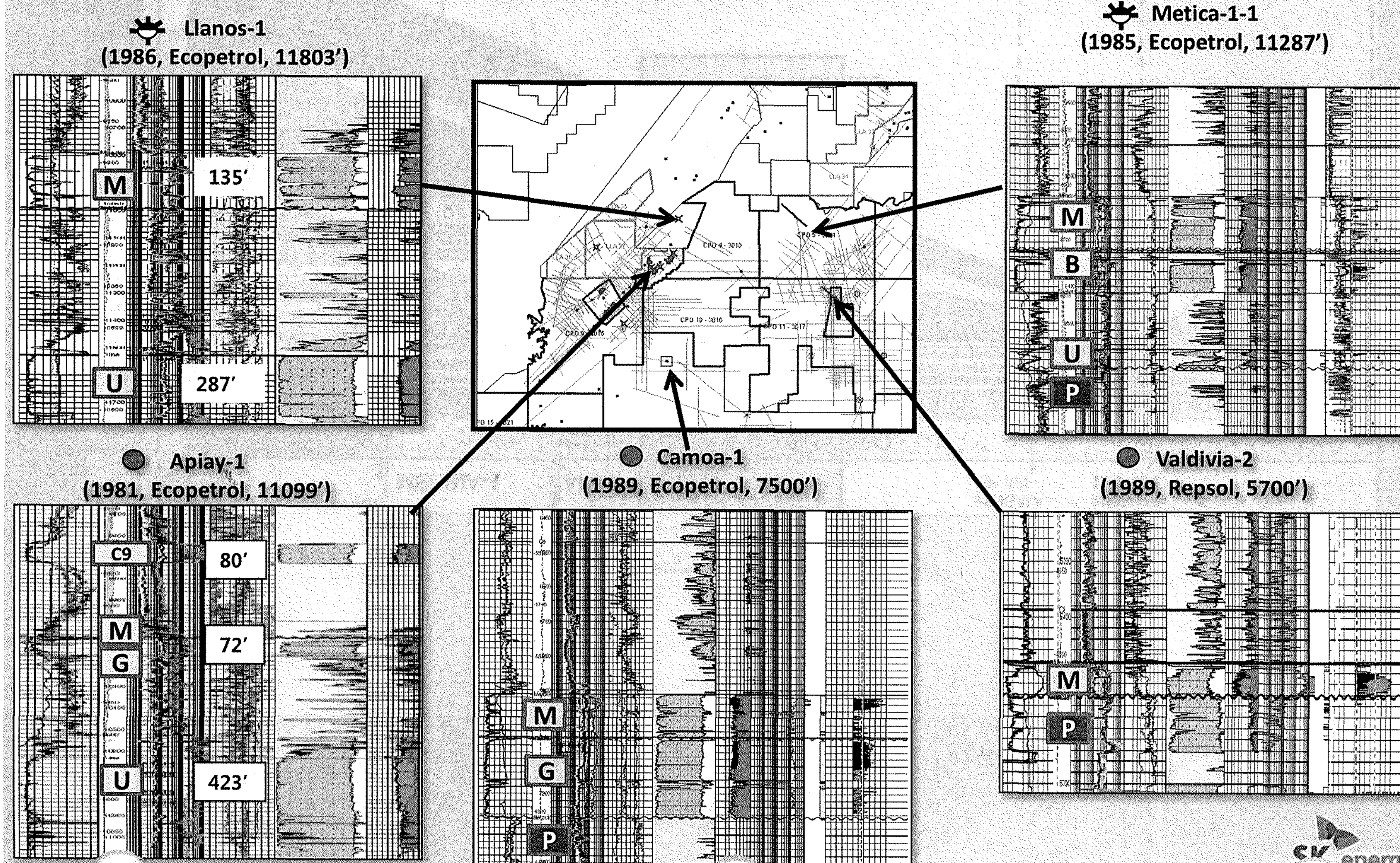
Reservoir Rock



SK energy

Proven Reservoir

Reservoir Rock

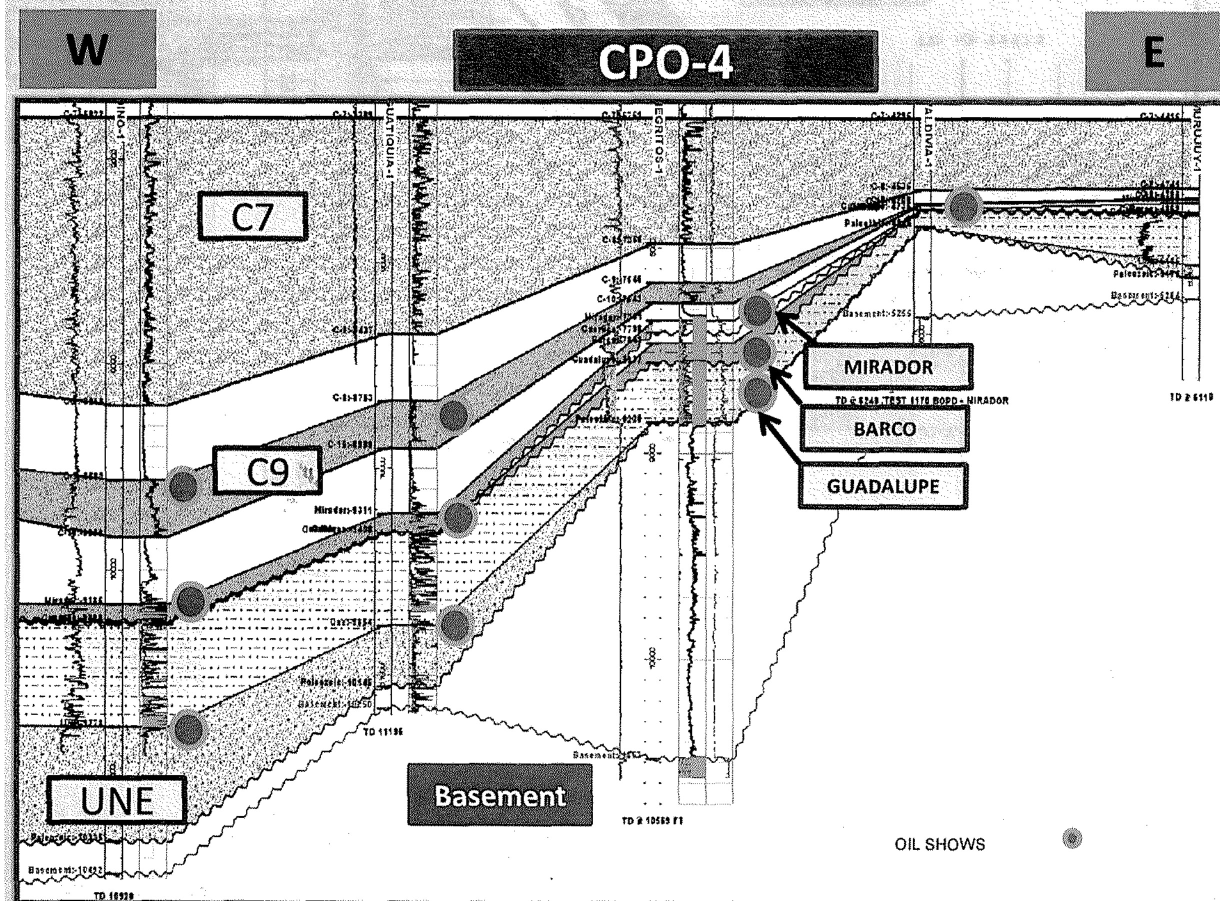


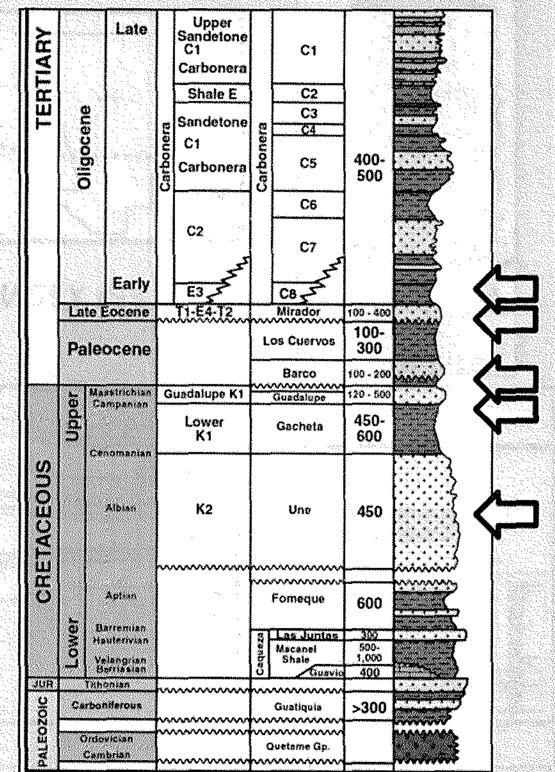
SK energy

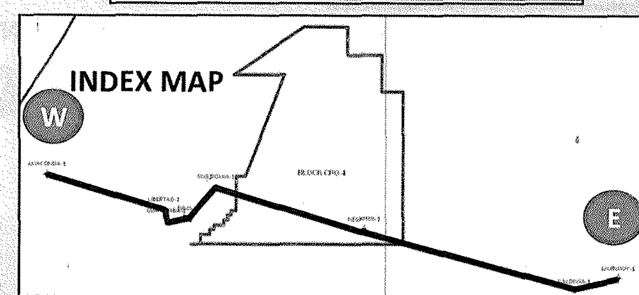
Multi Targets

5 Sand Horizons

C9 / Mirador / Barco / Gadalupe / Une

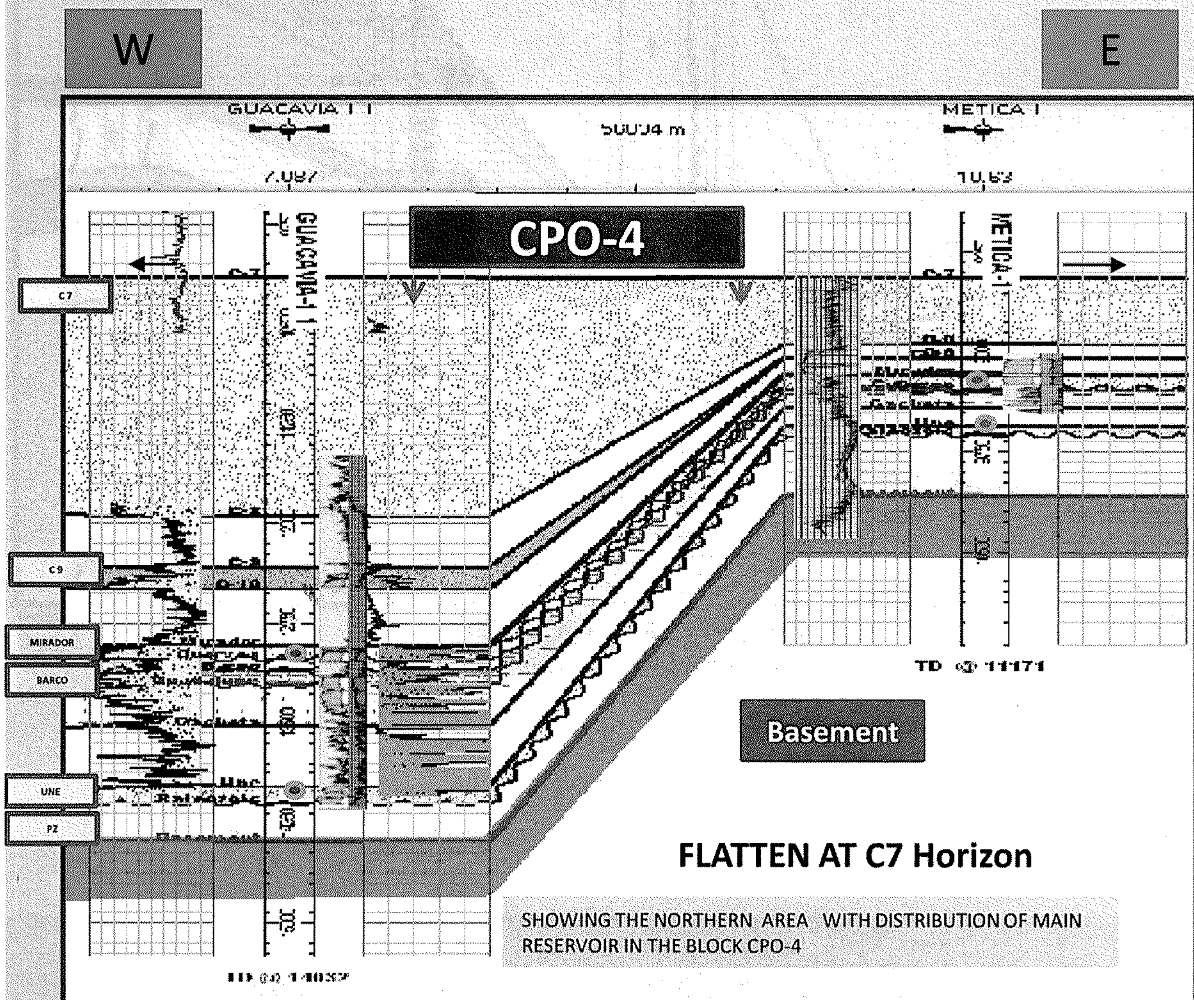






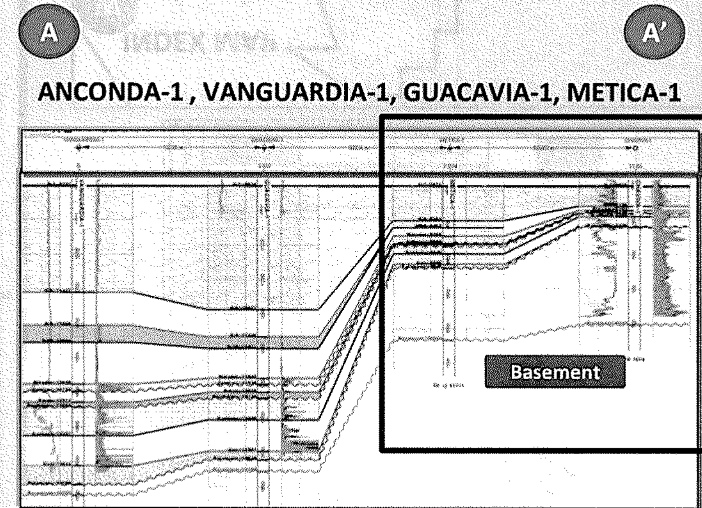
STRATIGRAPHIC SECTION A-A ’

Reservoir

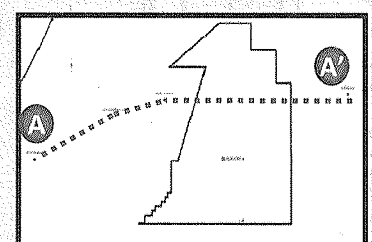


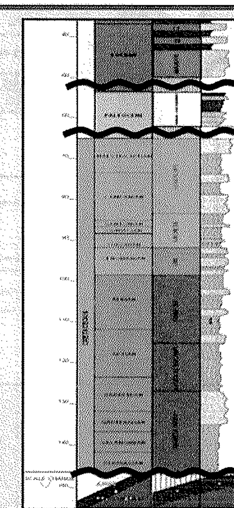
FLATTEN AT C7 Horizon

SHOWING THE NORTHERN AREA WITH DISTRIBUTION OF MAIN RESERVOIR IN THE BLOCK CPO-4



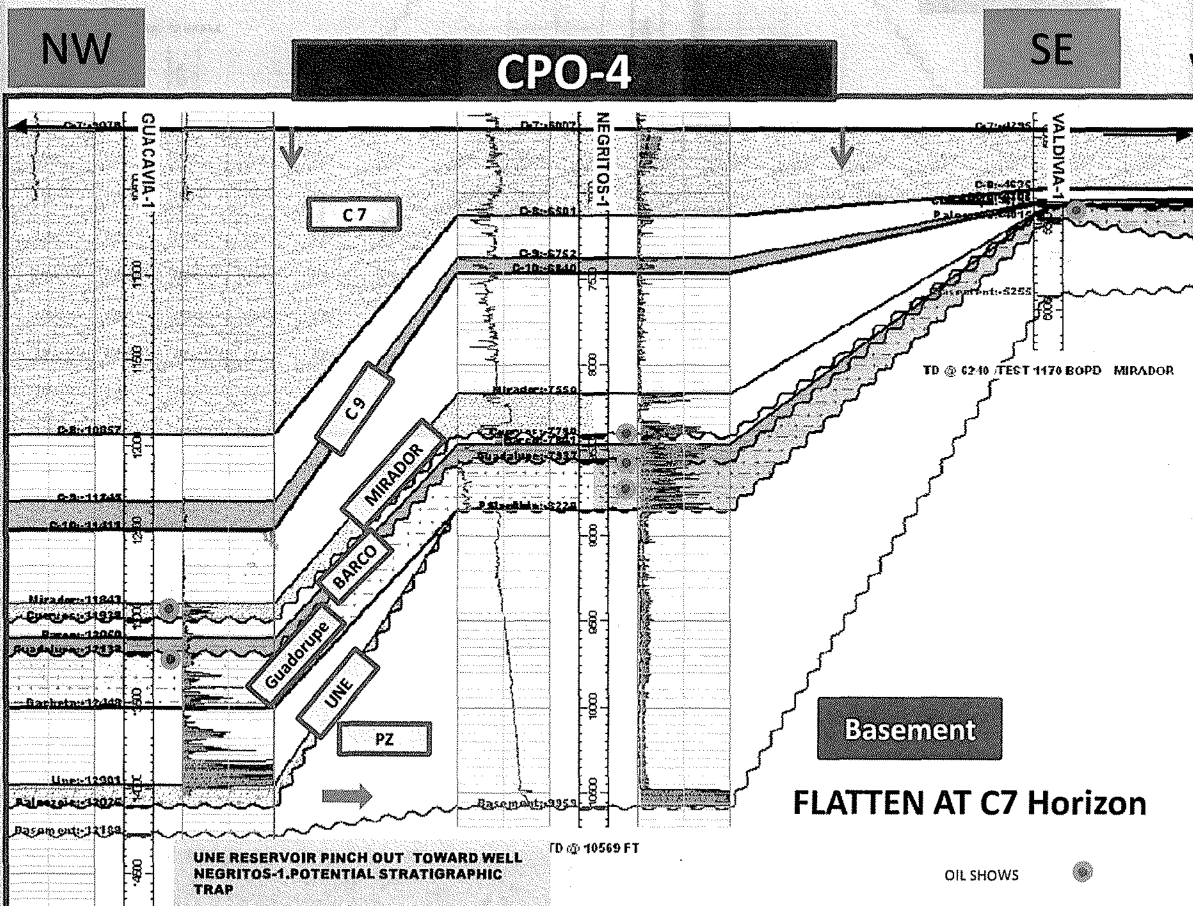
INDEX MAP

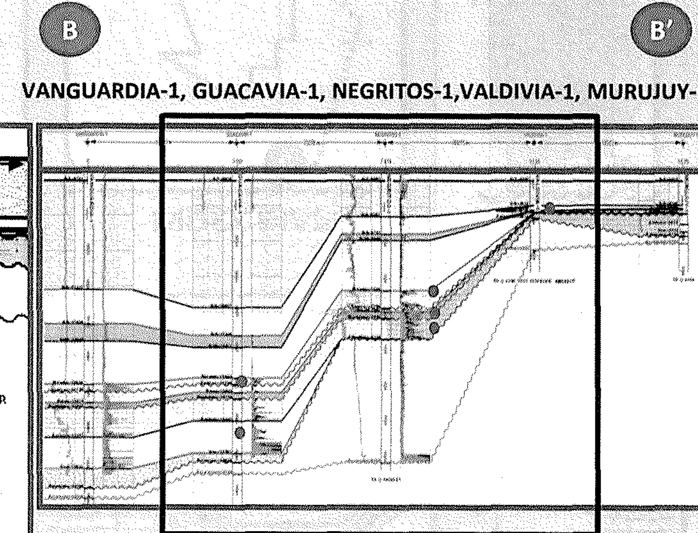




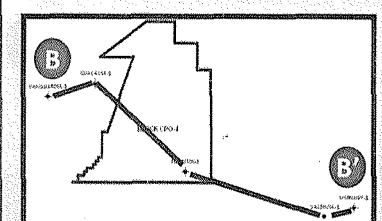
STRATIGRAPHIC SECTION B-B'

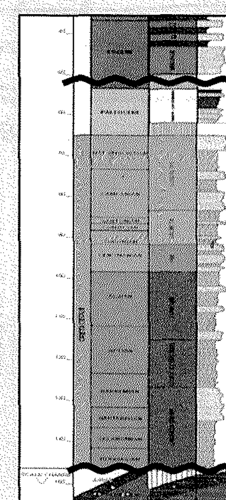
Reservoir





INDEX MAP

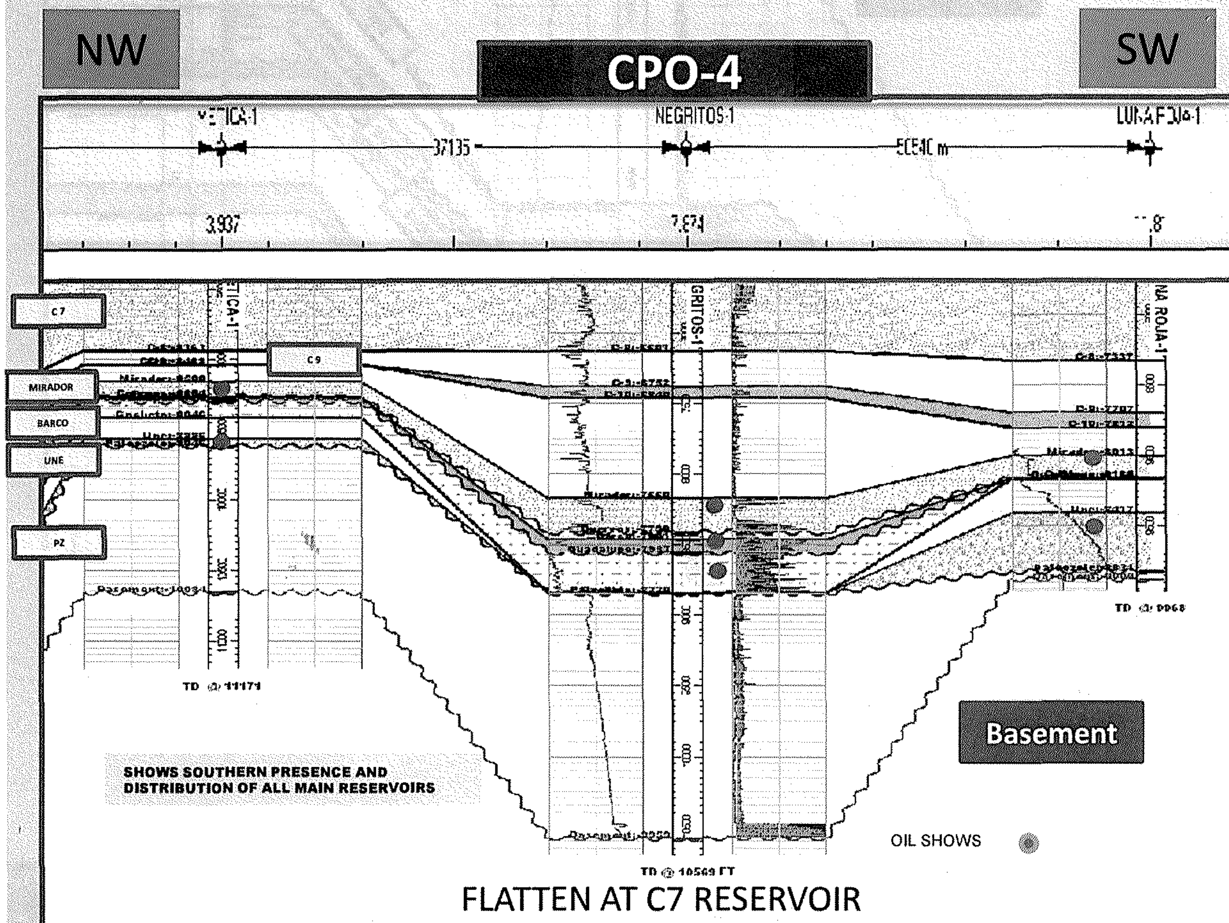


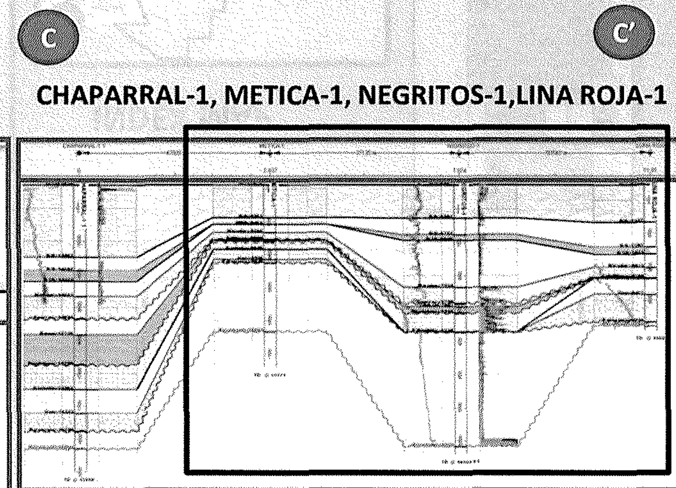


SK energy

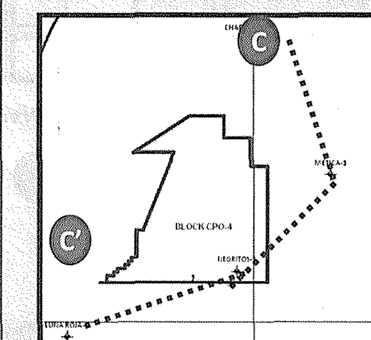
STRATIGRAPHIC SECTION C-C'

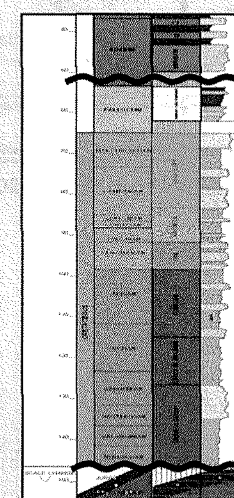
Reservoir



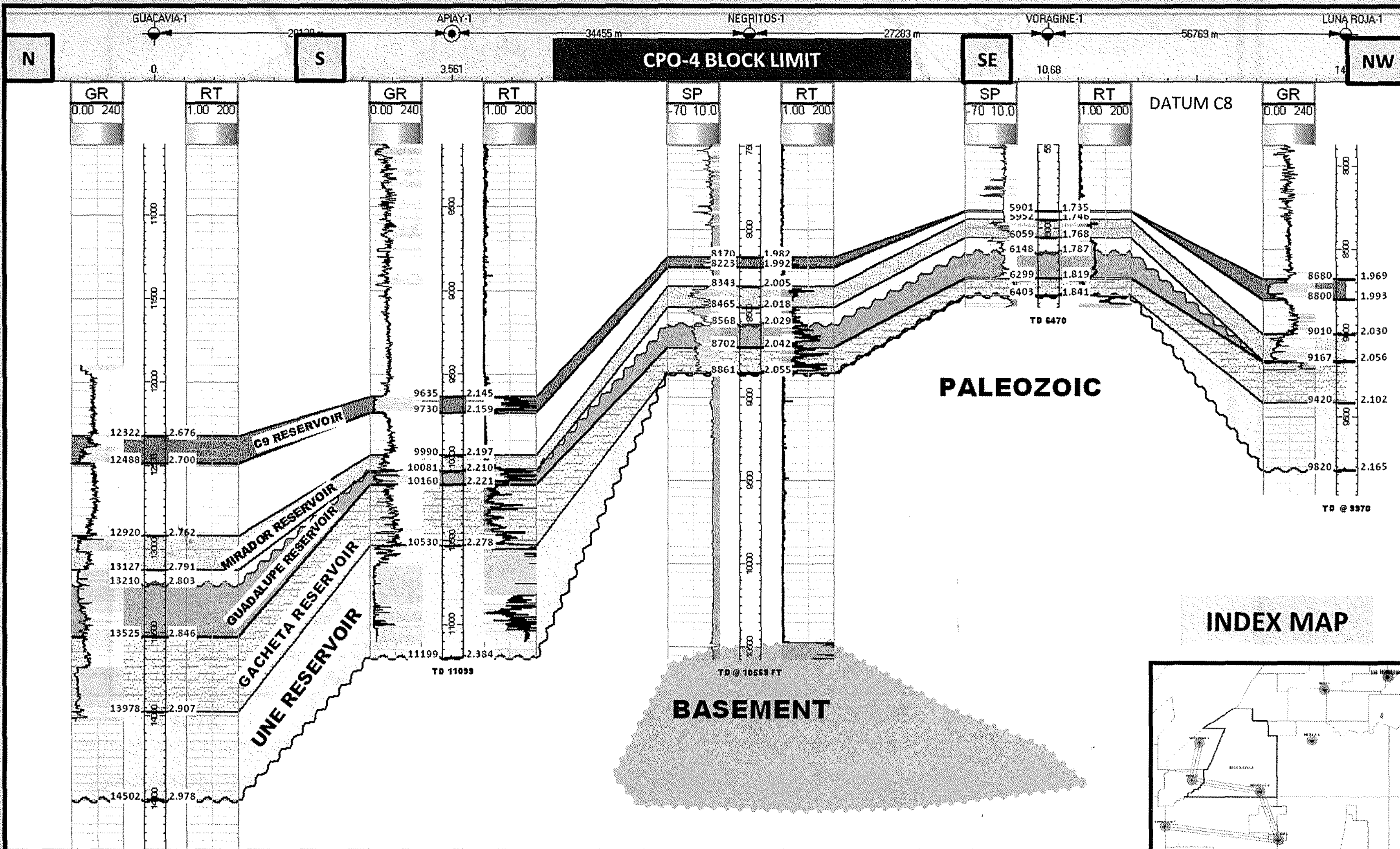


INDEX MAP





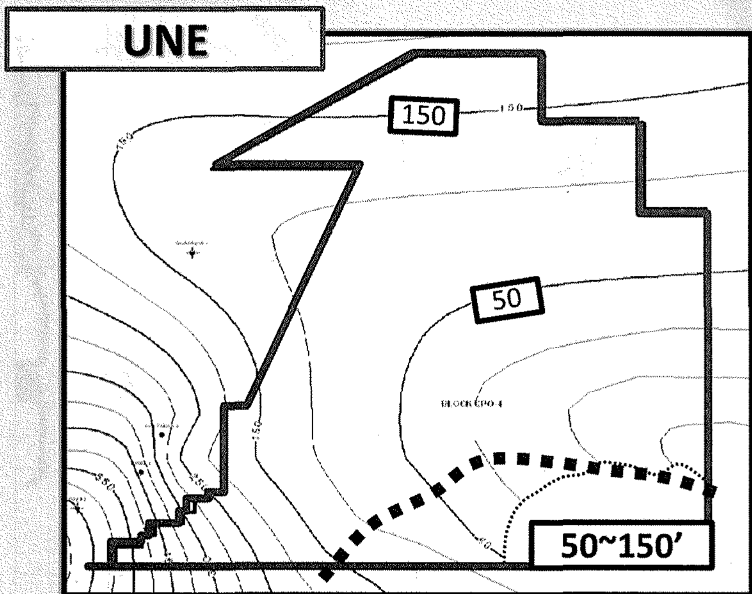
Strat. Correlation Wells Guacavia-1, Apiay-1, Negritos-1,Voragine-1, Luna Roja -1; Showing Main Tertiary & Cretaceous Reservoirs

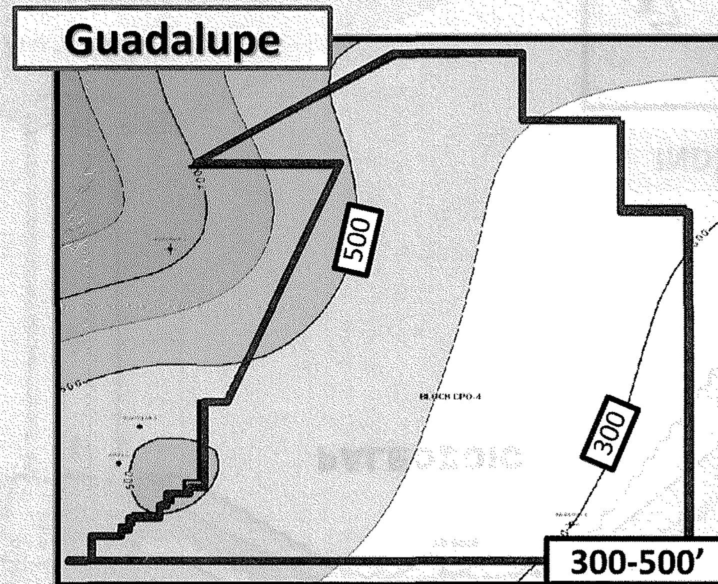


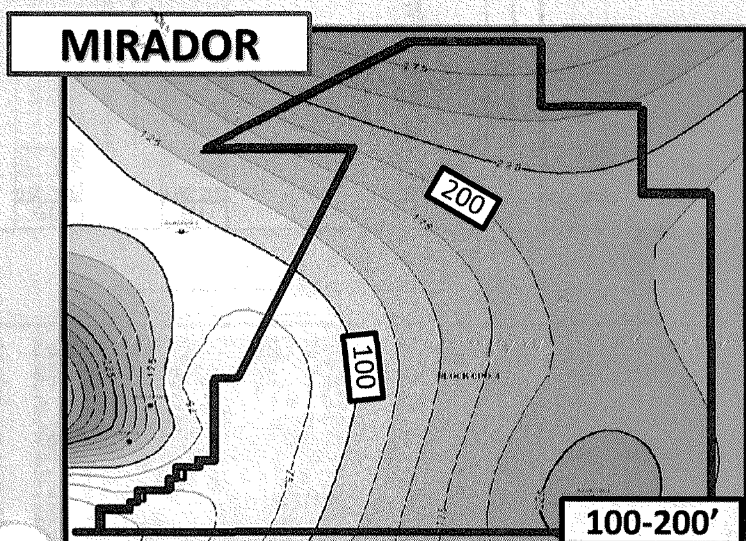
SK energy

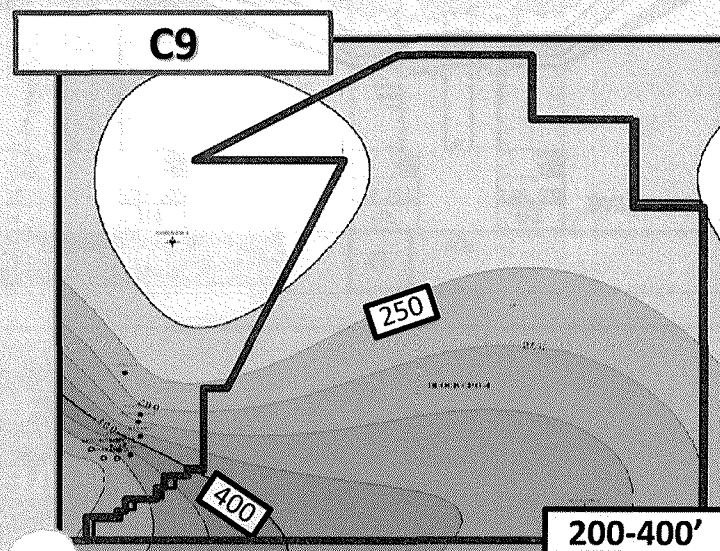
GROSS THICKNESS

Reservoir





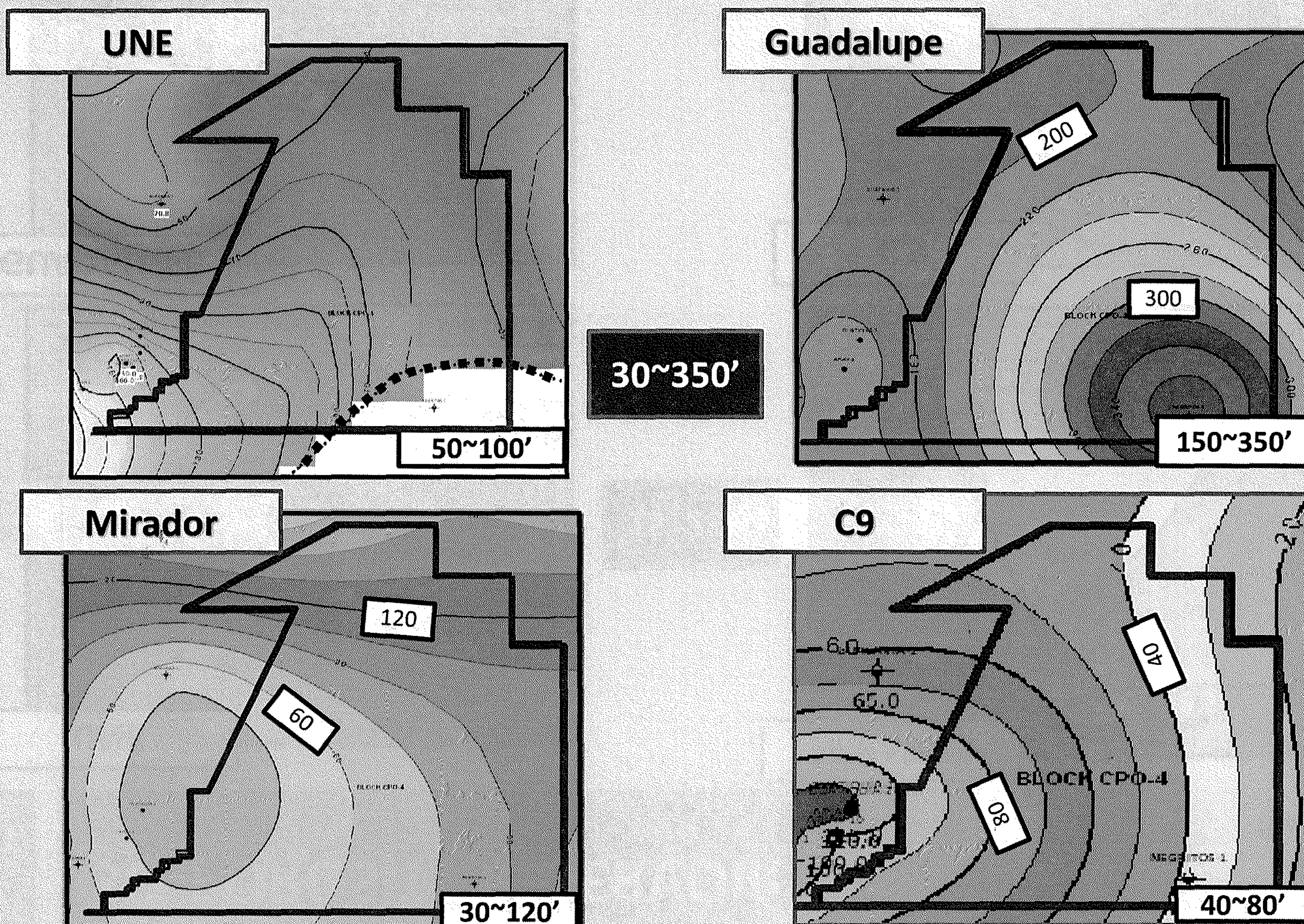




SK energy

NET SAND THICKNESS

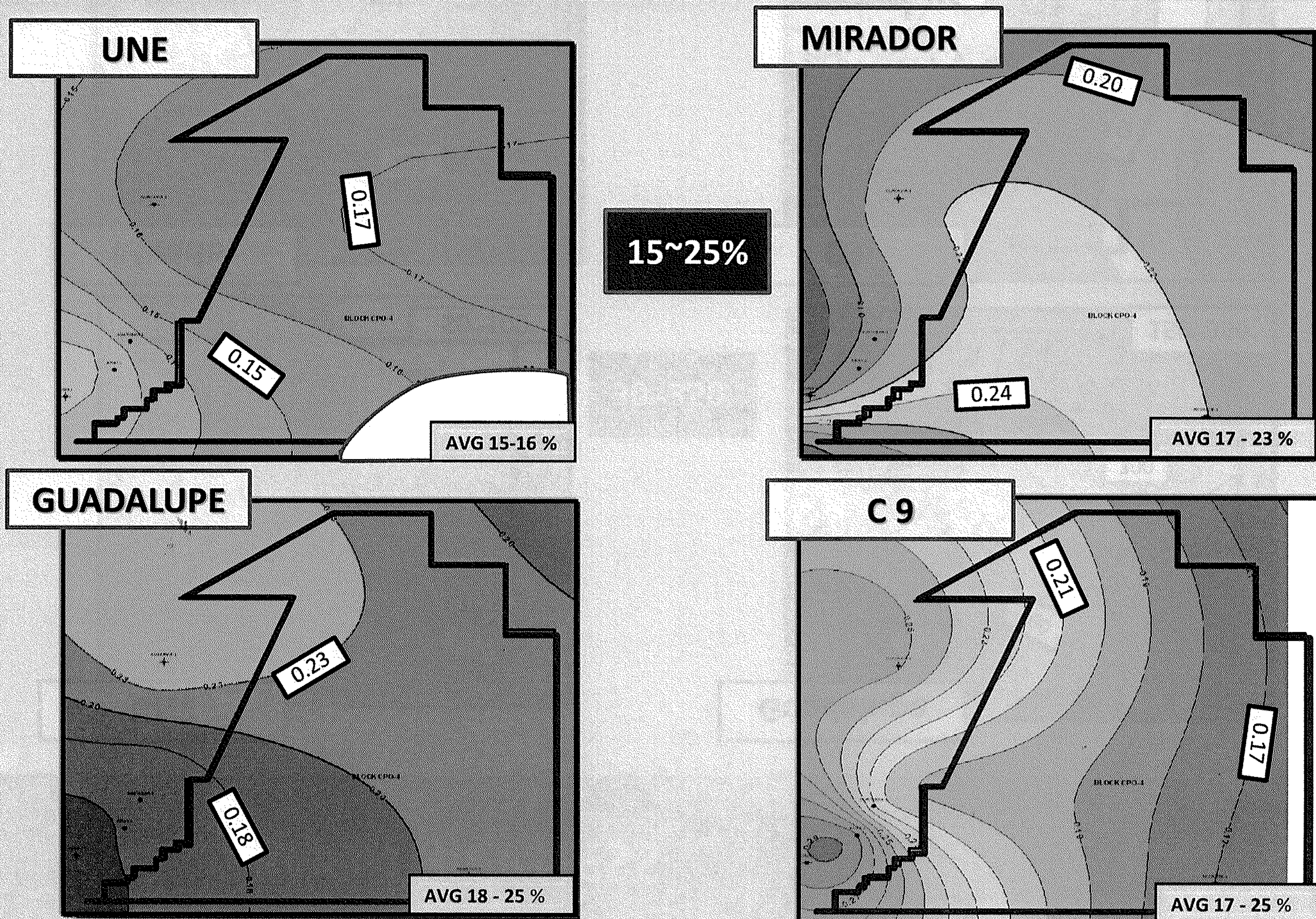
Reservoir



SK energy

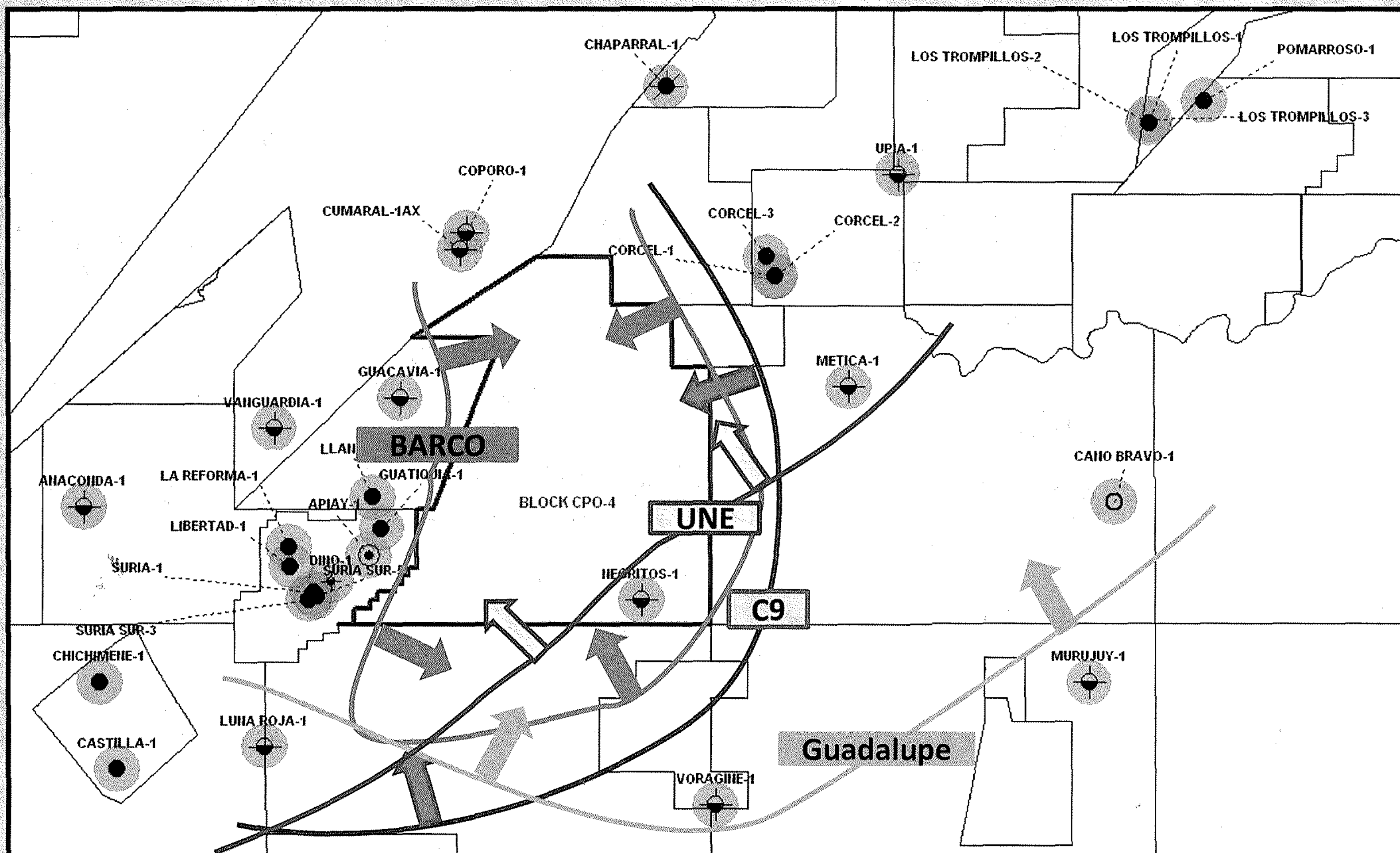
ISO-POROSITY RESERVOIR MAP

Reservoir



energy

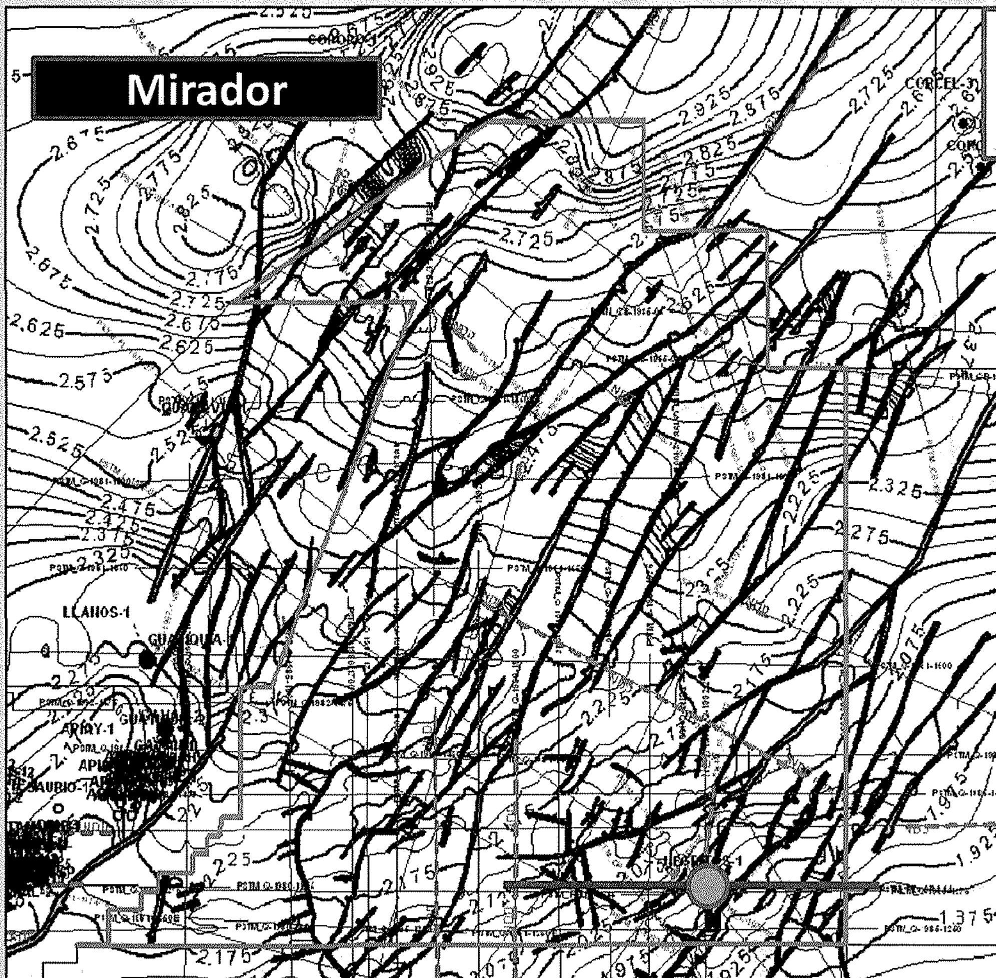
Reservoir Distribution

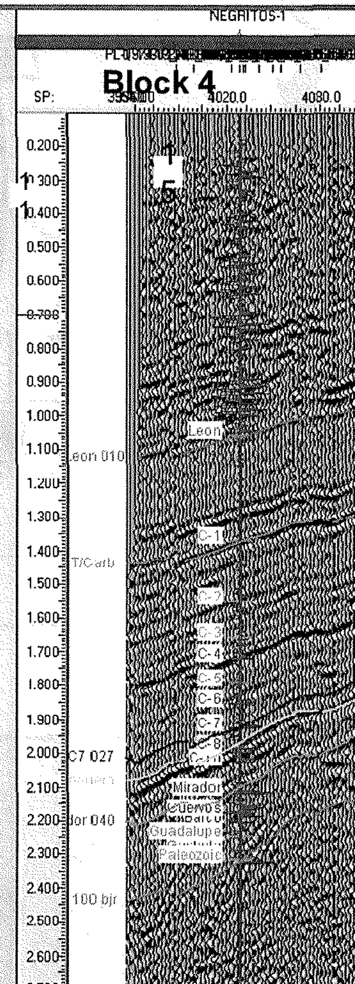


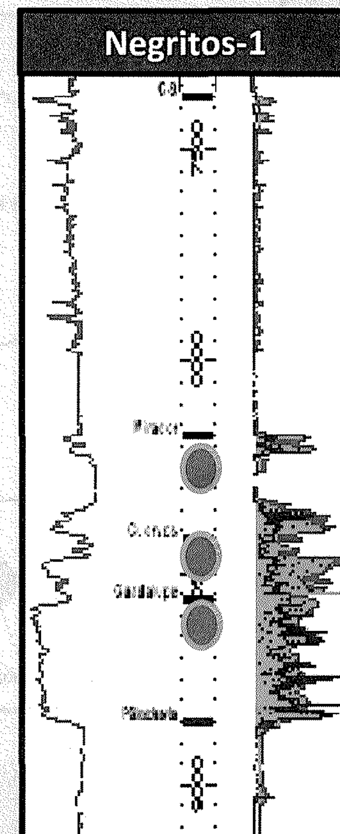
SK energy

Dry Well analysis : Negritos-1

- Downdip in K & T Structural Map ; Test Pz High
- Pz Section : all shale



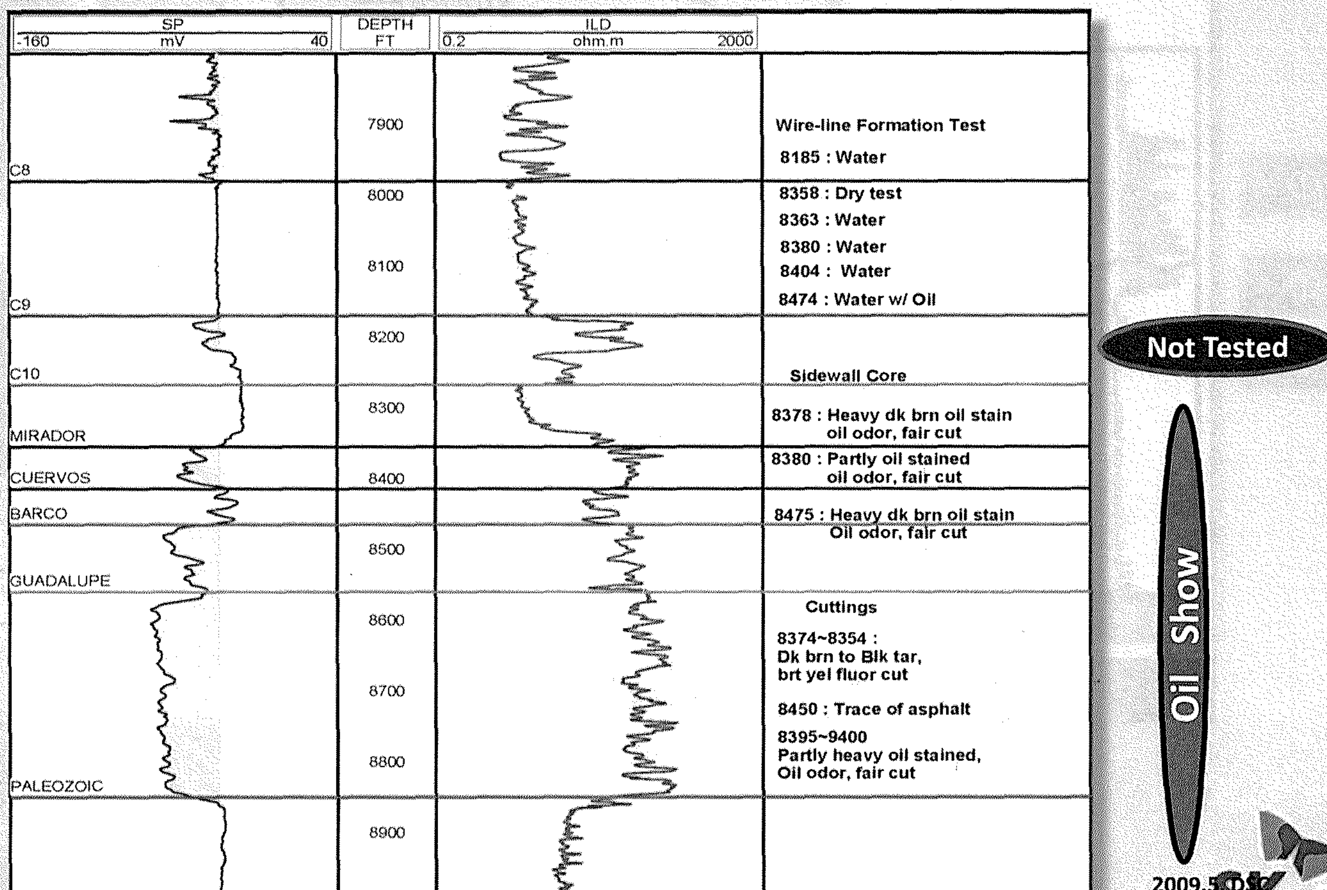




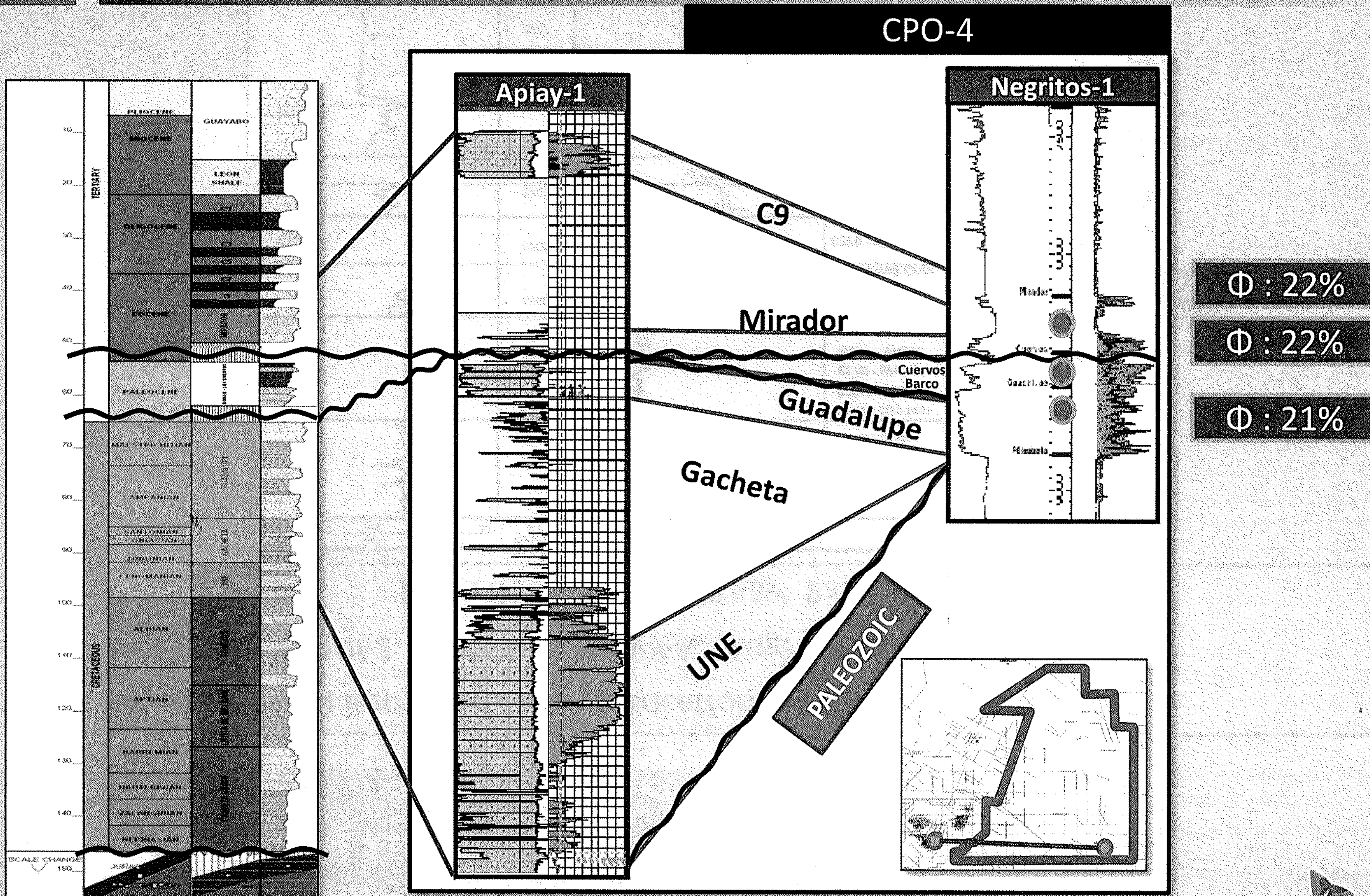
energy

Summary of Negritos-1

Operator : Int'l Petroleum Ltd.	Location : N937236.68 E1111111.61
Spud : Jun. 5, 1962	P&A : Aug. 8, 1962
Ground : 613' RKB : 624'	TD : 10,569' Basement

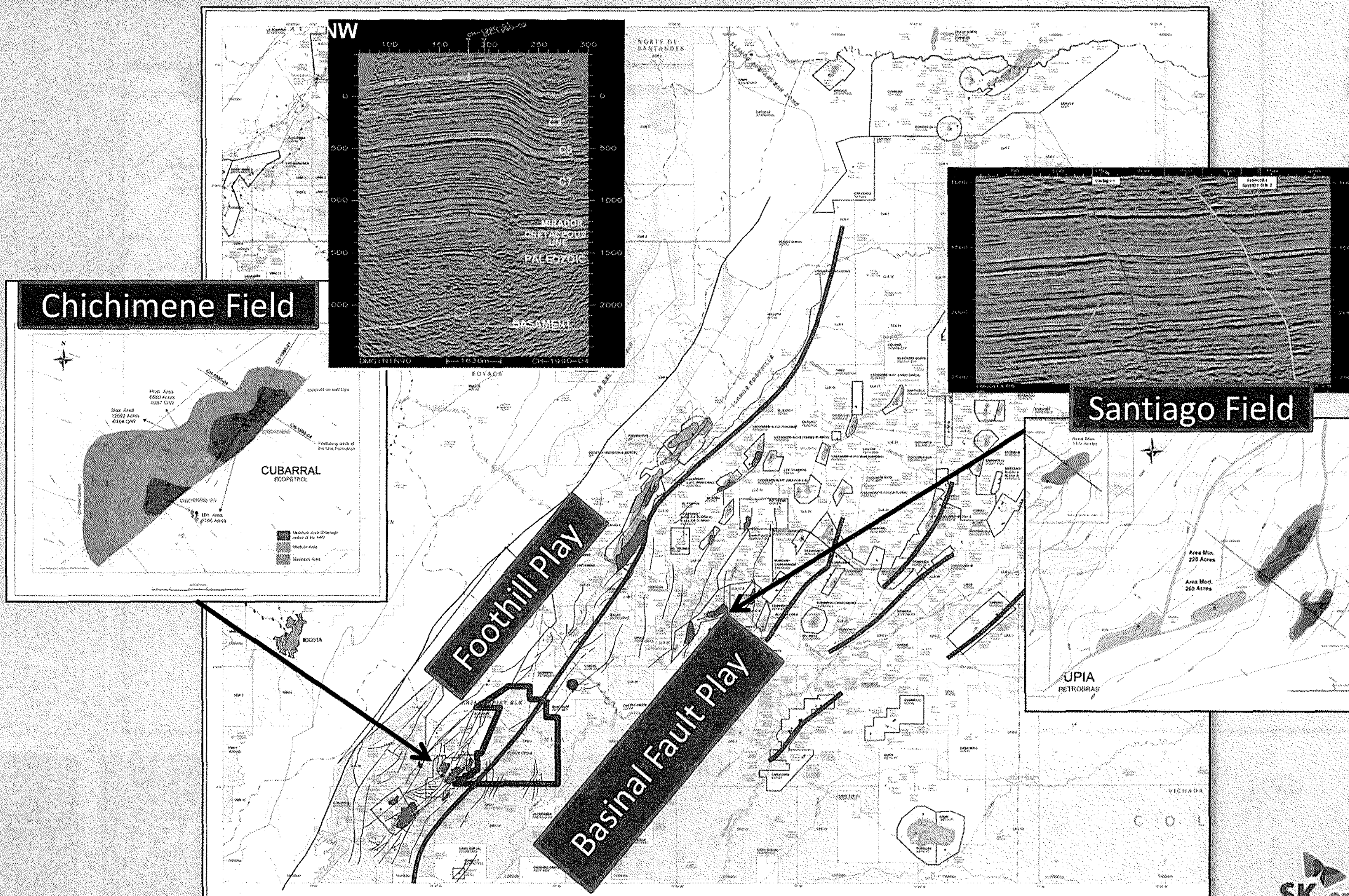


Negritos-1 : Well Correlation



On-trend of Discoveries

Trap

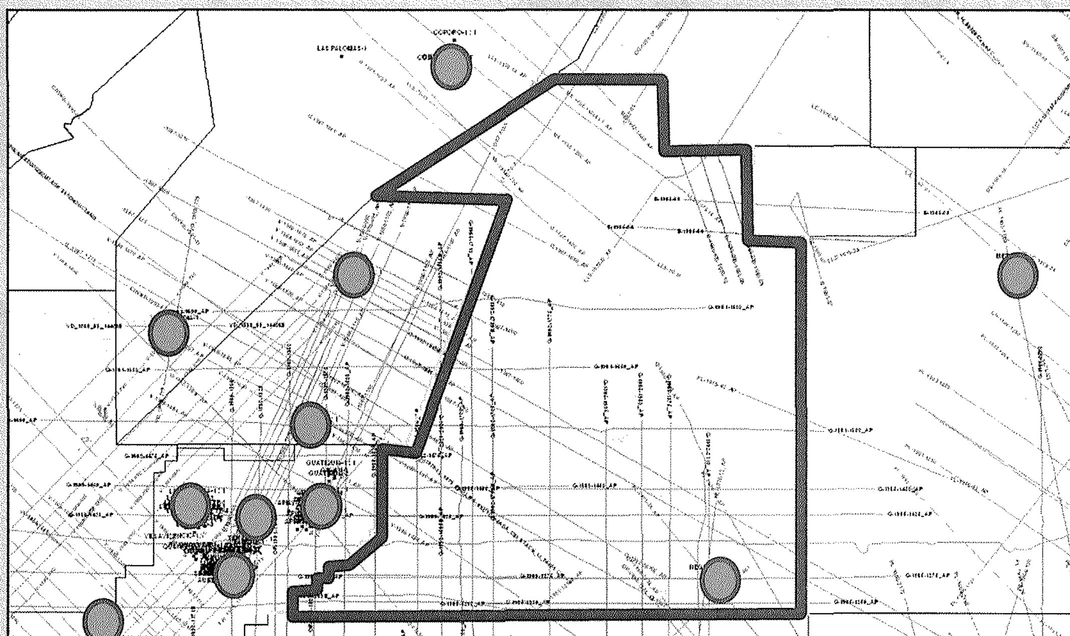


SK energy

Data Base

Trap

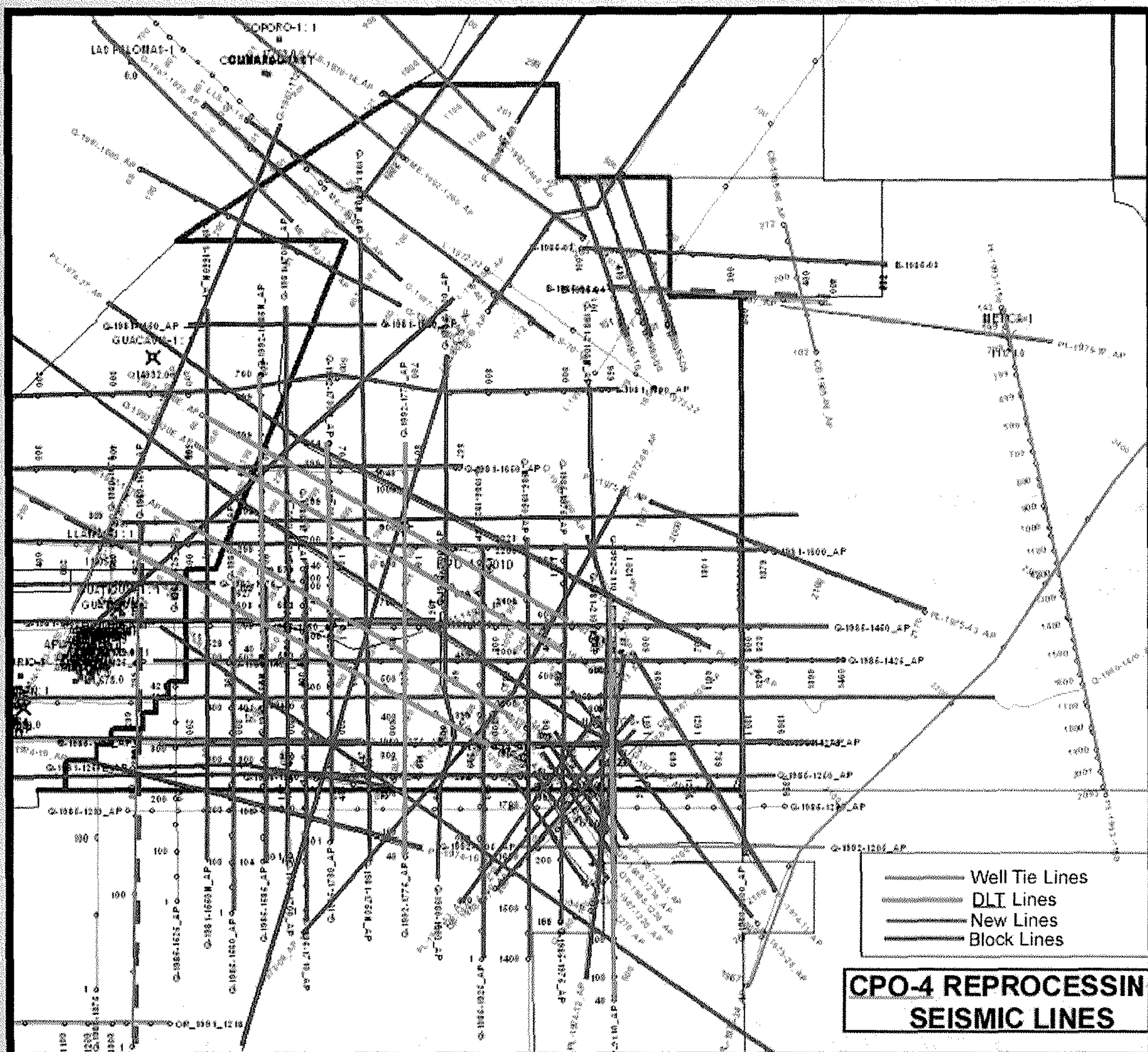
2 D Seismic : 1,825 Km ('70~'90)
15 Wells : 1 well inside of the block



Vintage	Type		Km
	Tapes	Images	
1970	4	3	140
1972	4	4	157
1974	8		180
1975	6	3	98
1980	9	1	177
1981	10	1	289
1982	2	1	15
1983	1		35
1985	17		274
1987	12		35
1988	6		142
1992	11		158
1994	3		97
1994	1		28
Total	**94**	**14**	**1825**

SK energy

Reprocessing



- ❖ Available field seismic data
  - 51 seismic lines : 1,825 Km
- ❖ Reprocessed Lines : 1,289Km
  - Inside of Block : 1,150 Km
  - Outside of Block : 200 Km
- ❖ Service Company : Crescent Geo
- ❖ Schedule : Completed by Aug.
- ❖ Estimated cost : $ 135,000
  - 100 USD/linear Km

SK energy

Result of Reprocessing

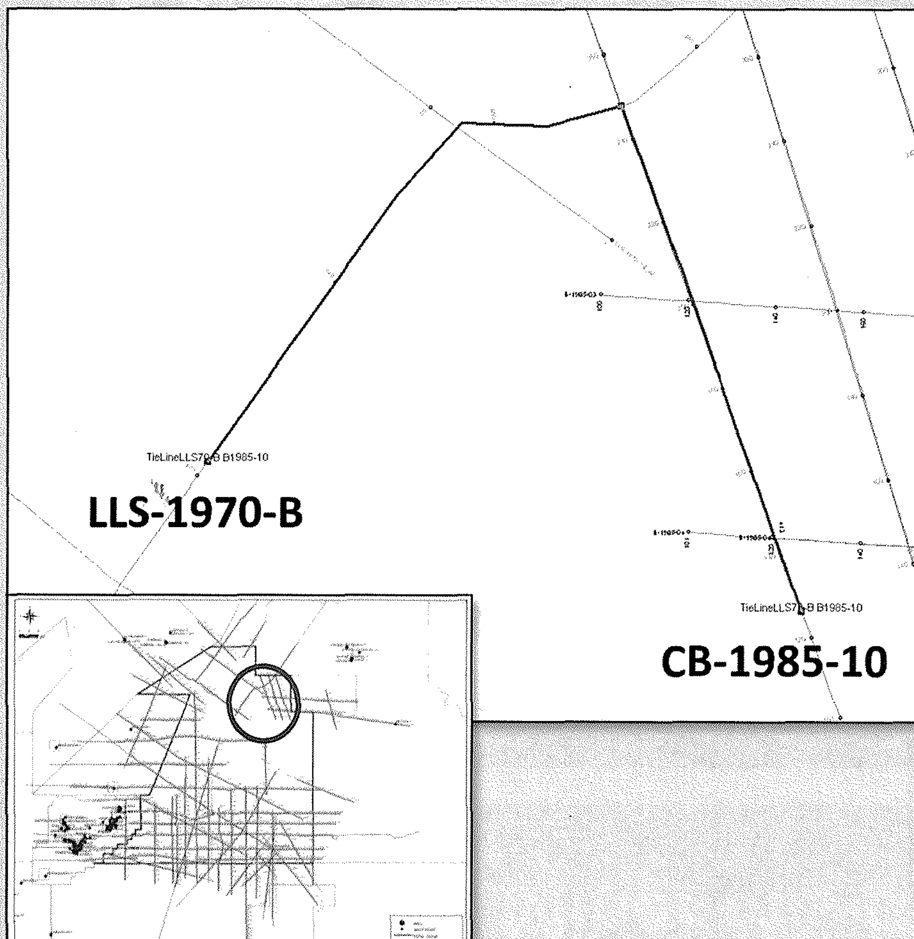
CPO-4

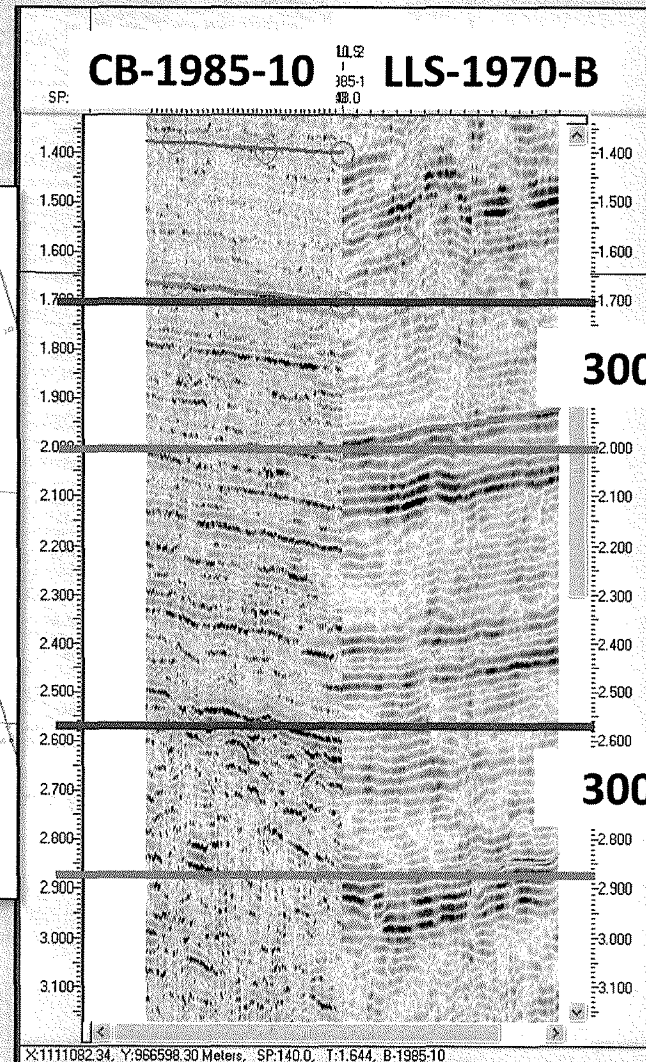
- Miss-ties removed
- Zero-phase conversion of dynamite lines further improved the tie between the dynamite and vibroseis lines
- Statics and Kirchhoff PSTM improved the quality of the images
  - Better continuity & fault definition
  - Preserved structural integrity

SK SK energy

Miss-tie Example

CPO-4

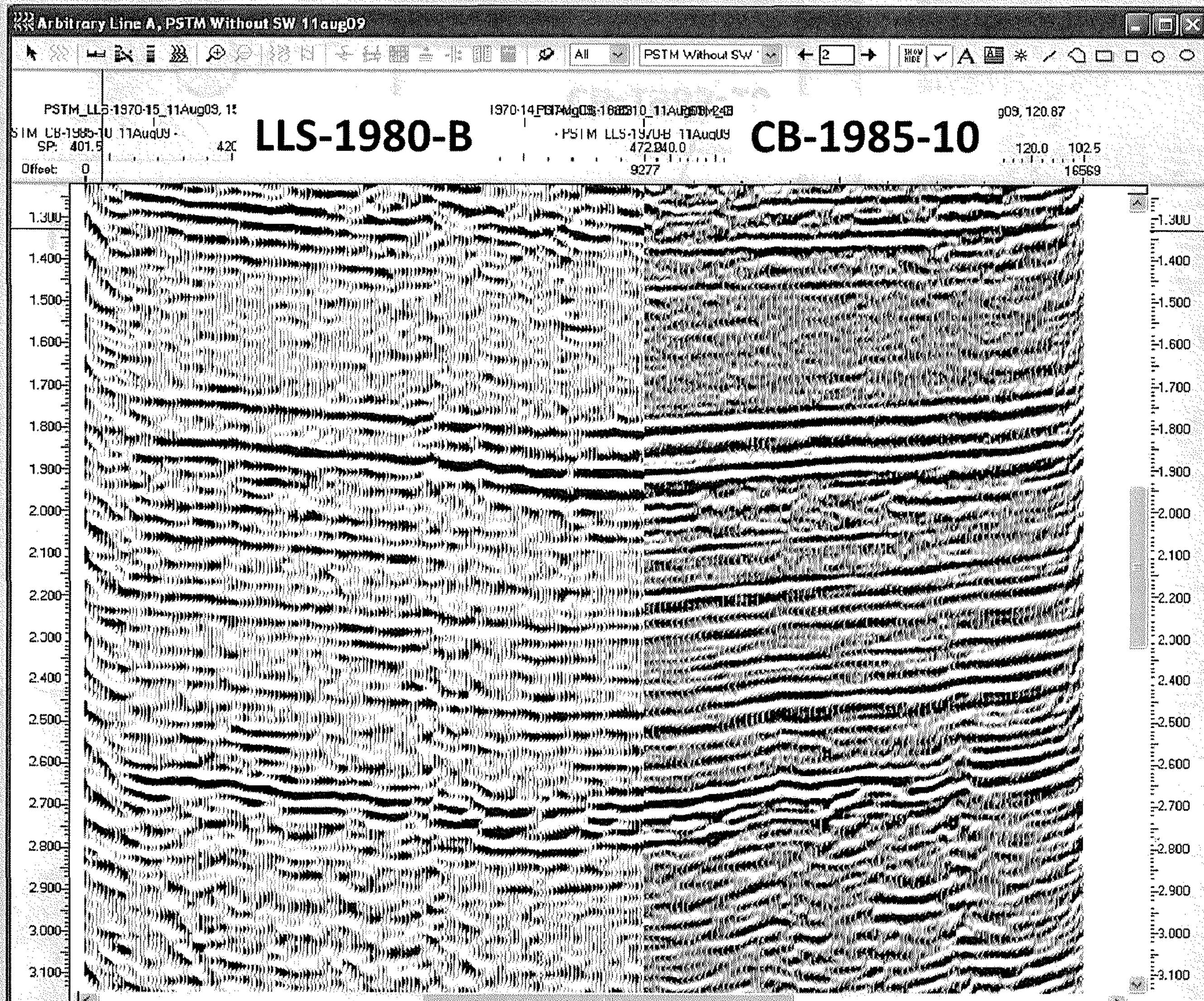




SK energy

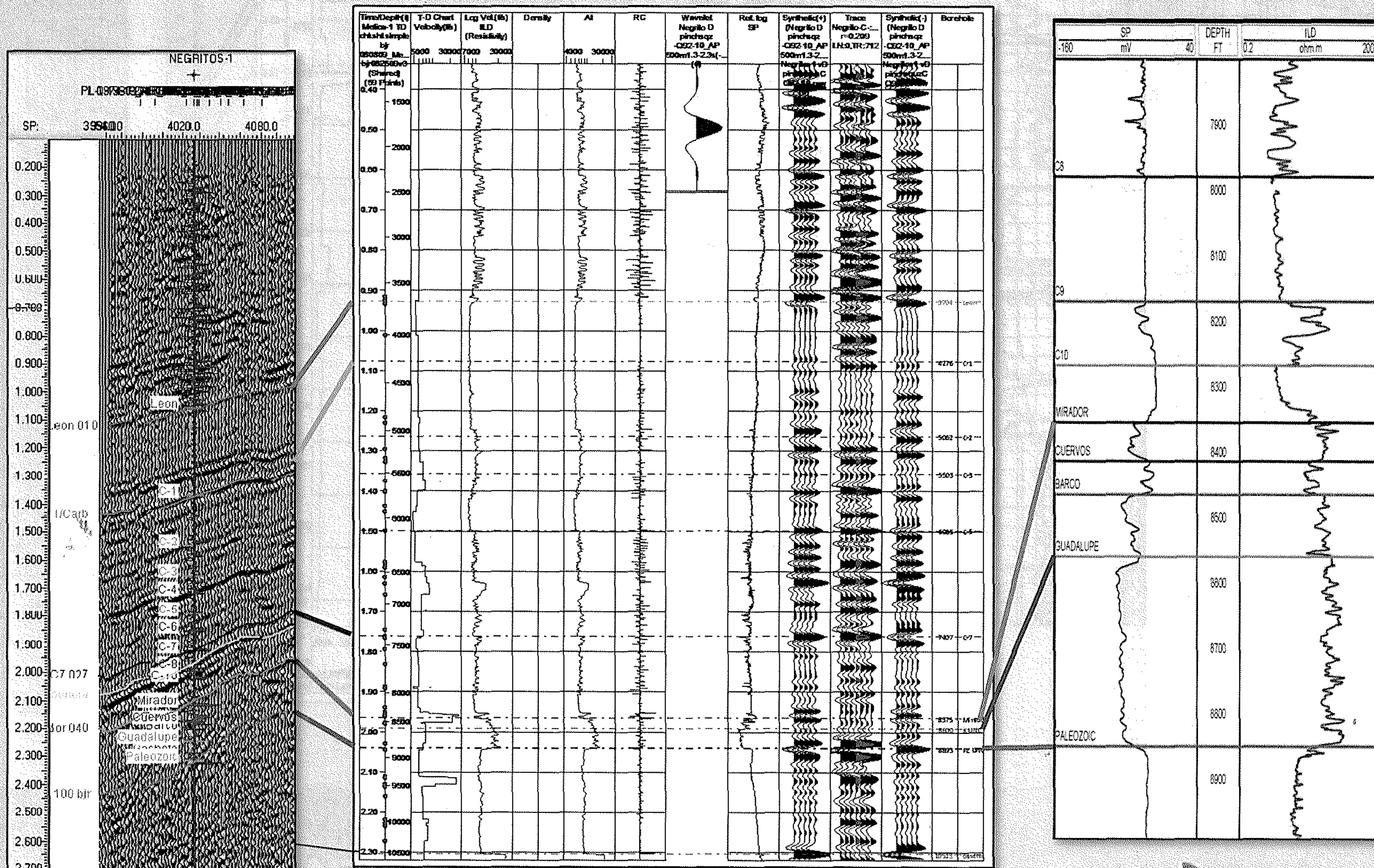
New Images: Minor mis-tie

CPO-4



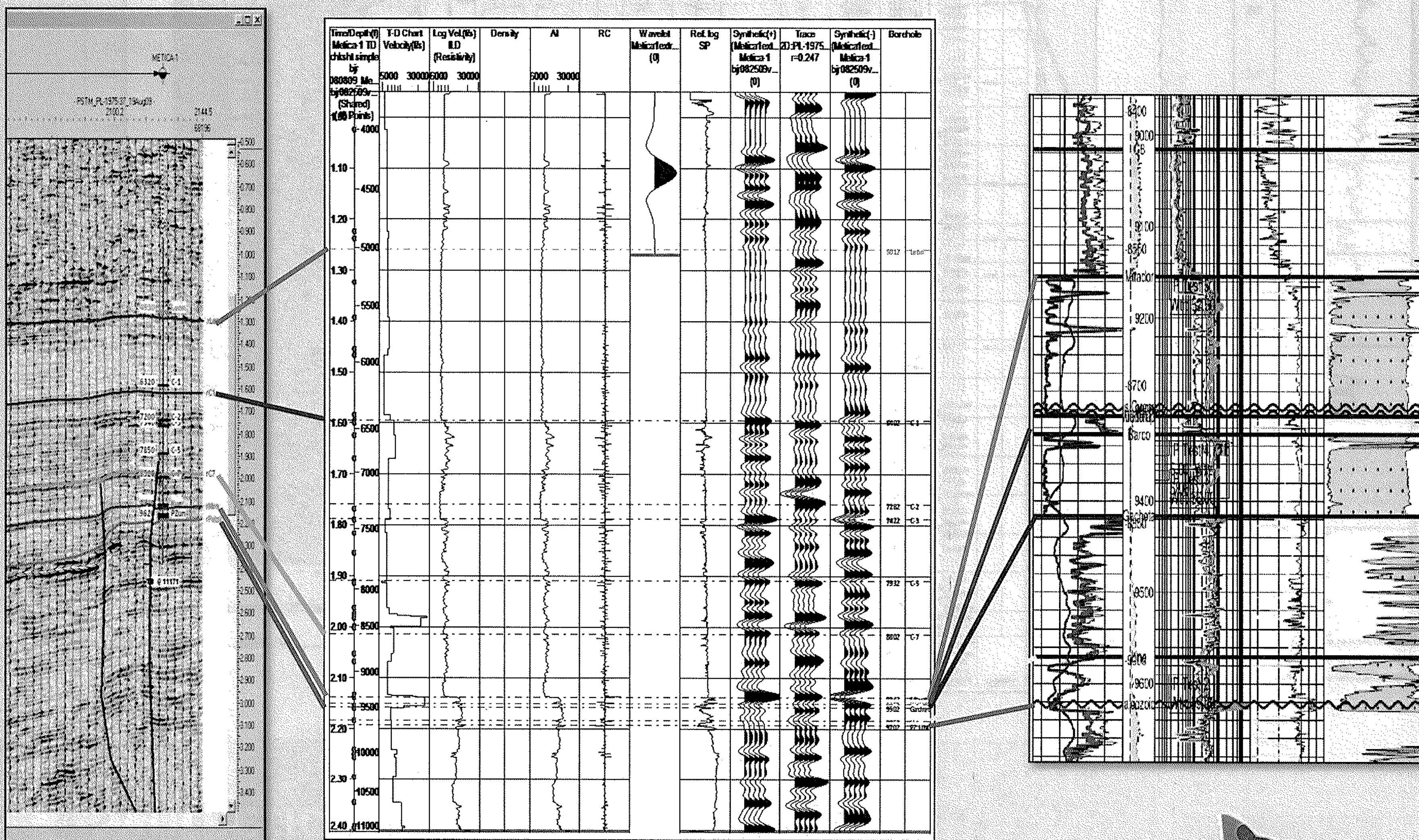
SK energy

Synthetic Well Tie (Negritos)



SK energy

Synthetic Well Tie (Metica)

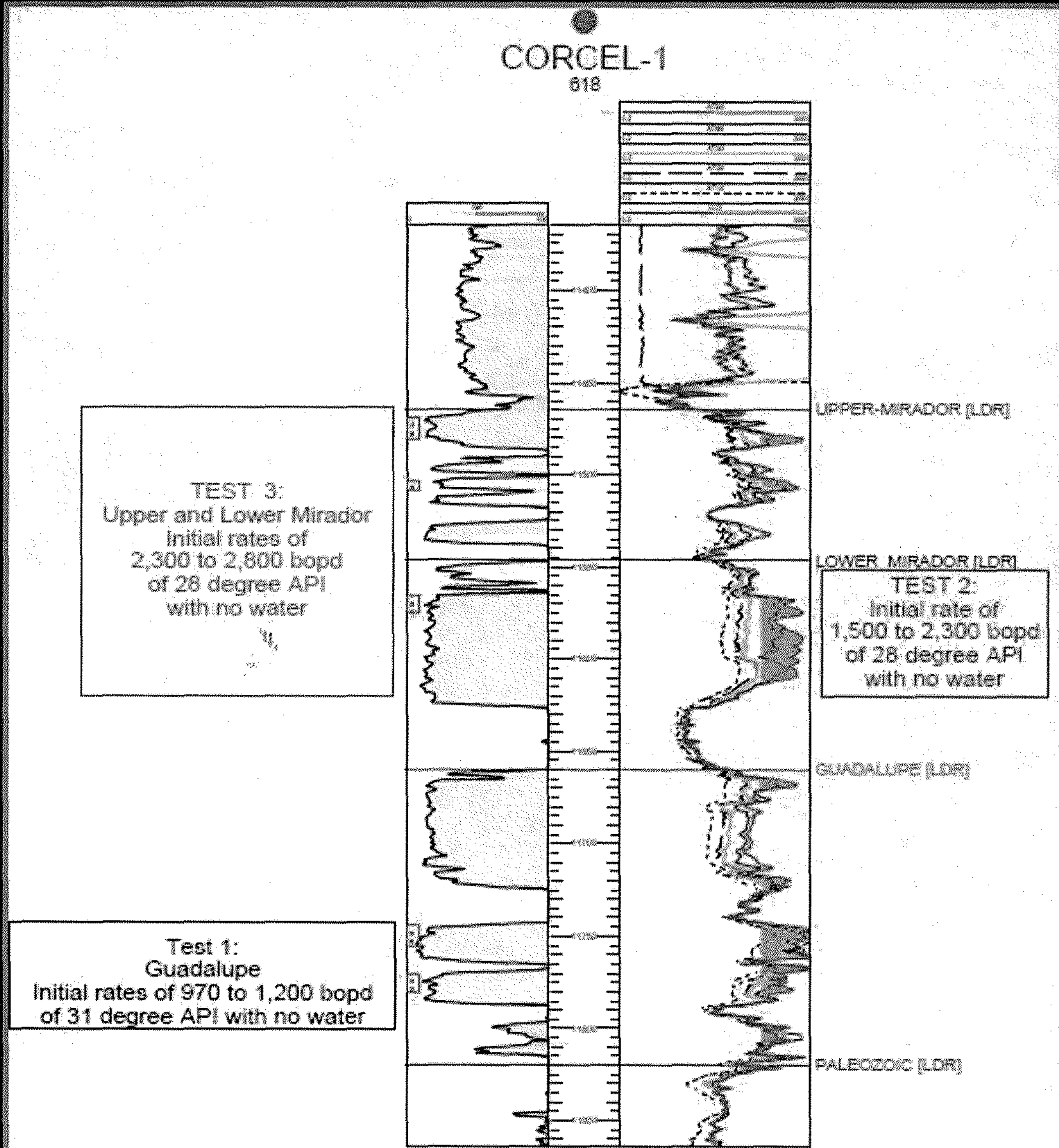


SK energy

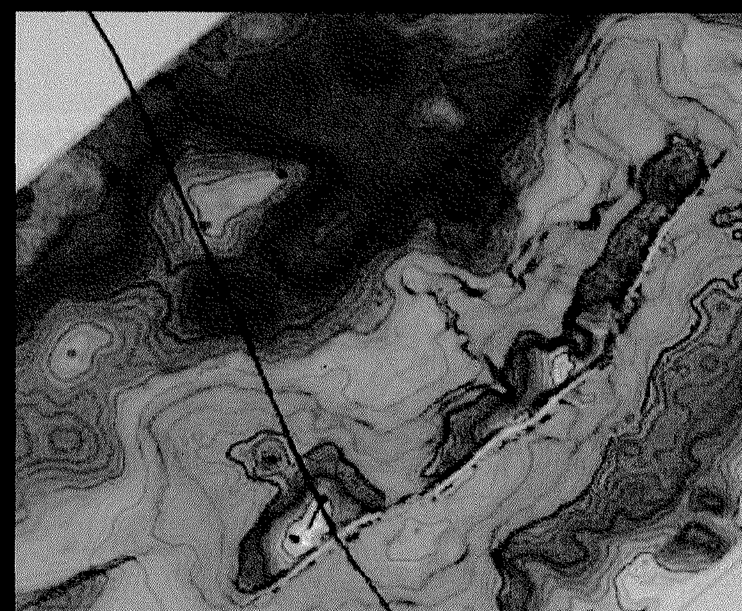
CORCEL

Corcel-1

Petrominerales



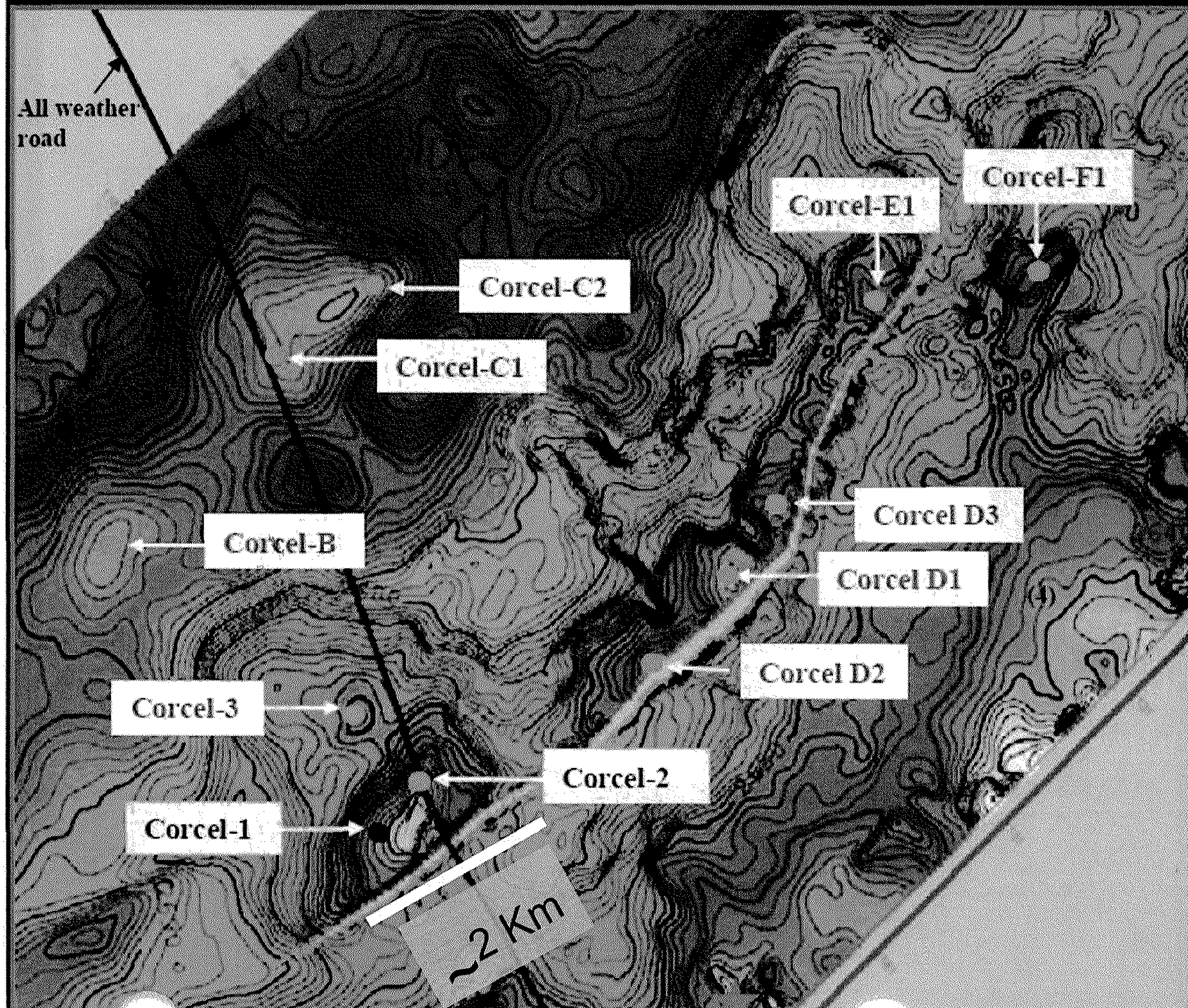
- Combined productive capacity > 10,000 bpd
- Completed 6-day test at restricted rates of up to 3,321 bpd
- 6-month test at 4,000 bpd commenced September 7th



CORCEL

2007/2008 Drilling Locations

Petrominerales

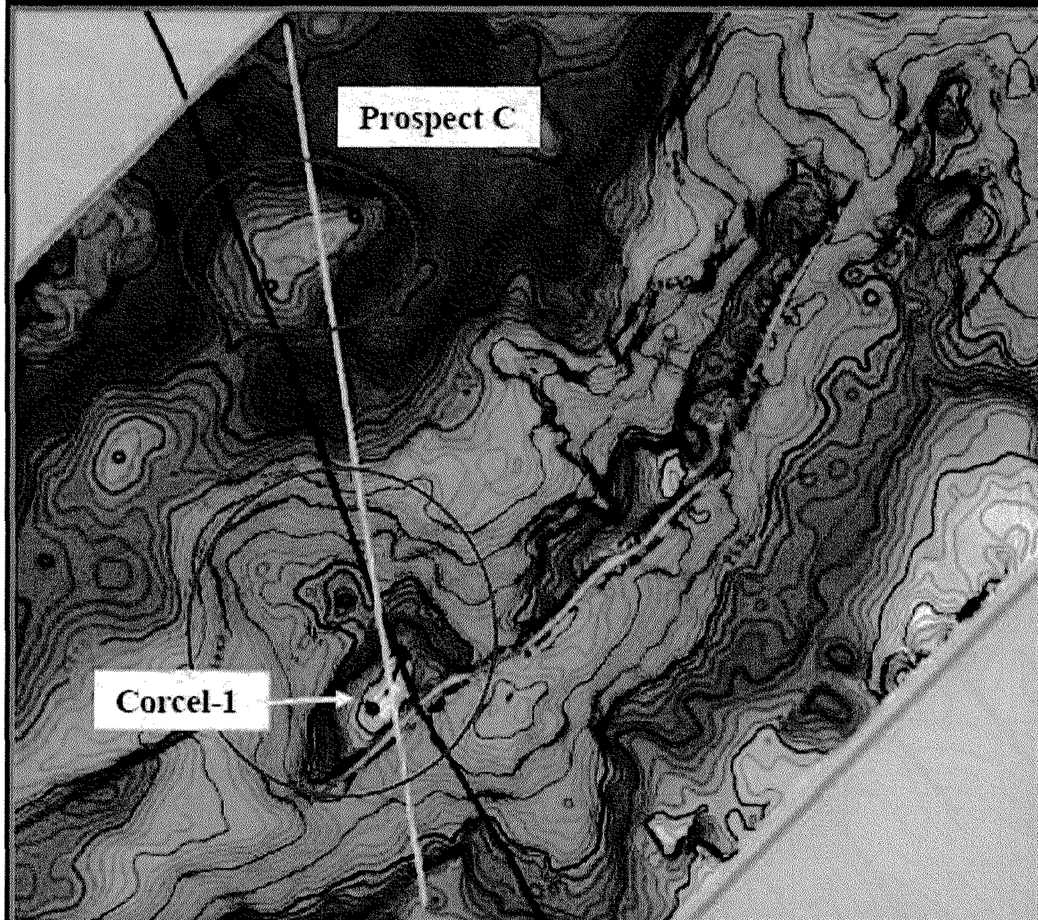


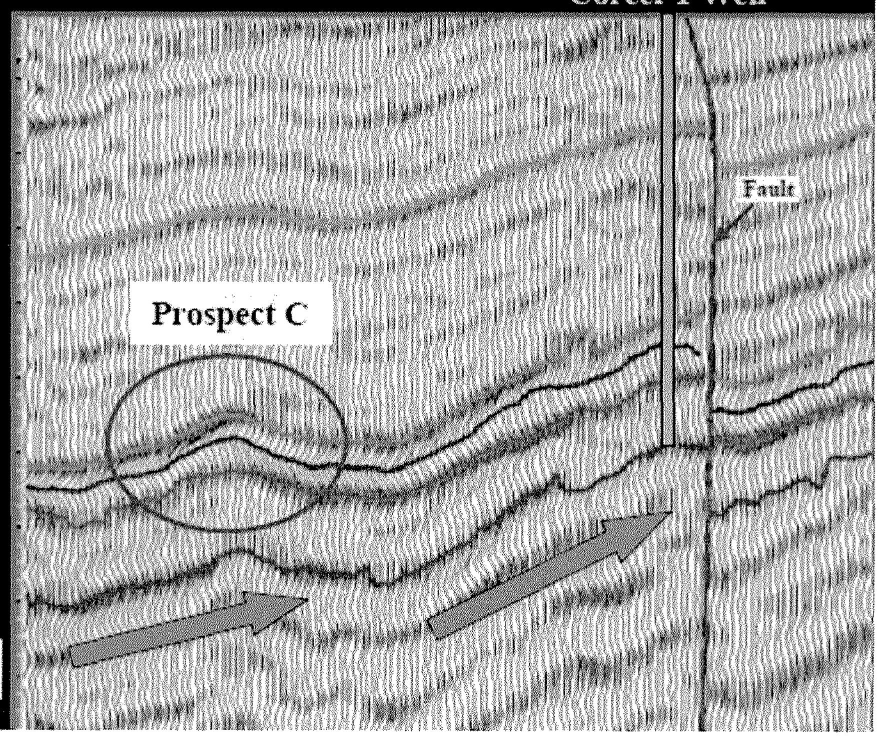
- Corcel 1, 2 producing
- Corcel 3 drilling
- Five additional prospects
- Three delineation locations
- Continuous drilling program
- 3-D seismic only covers 15% of the 79,815 acre block
- Adjoining Guatiquia Block – 26,341 acres

CORCEL

Prospect C

Petrominerales

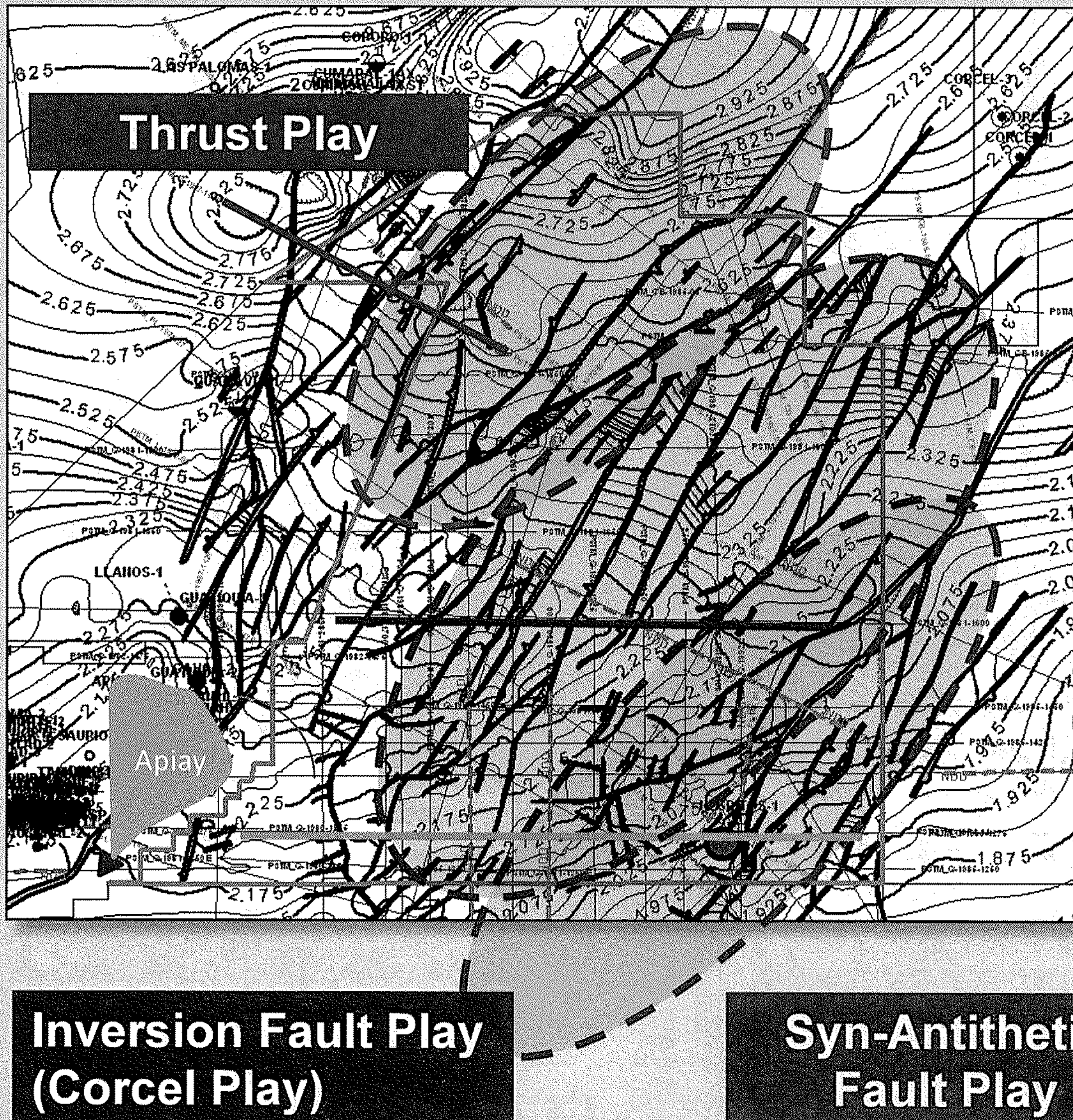


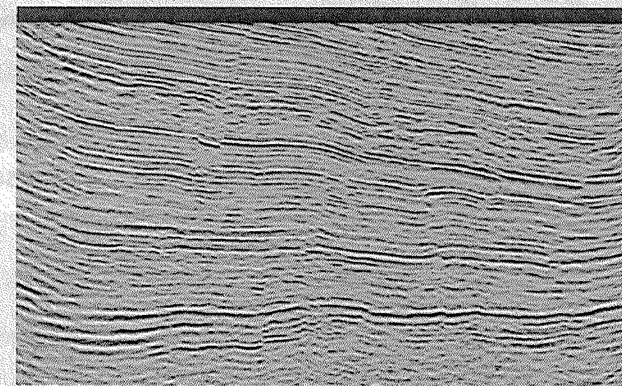


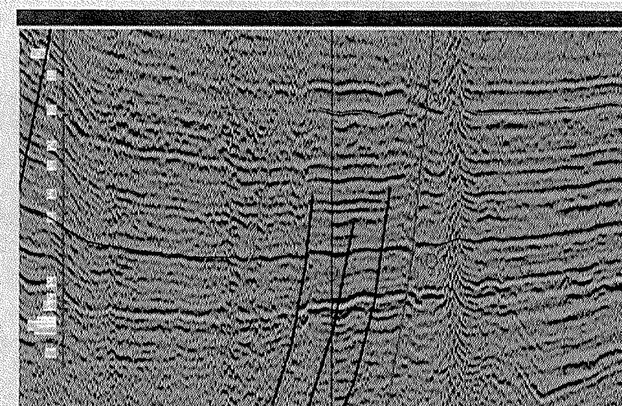
Oil migration path

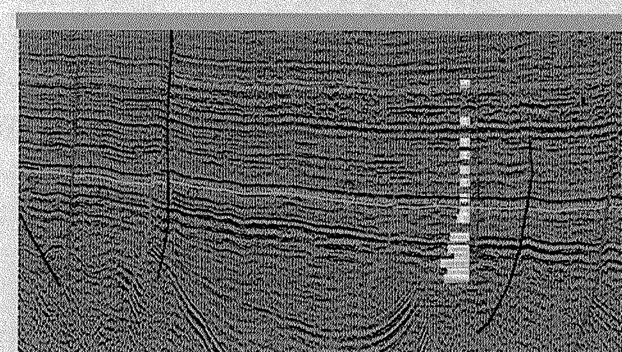
Structural Play

Trap



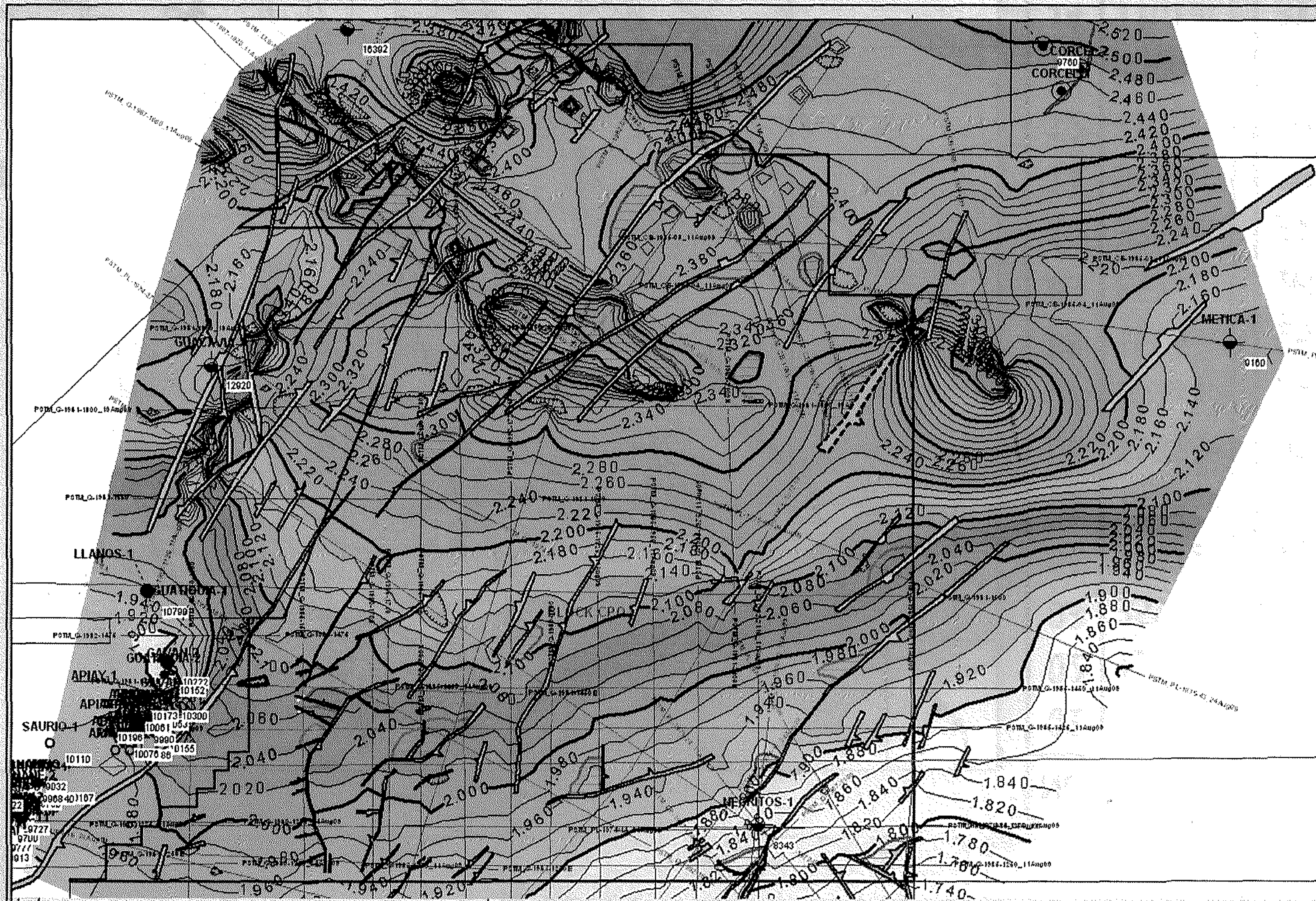






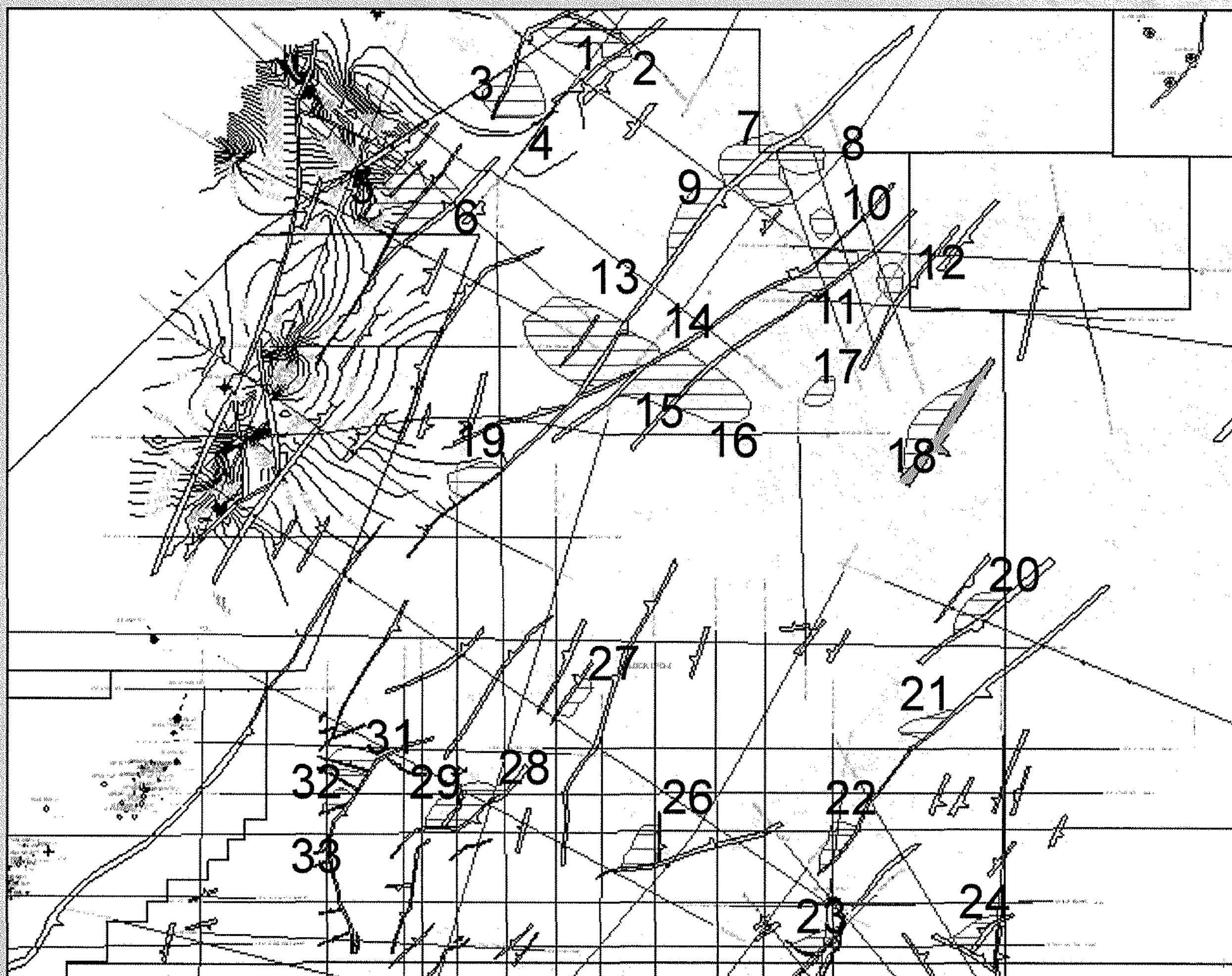
energy

C 9 STRUCTURAL MAP



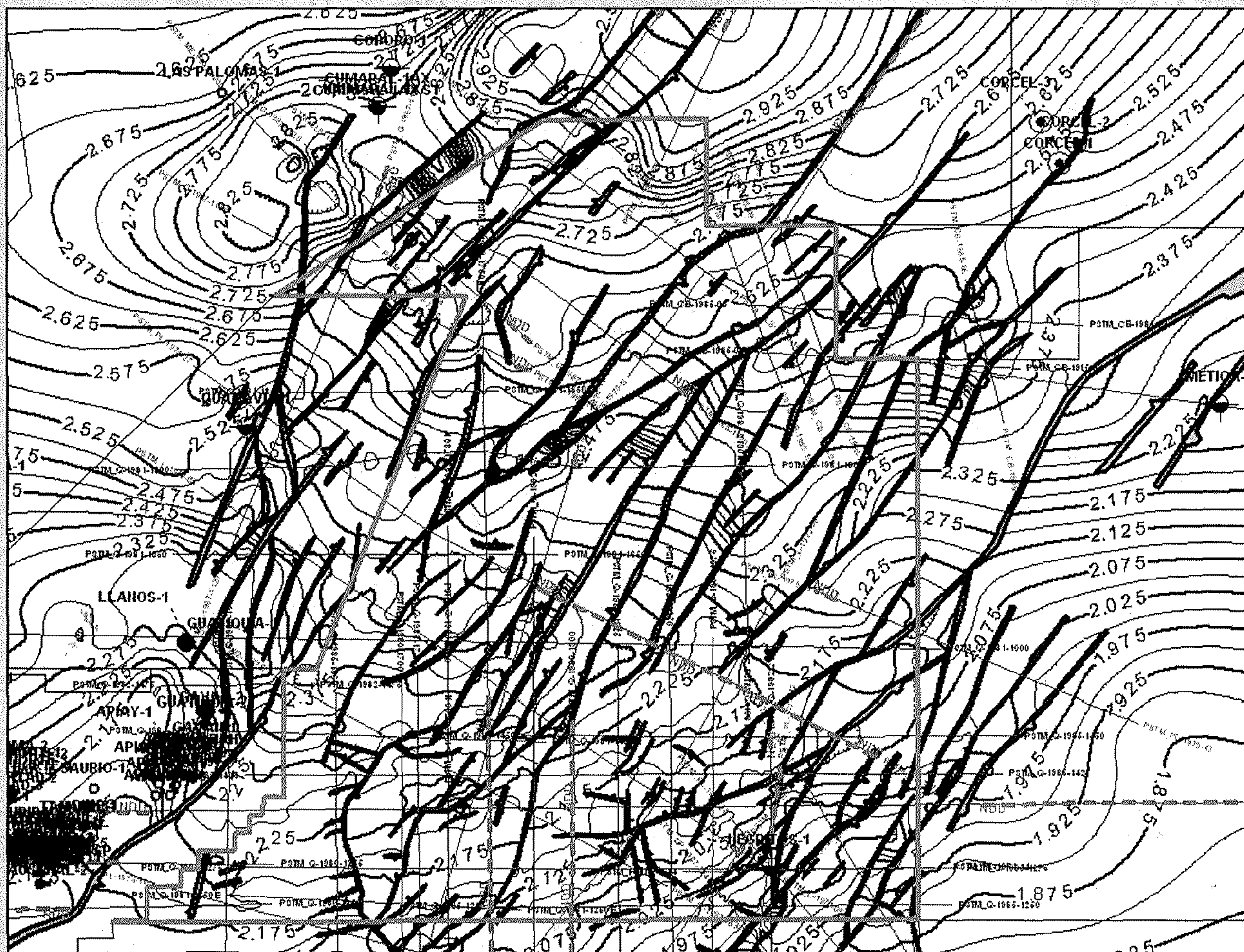
SK energy

C-9 AOI'S



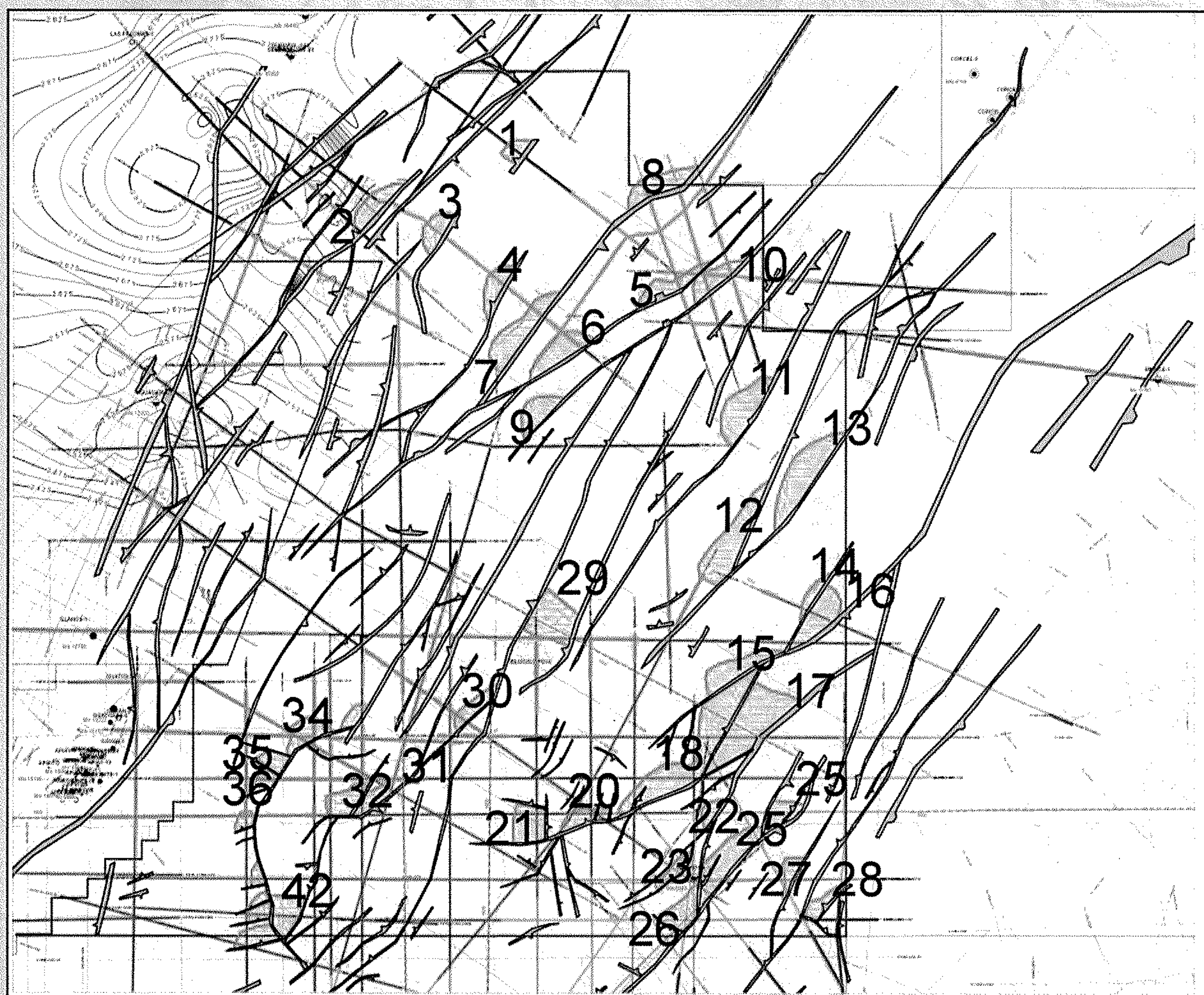
No.	Acre.	No.	Acre.
01	976ac	18	1247ac
02	197ac	19	678ac
03	355ac	20	600ac
04	1047ac	21	424ac
05	1455ac	22	516ac
06	1132ac	23	394ac
07	909ac	24	427ac
08	1665ac	25	118ac
09	852ac	26	666ac
10	335ac	27	320ac
11	944ac	28	756ac
12	450ac	29	390ac
13	3320ac	30	95ac
14	1161ac	31	423ac
15	1584ac	32	234ac
16	1576ac	33	233ac
17	399ac		

Mirador Structural Map



SK energy

MIRADOR AOI'S

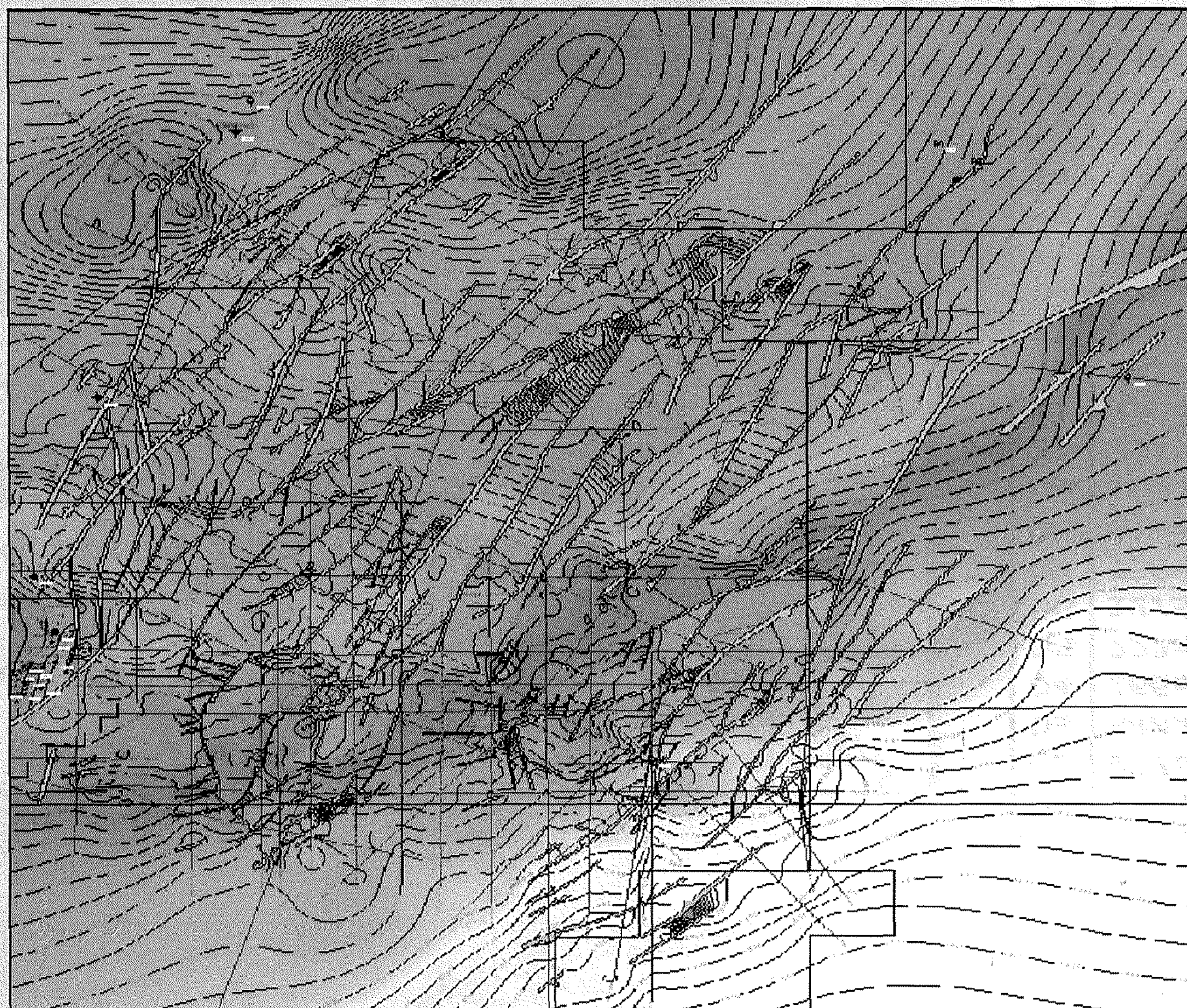


No.	Acre.
01	297ac
02	682ac
03	530ac
04	548ac
05	679ac
06	954ar
07	1238a
08	340ac
09	267ac
10	252ac
11	503ac
12	657ac
13	707ac
14	112ac
15	358ac
16	404ac
17	888ac

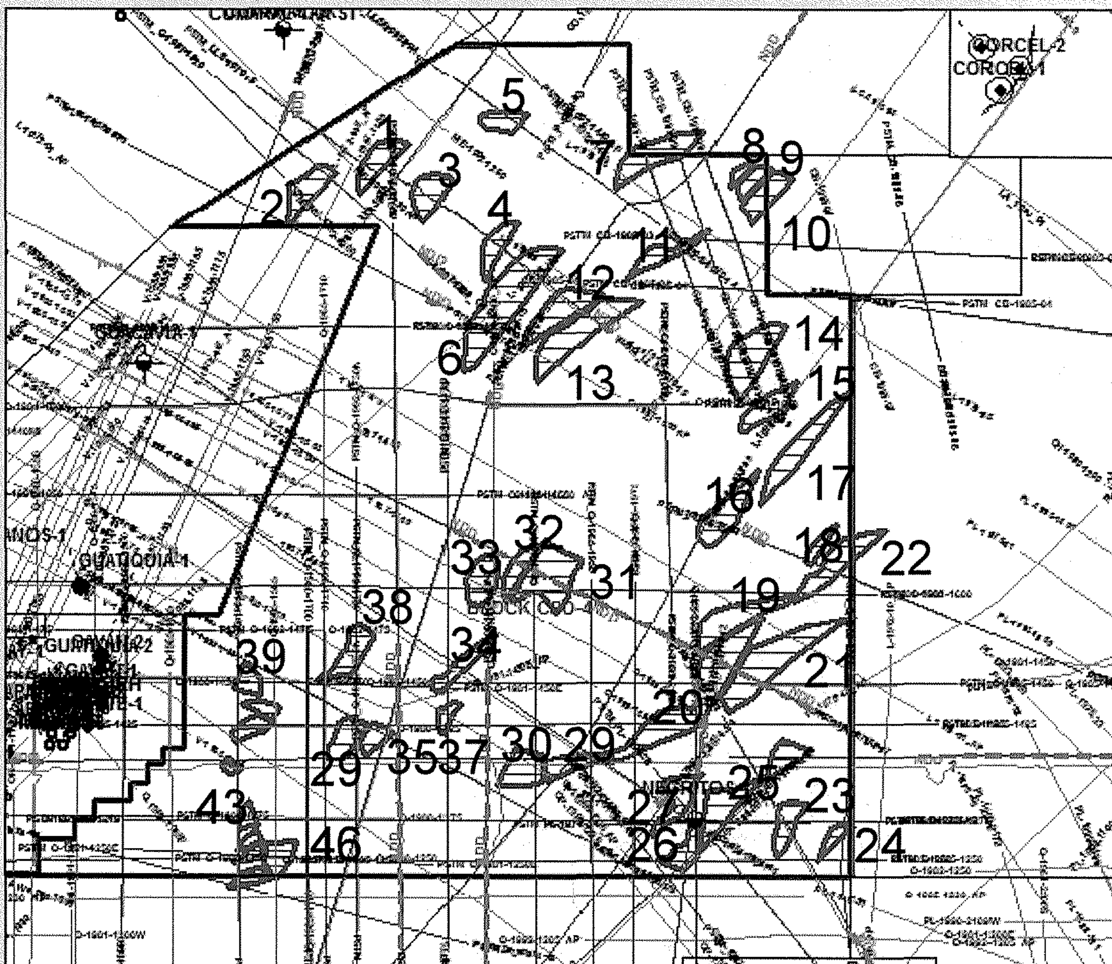
No.	Acre.
18	1201a
19	46ac
20	136ac
21	333ac
22	102ac
23	116ac
24	213ac
25	534ac
26	264ac
27	121ac
28	127ac
29	530ac
30	192ac
31	150ac
32	236ac
33	96ac
34	252ac

energy

PALEOZOIC STRUCTURAL MAP



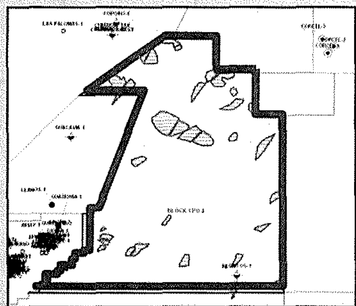
PALEOZOIC AOI'S

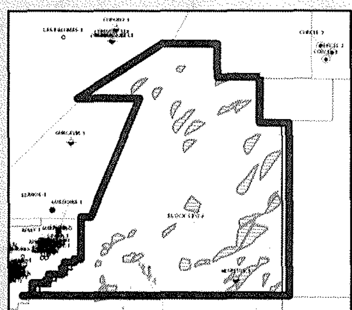


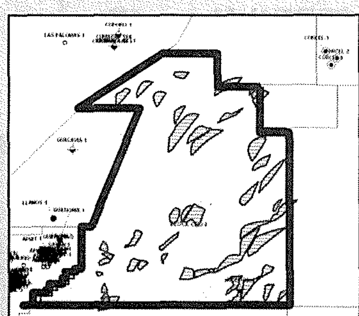
No.	Acre.
01	332ac
02	377ac
03	448ac
04	266ac
05	222ac
06	1273ac
07	556ac
08	61ac
09	164ac
10	331ac
11	[illegible]
12	511ac
13	806ac
14	720ac
15	343ac
16	476ac
17	[illegible]
18	110ac
19	546ac
20	1290ac
21	1012ac
22	[illegible]
22	495ac
23	268ac
24	[illegible]

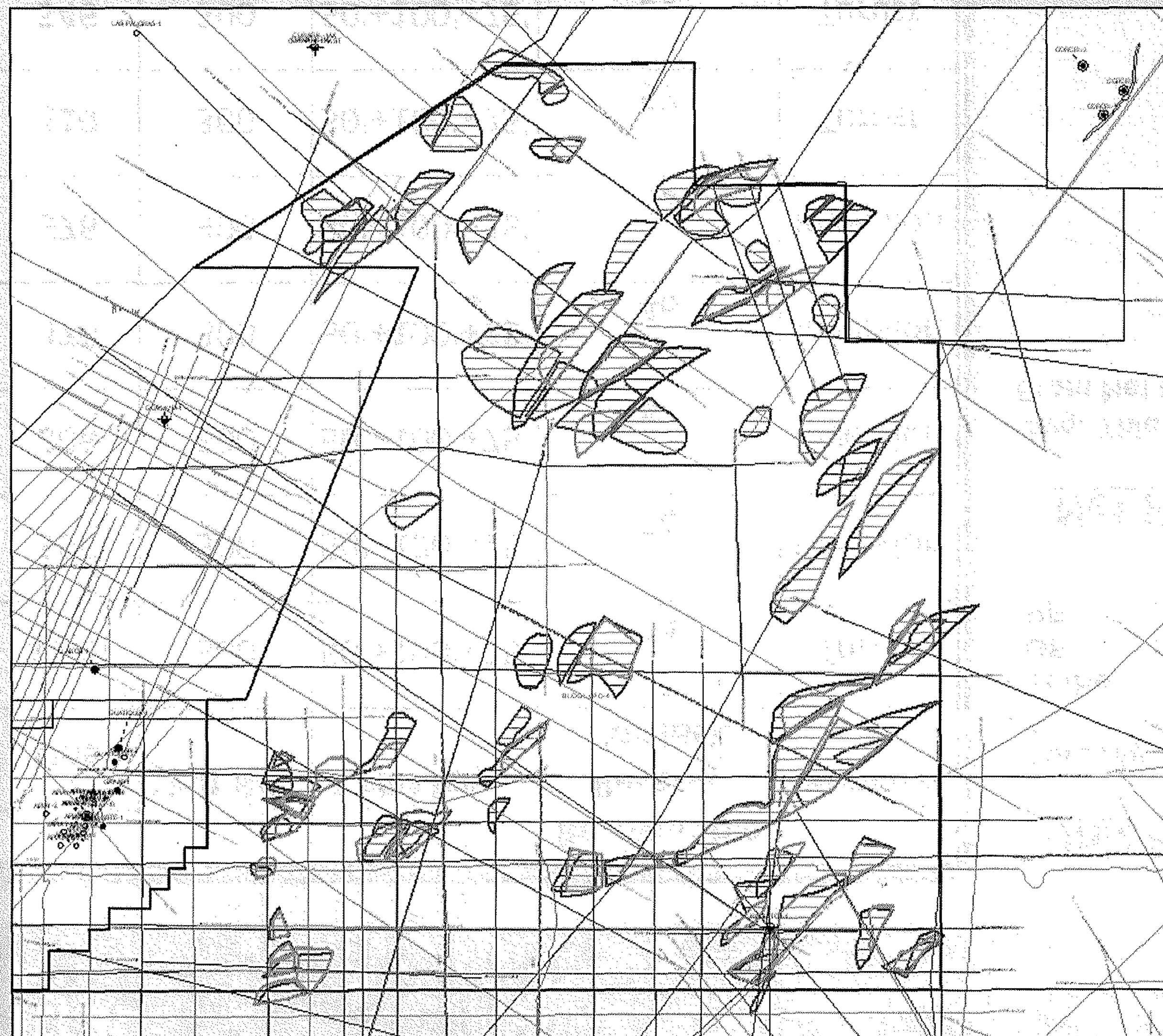
No.	Acre.
25	453ac
26	267ac
27	321ac
28	40ac
29	238ac
30	386ac
31	757ac
32	215ac
33	353ac
34	240ac
35	174ac
36	296ac
37	88ac
38	340ac
39	170ac
40	115ac
41	170ac
42	48ac
43	94ac
44	61ac
45	81ac
46	238ac
47	139ac

COMBINED AOI'S : 53 Structures


CARBONERA


MIRADOR/Gadalupe


Paleozoic



SK energy

High Potential

	Acres			Unit R.R.	Net Pay	Recoverable Reserve (MMBO)	Remark
	C7	Mirador	Une				
6	**1132**	**954**	**1273**	300	50'+100'+75'	74	Thrust
7	**1606**	**1238**	**556**	300	50'+100'+75'	74	Inversion
13	**3320**	**707**	**806**	300	50'+100'+75'	89	Inversion
16	**1576**	**404**	**476**	300	50'+100'+75'	46	Inversion
17	**399**	**888**	**576**	300	50'+100'+75'	46	Inversion
18	**1247**	**1201**	**110**	300	50'+100'+75'	57	Turust
19	**678**	**1201**	**546**	300	50'+100'+75'	58	Turust
Total Potential						445	

Unit R.R.

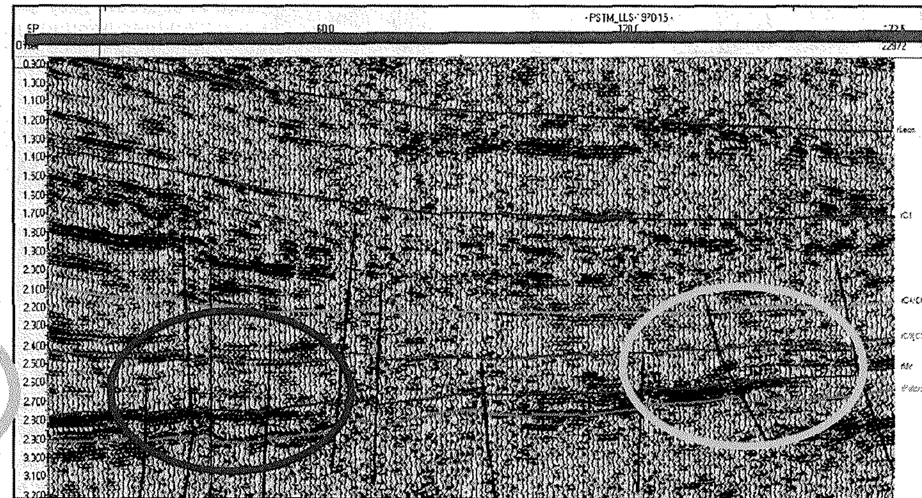
- Porosity : 20 %
- So : 70 %
- So/Bo : 0.9
- GF : 0.9
- RF : 40 %

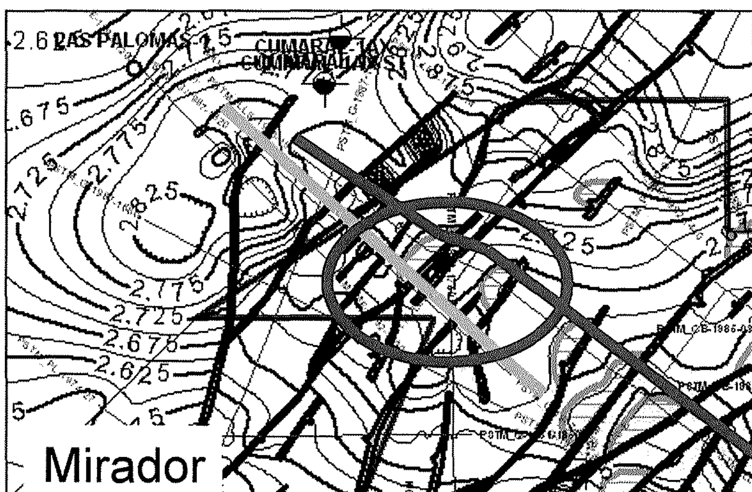
Net Pay

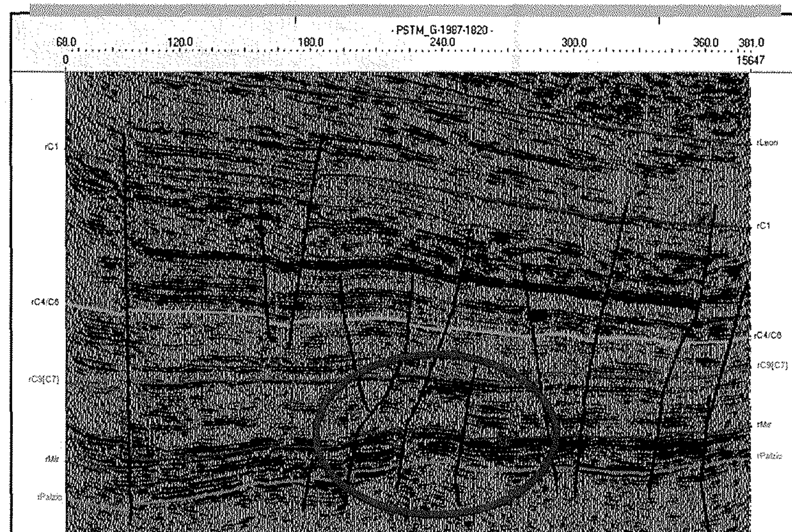
- Avg. Thickness
- From Net Sd Map

SK energy

COMPOSITE STRUCTURE MAPS WITH LEADS
Northwest

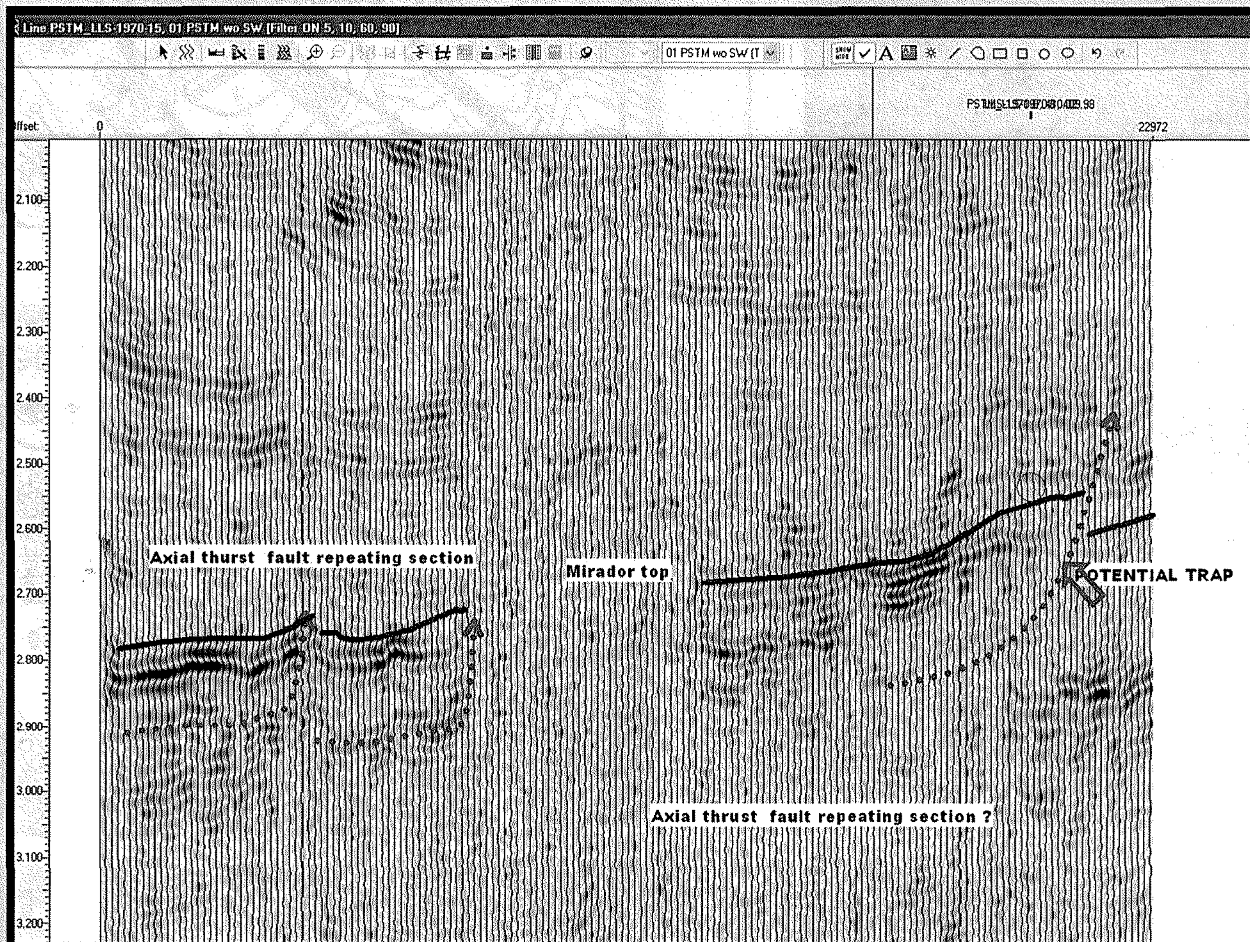




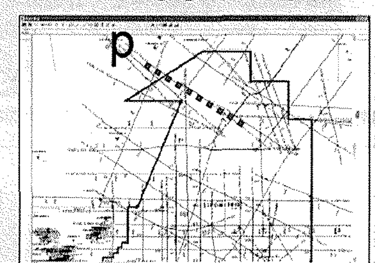


SK energy

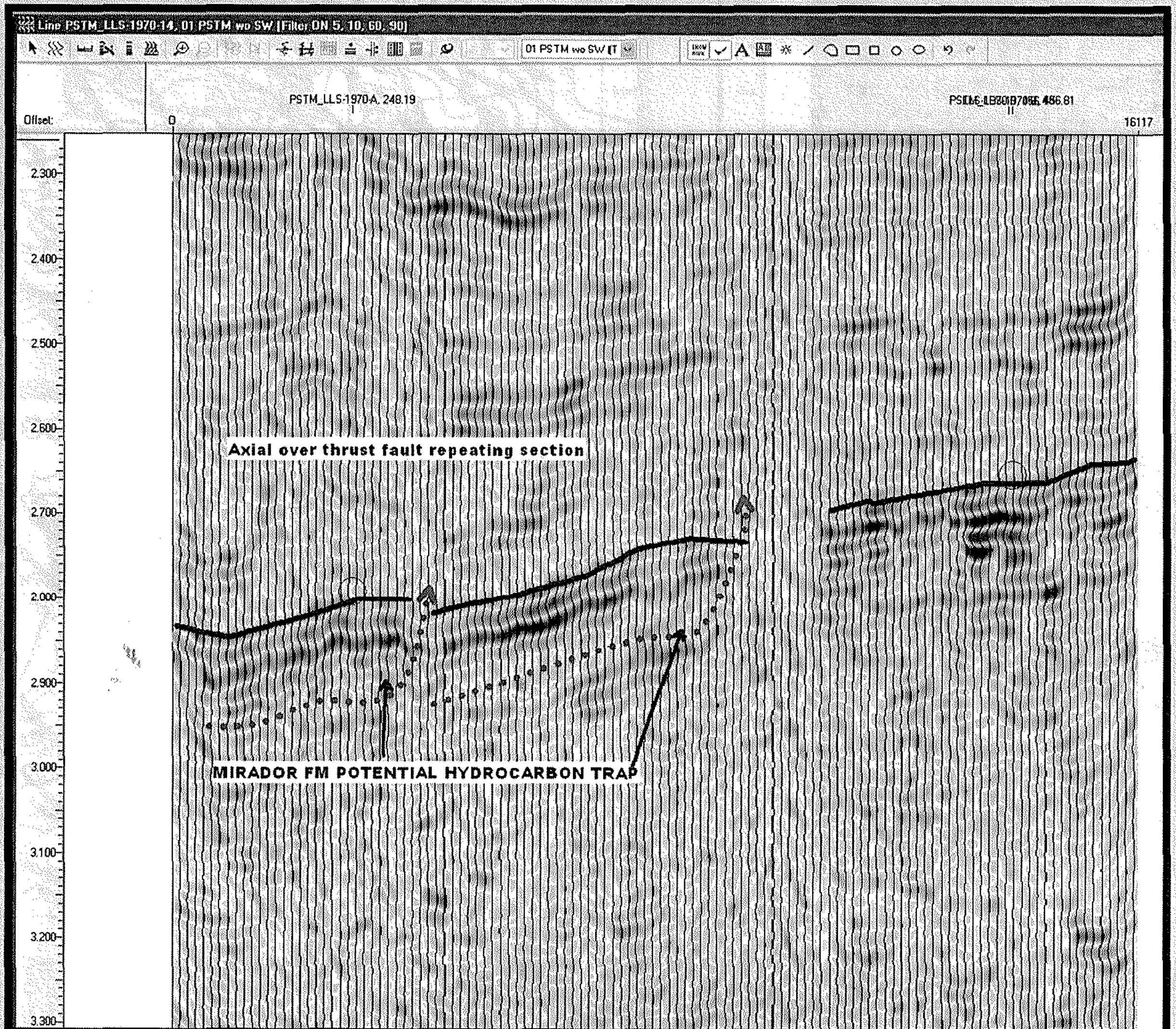
Seismic line PSTM –LLS-1970-15 showing over thrust faulting possible TRAPPING HYDROCARBON in the Mirador - Cretaceous Reservoir



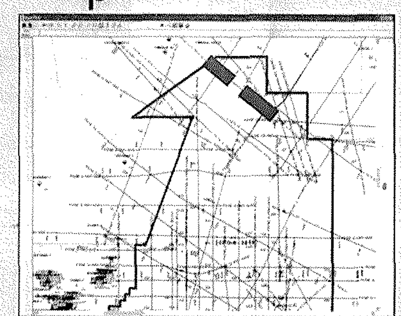
Index map



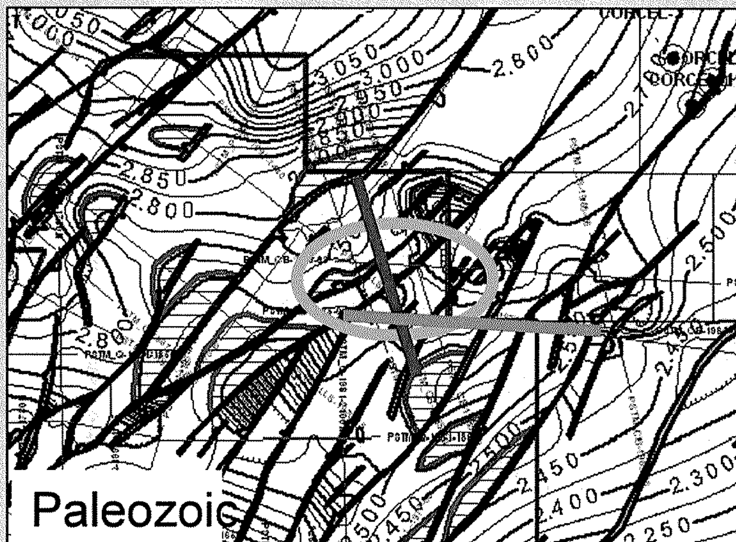
Seismic line PSTM-LLS-1`970-14 showing over thrust faulting possible TRAPPING HYDROCARBON in the Mirador - Cretaceous Reservoir

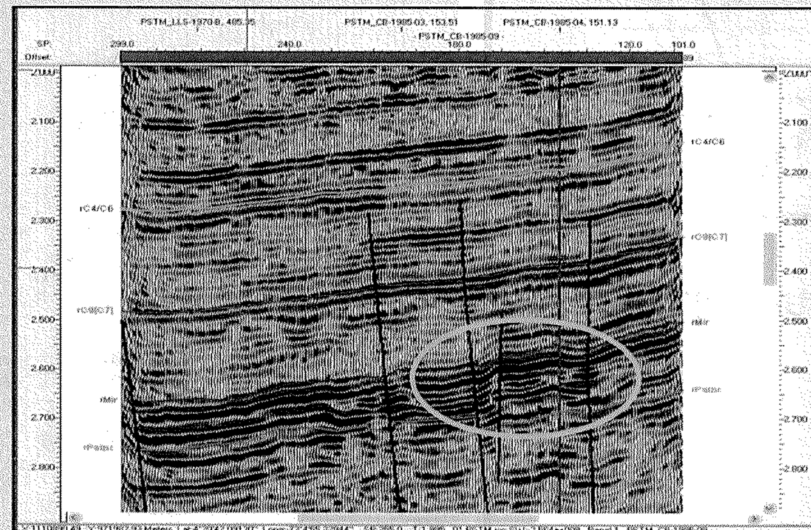


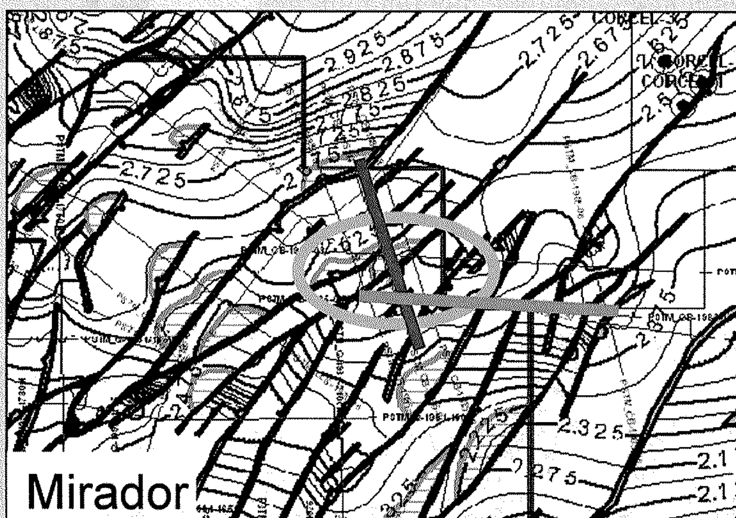
Index ma
p

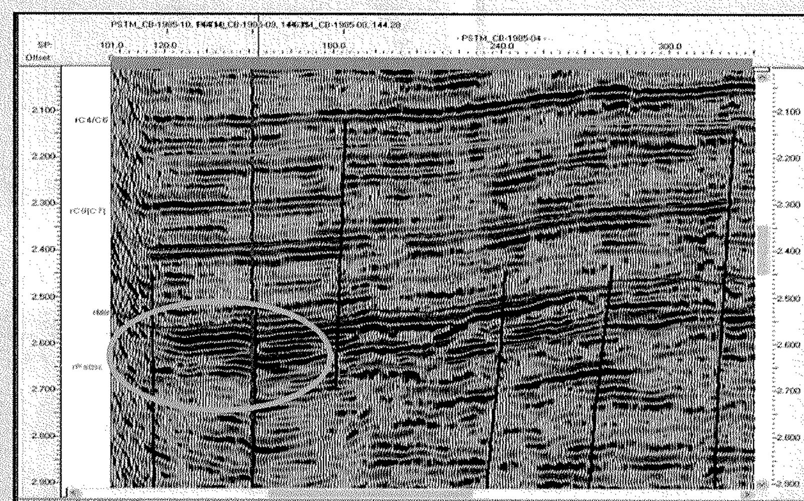


COMPOSITE STRUCTURE MAPS WITH LEADS
Northeast





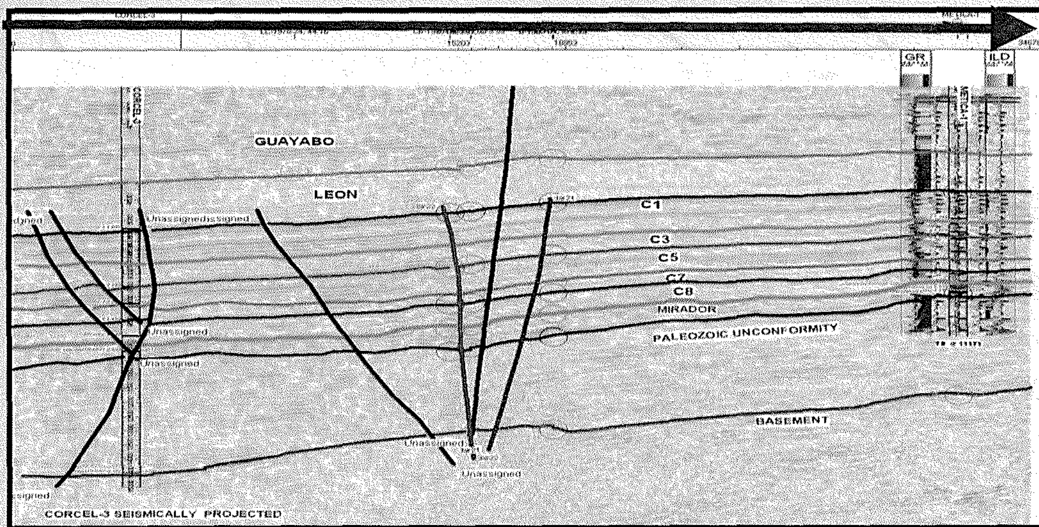


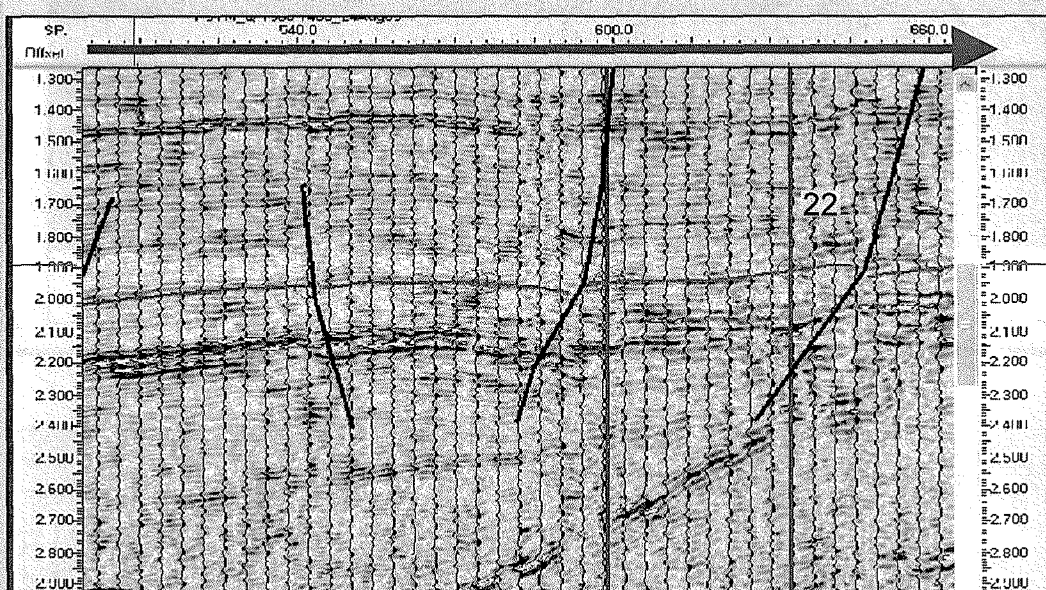


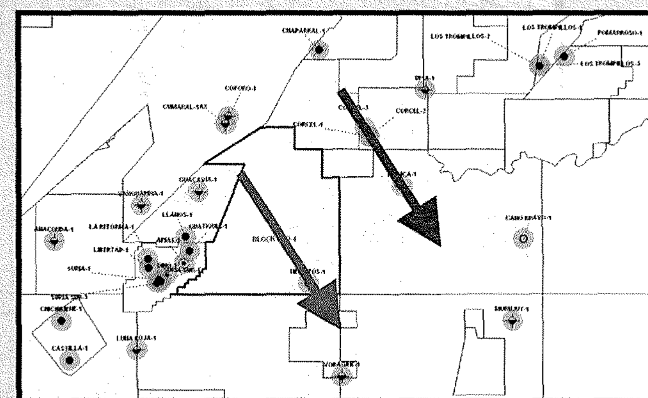
SK energy

Corcel Analogy

CPO-4

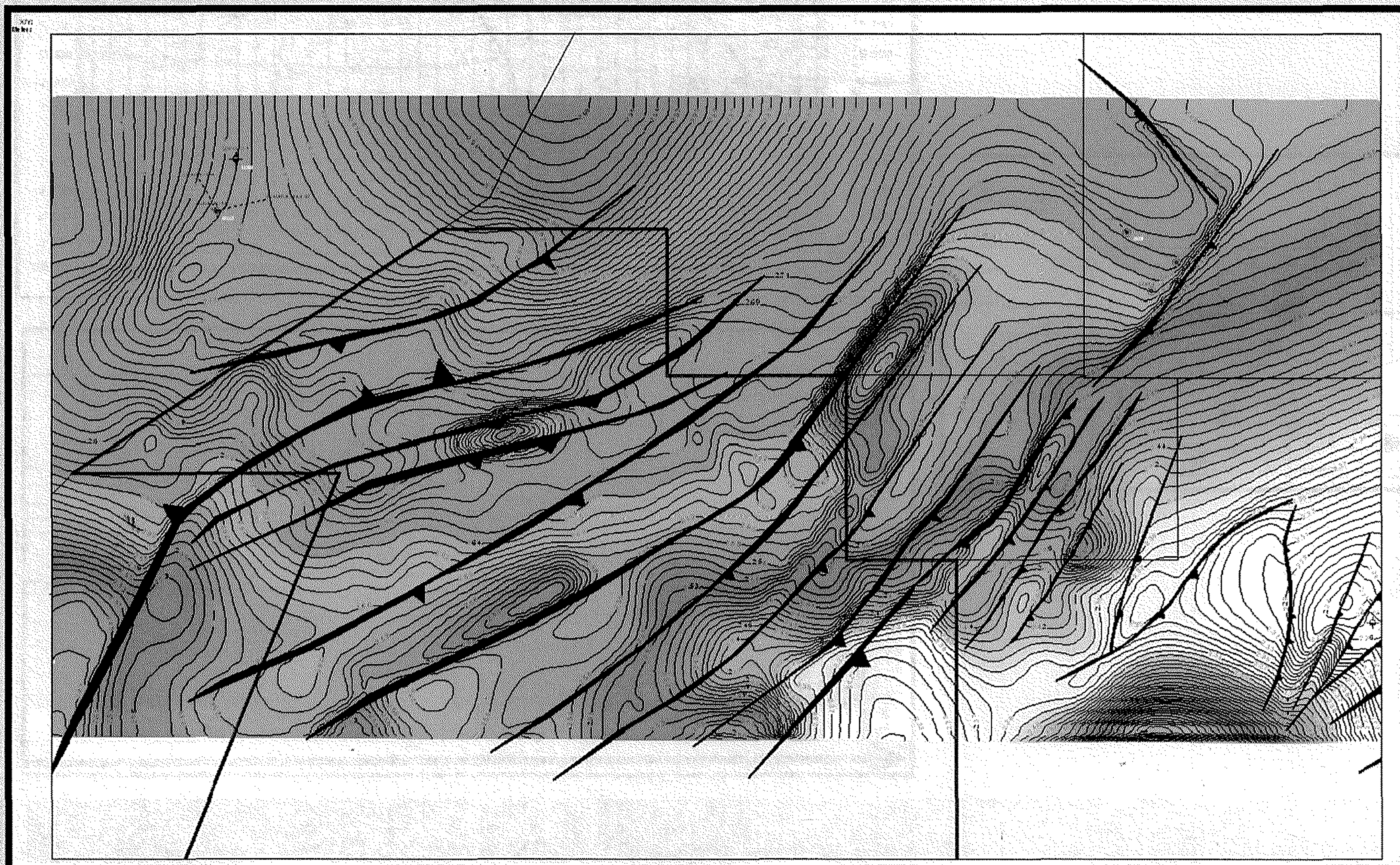




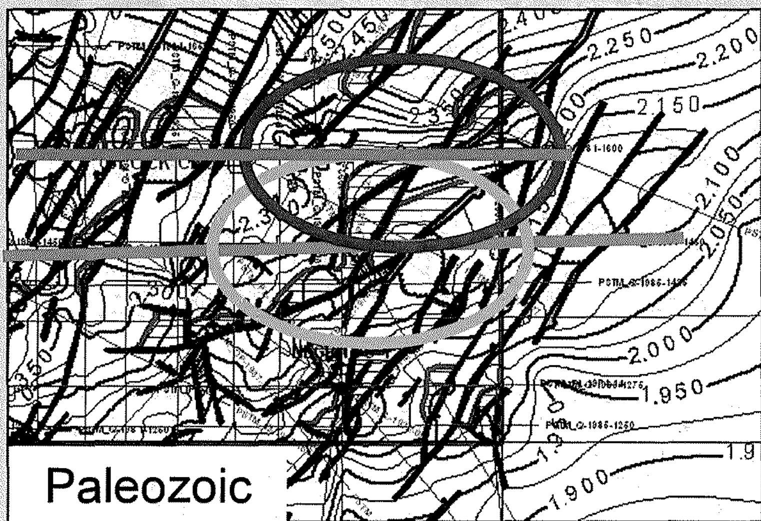


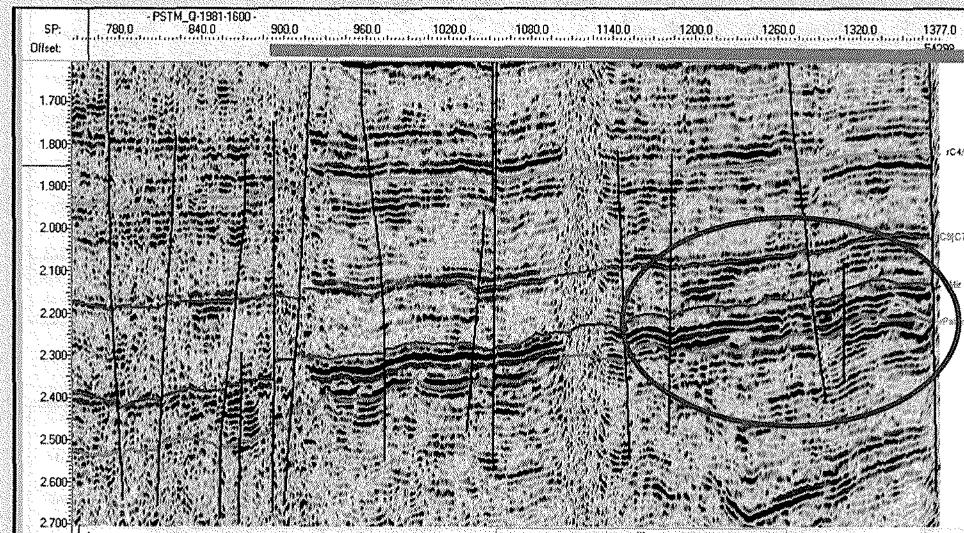
SK energy

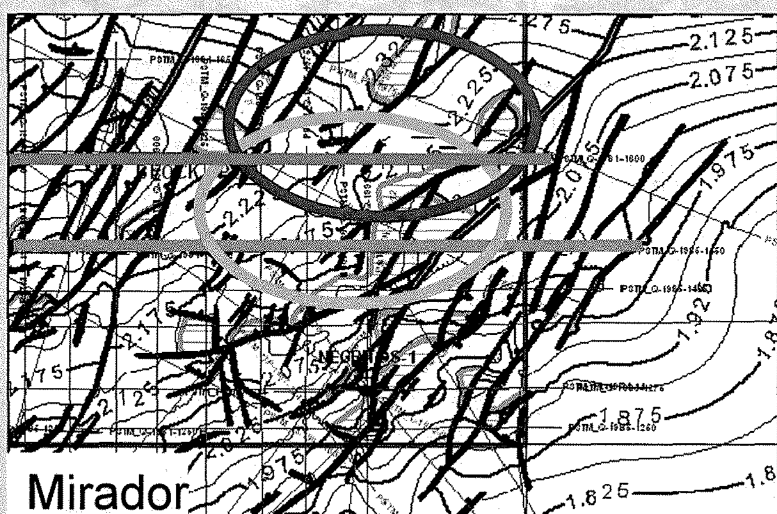
MIRADOR TIED TO CORCEL FIELD

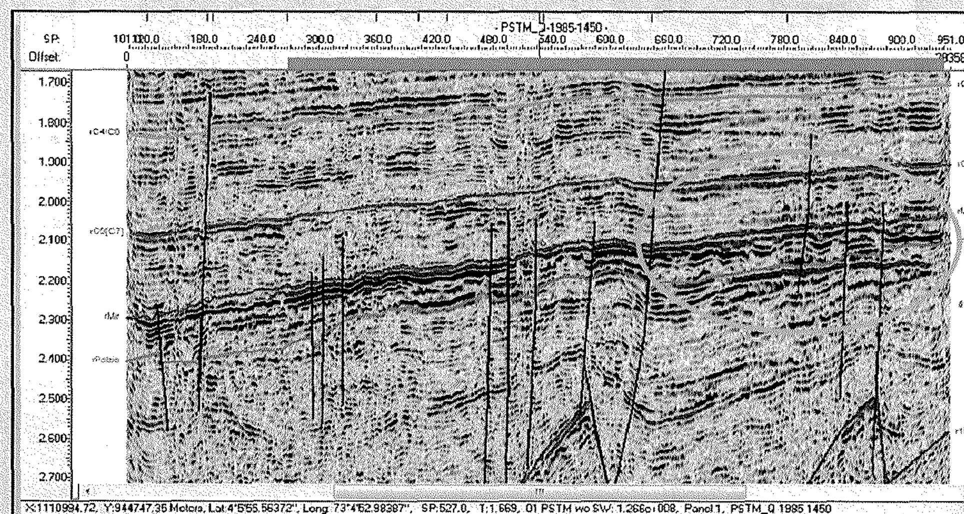


COMPOSITE STRUCTURE MAPS WITH LEADS
Southeast



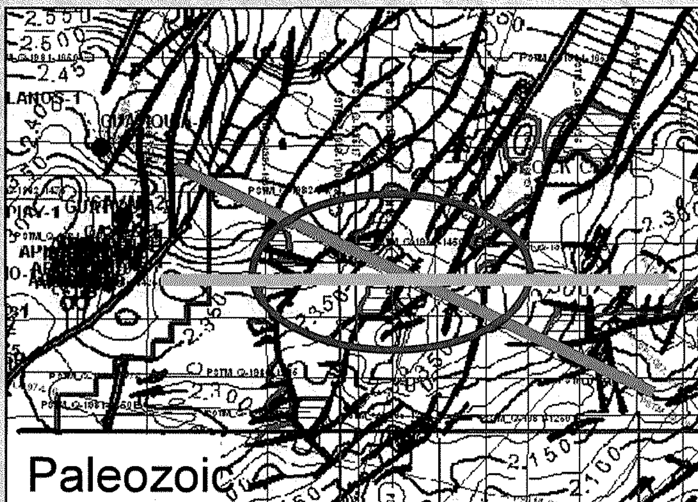


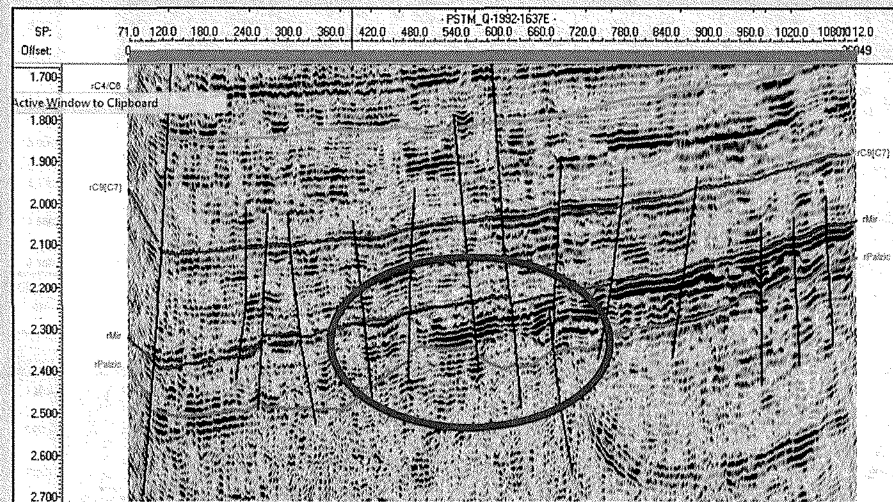


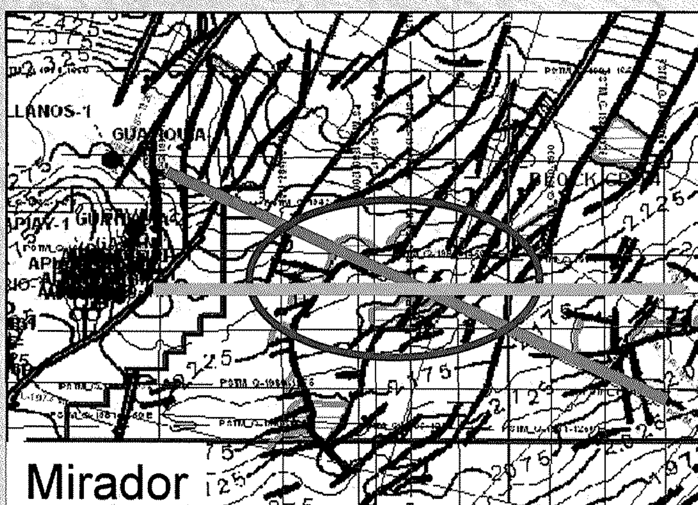


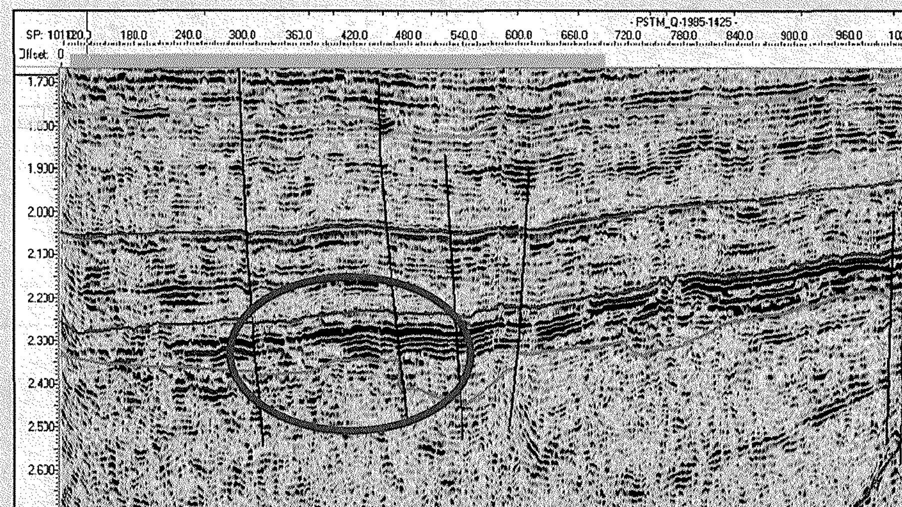
SK energy

COMPOSITE STRUCTURE MAPS WITH LEADS
West



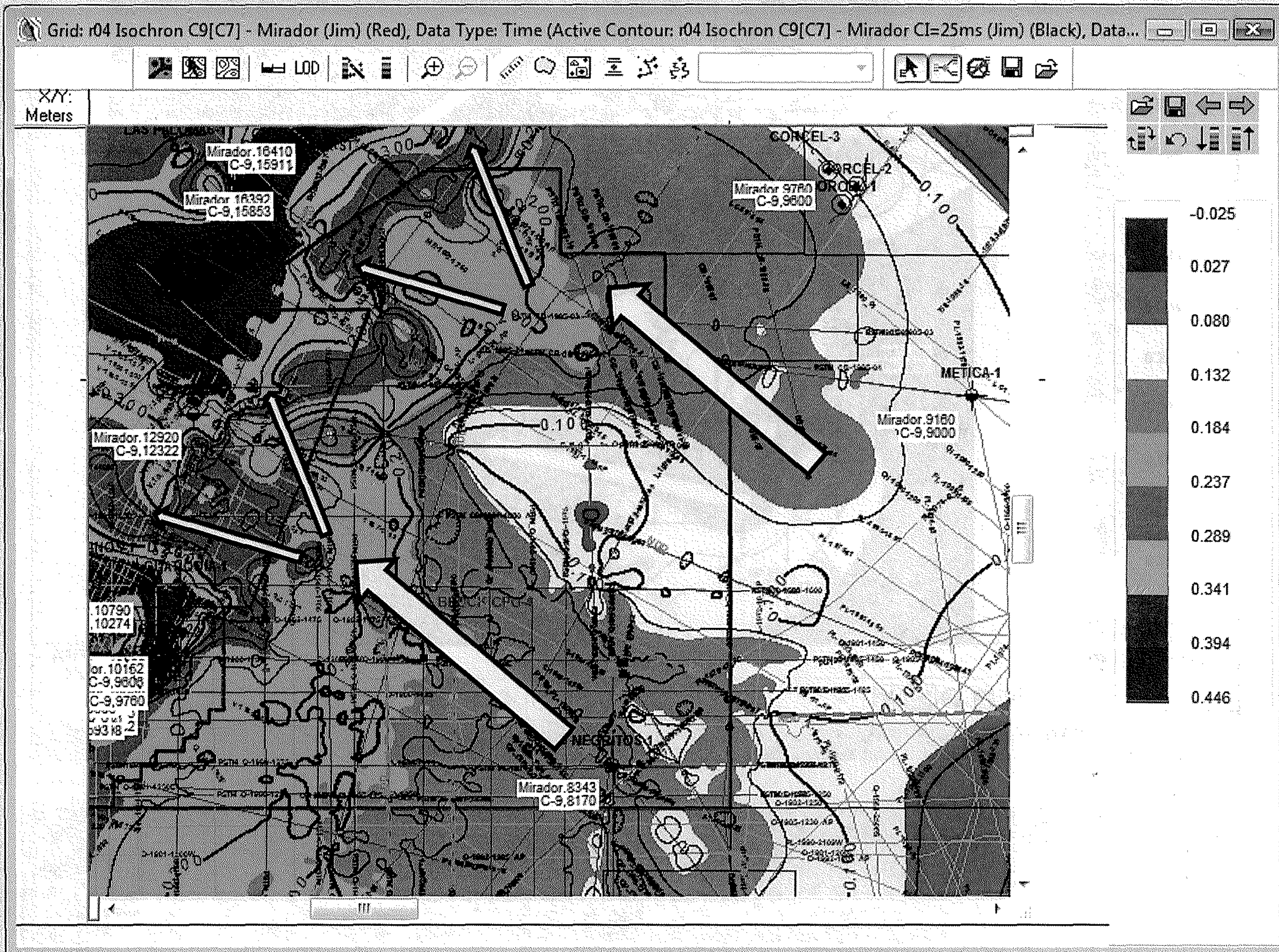






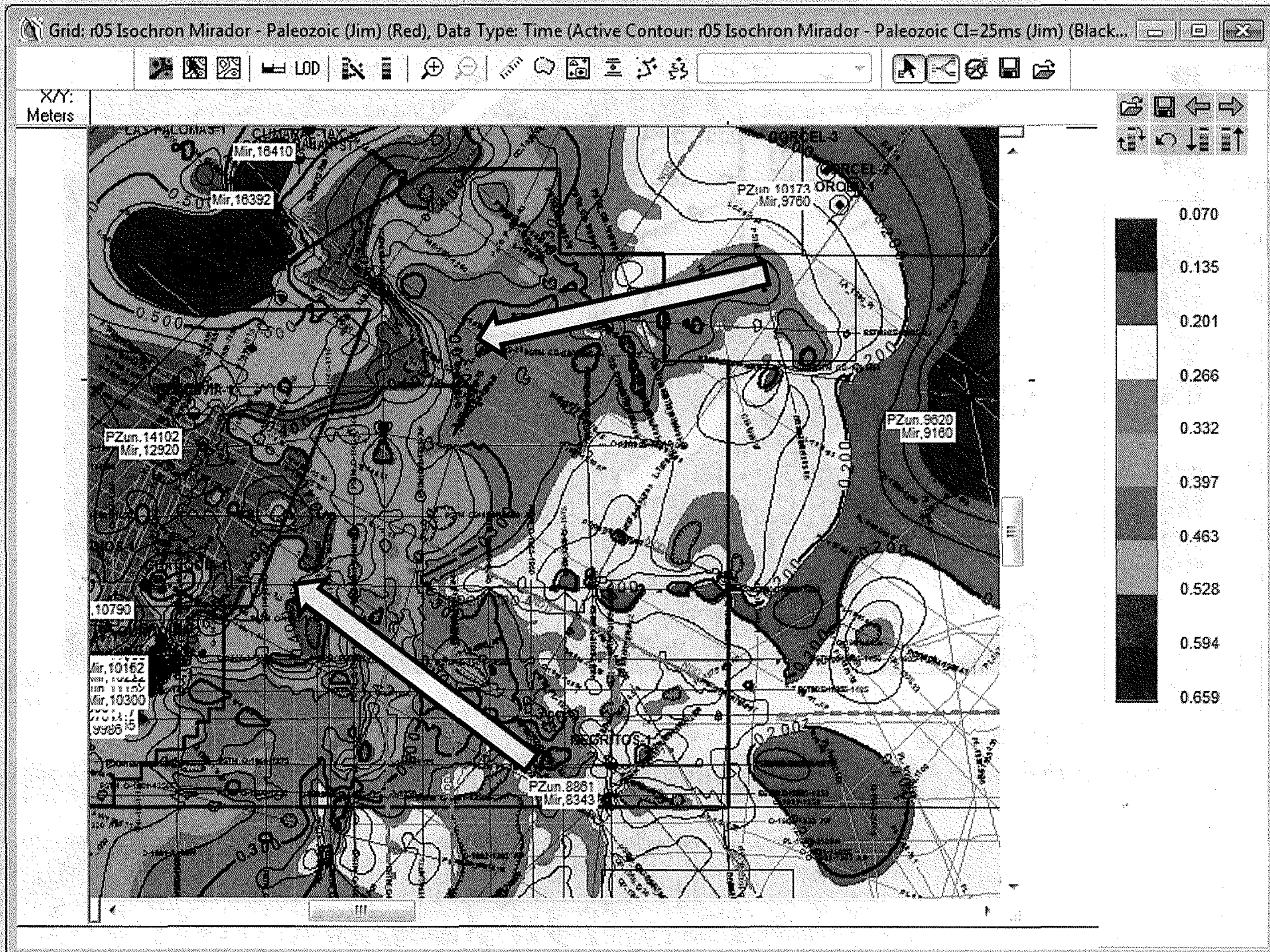
SK energy

Isochrone C7 ~ Mirador



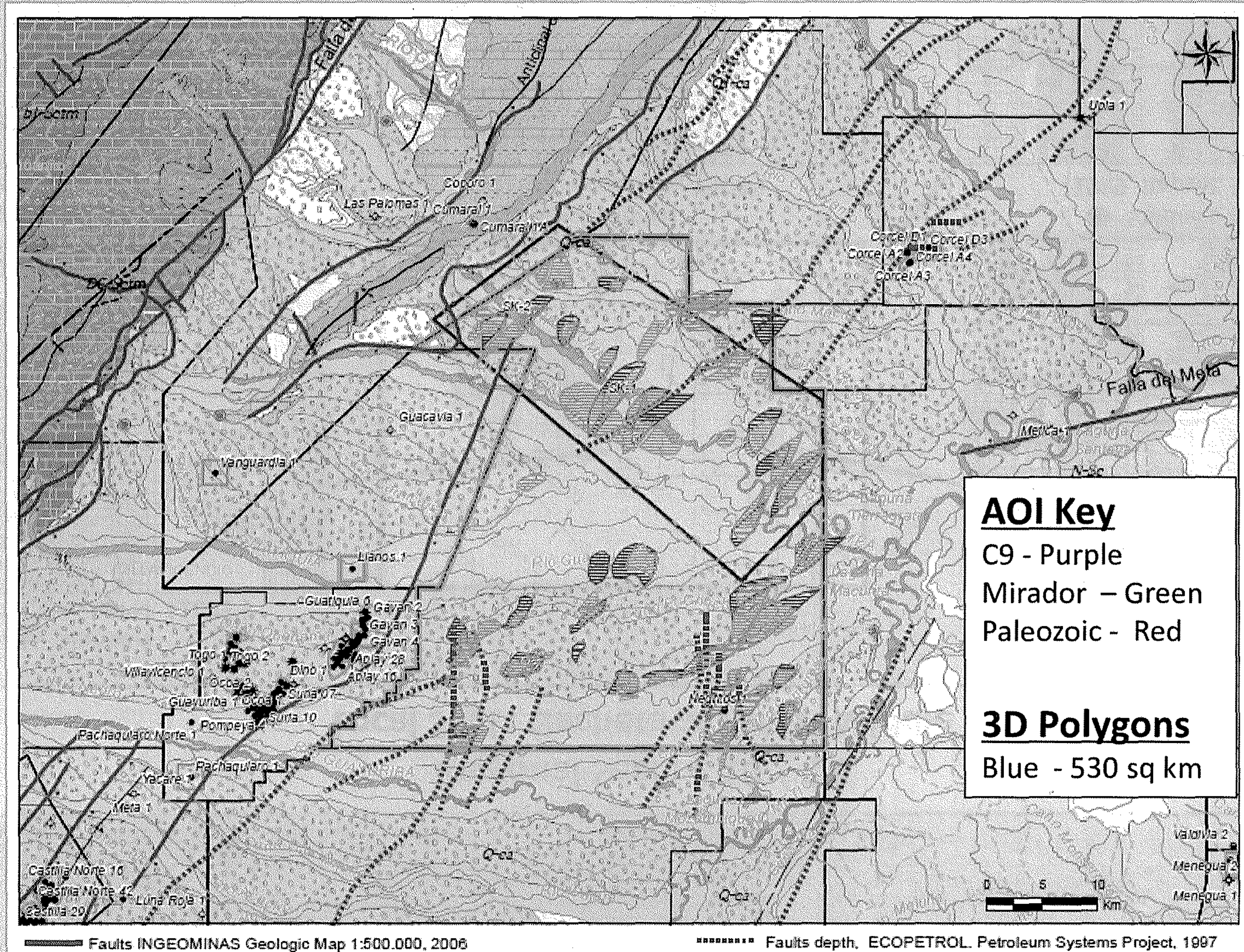
energy

Isochrone Mirador to Paleozoic



SK energy

New 3D Area 530 Km^2



AOI Key

C9 - Purple

Mirador – Green

Paleozoic - Red

3D Polygons

Blue - 530 sq km

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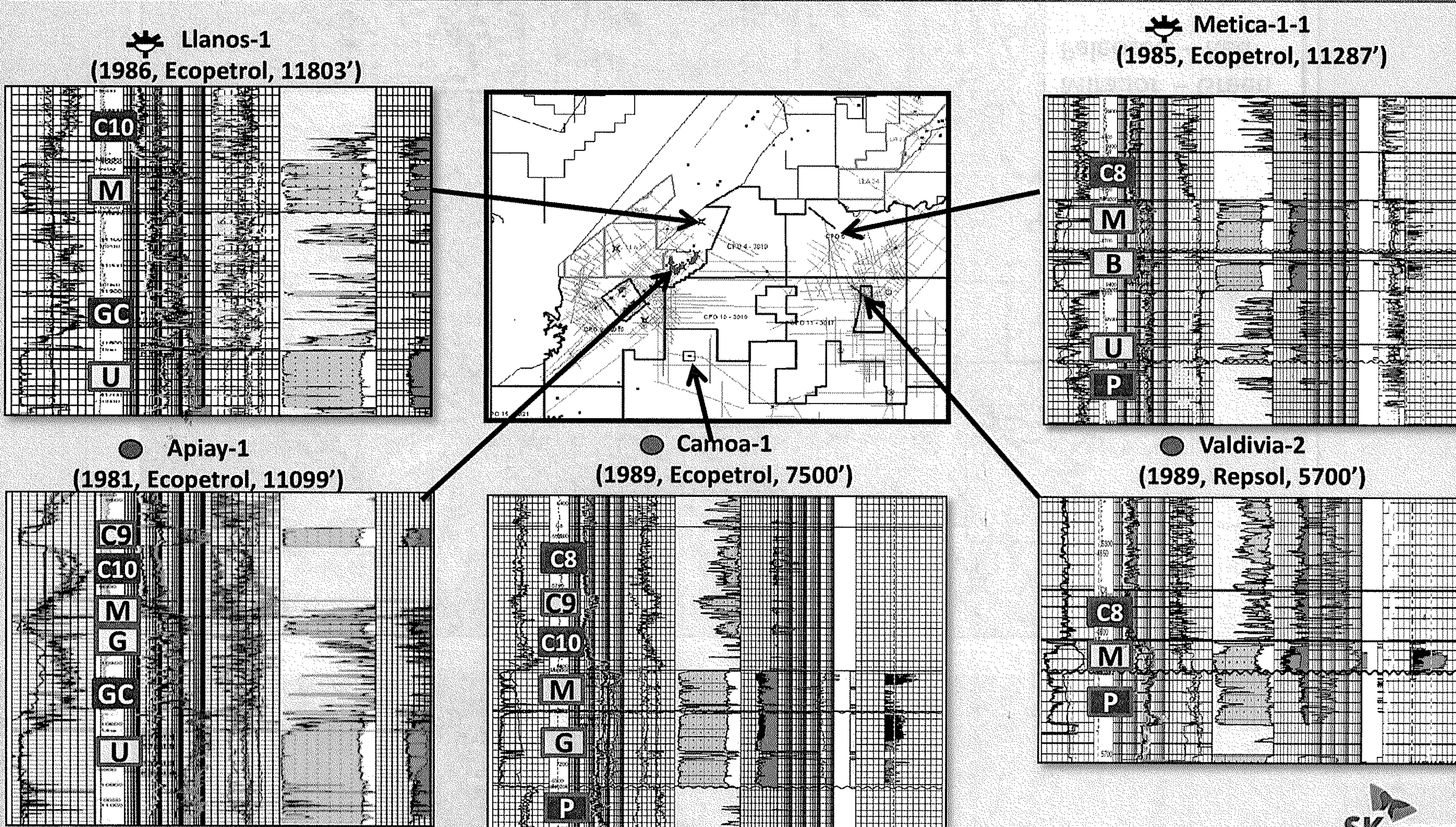
Seal

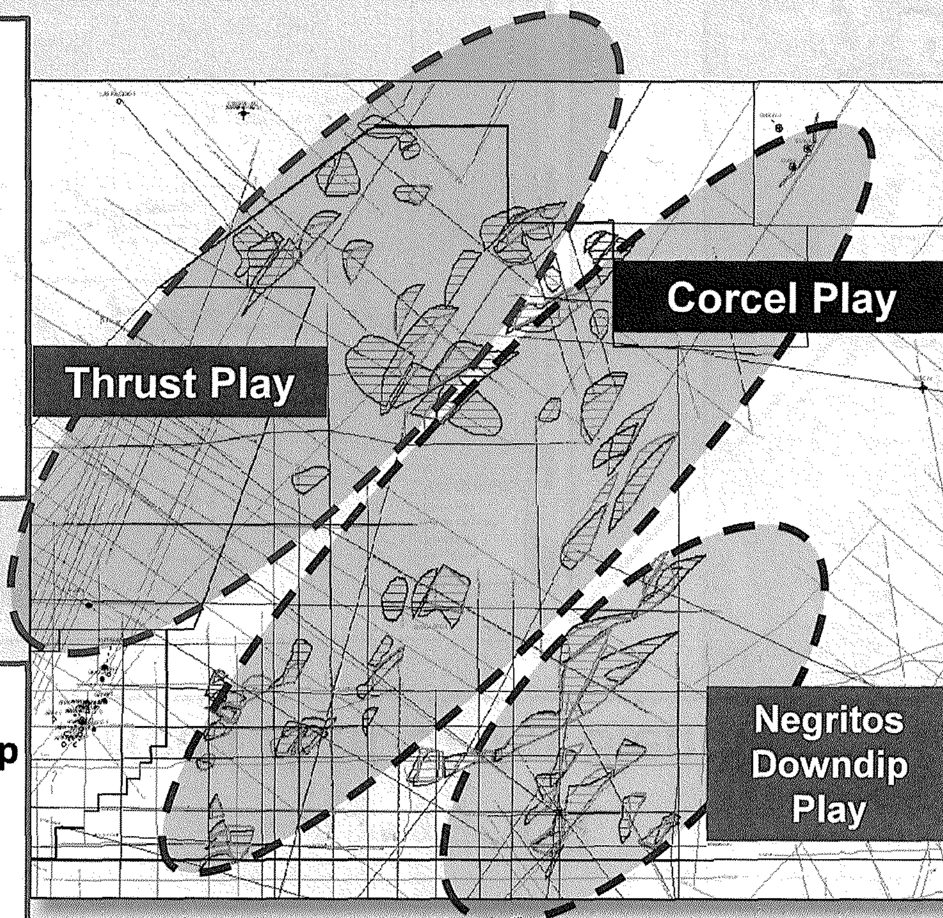
Regional Seal : C 10 / C 8
Local Seal : Gacheta at NW & Middle



Hydrocarbon Play

API

- Light Oil (25~35 API)
  - ➢ NW
  - ➢ K Ss
  - ➢ Young Structure
- Heavy Oil (15~25 API)
  - ➢ SE
  - ➢ T Ss
  - ➢ Old Structure



Reservoir

- Multi Target
  - ➢ C9
  - ➢ Mirador
  - ➢ Barco
  - ➢ Guadarupe
  - ➢ Une

Trap

- Thrust Play : NW
- Fault Bounded 3 Way Dip
  - ➢ Inversion
  - ➢ Antithetic
  - ➢ Synthetic
- Stratigraphic Trap
  - ➢ Une (SE)

Seal

- 4 Way Dip Closure Thrust
- Fault Seal Juxtapose

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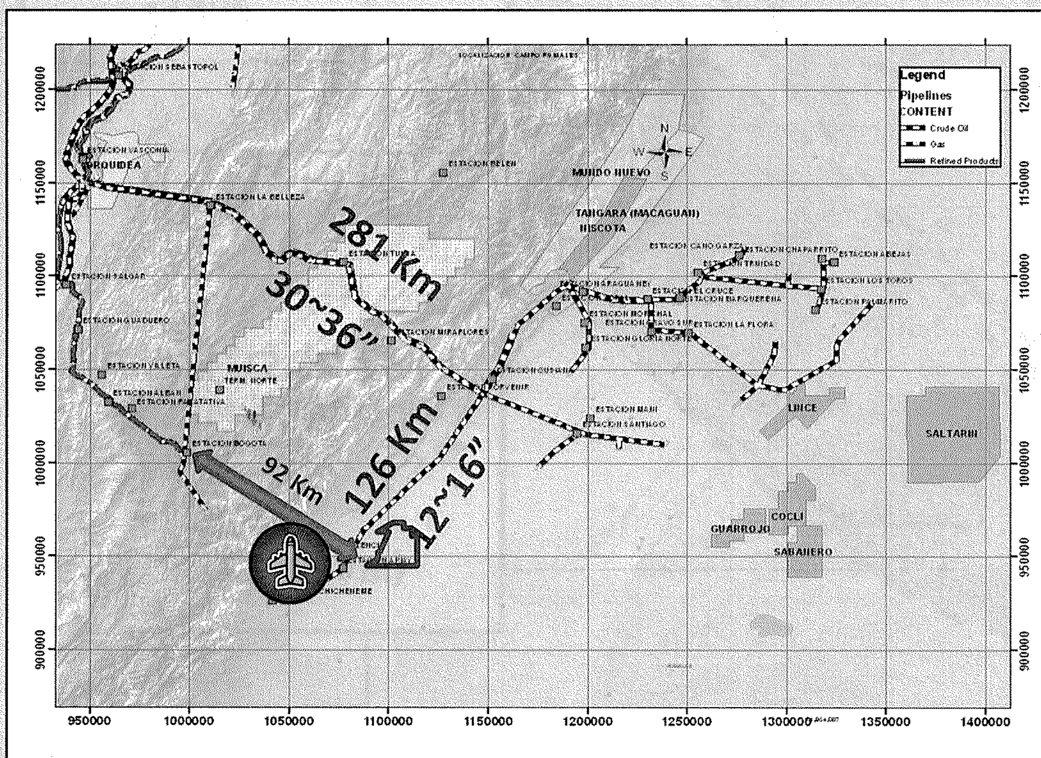
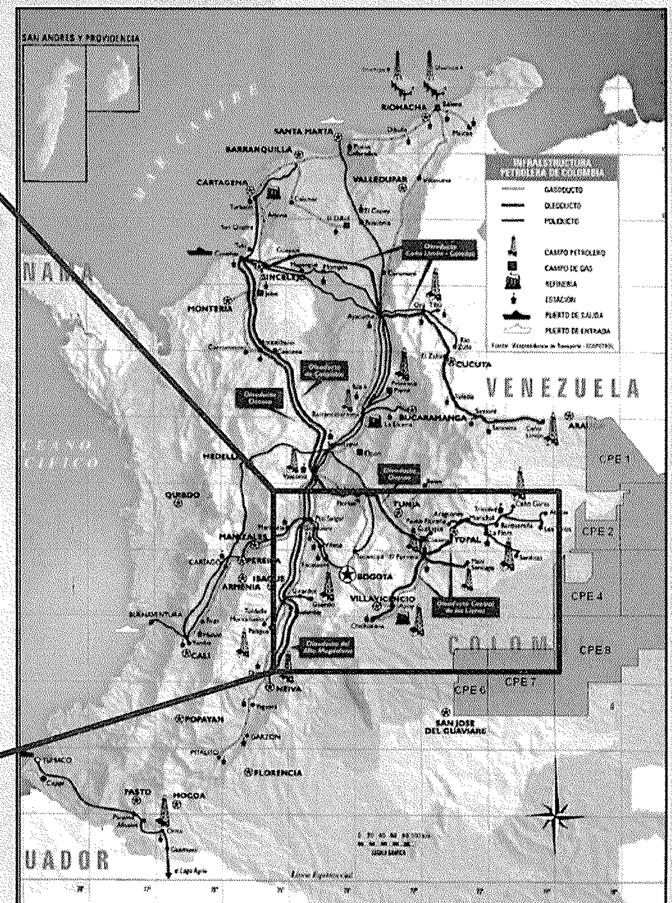
Excellent Infra Structure

Infra

12~16" P/L
Need Light Oil for Blending





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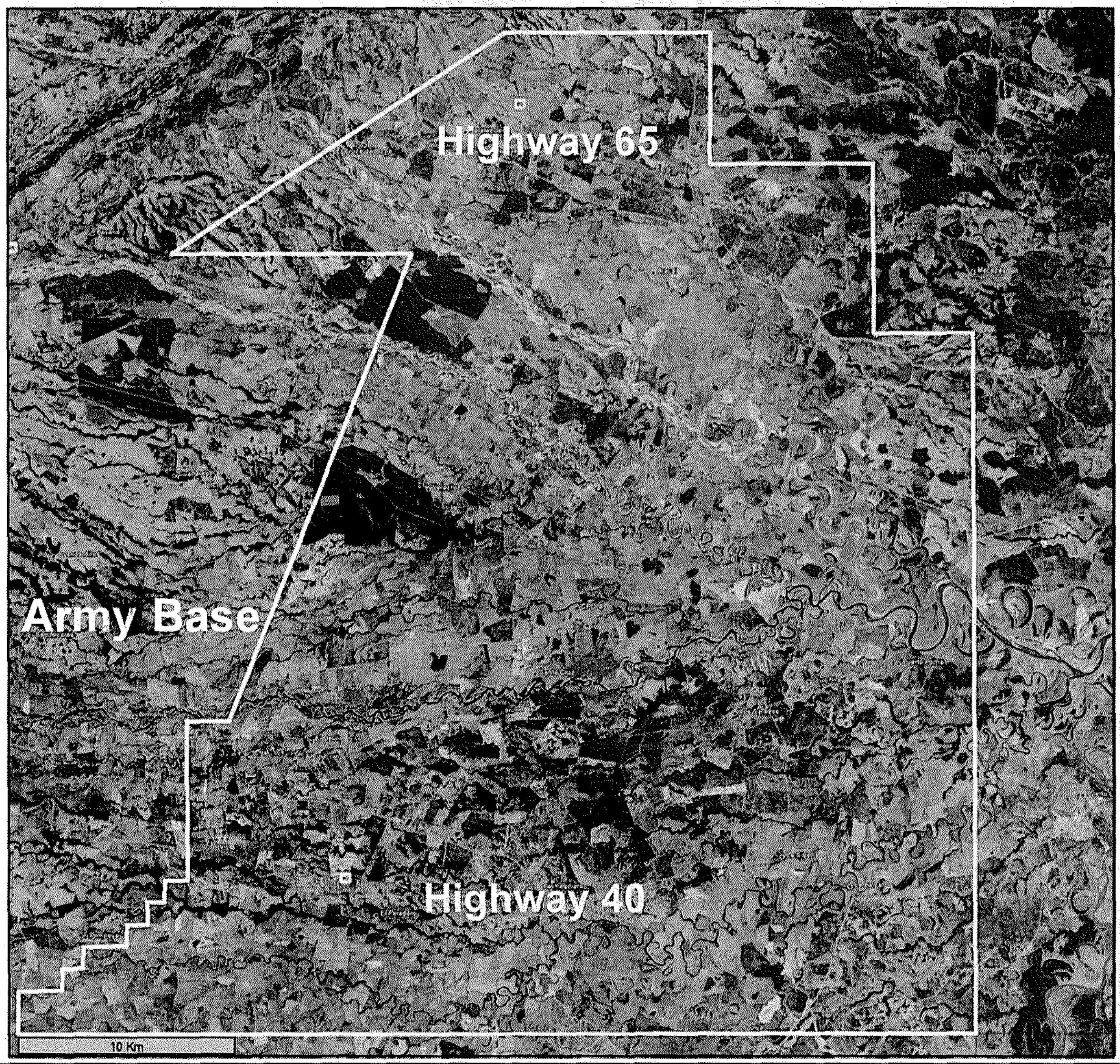
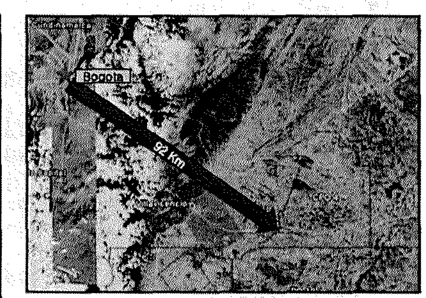
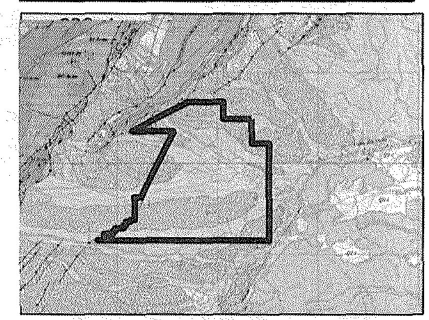
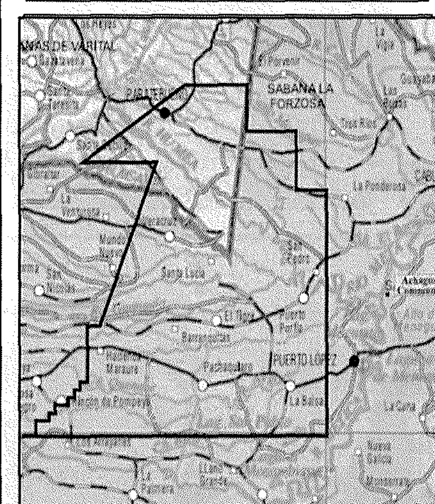
Excellent Working Environment

Working Environment









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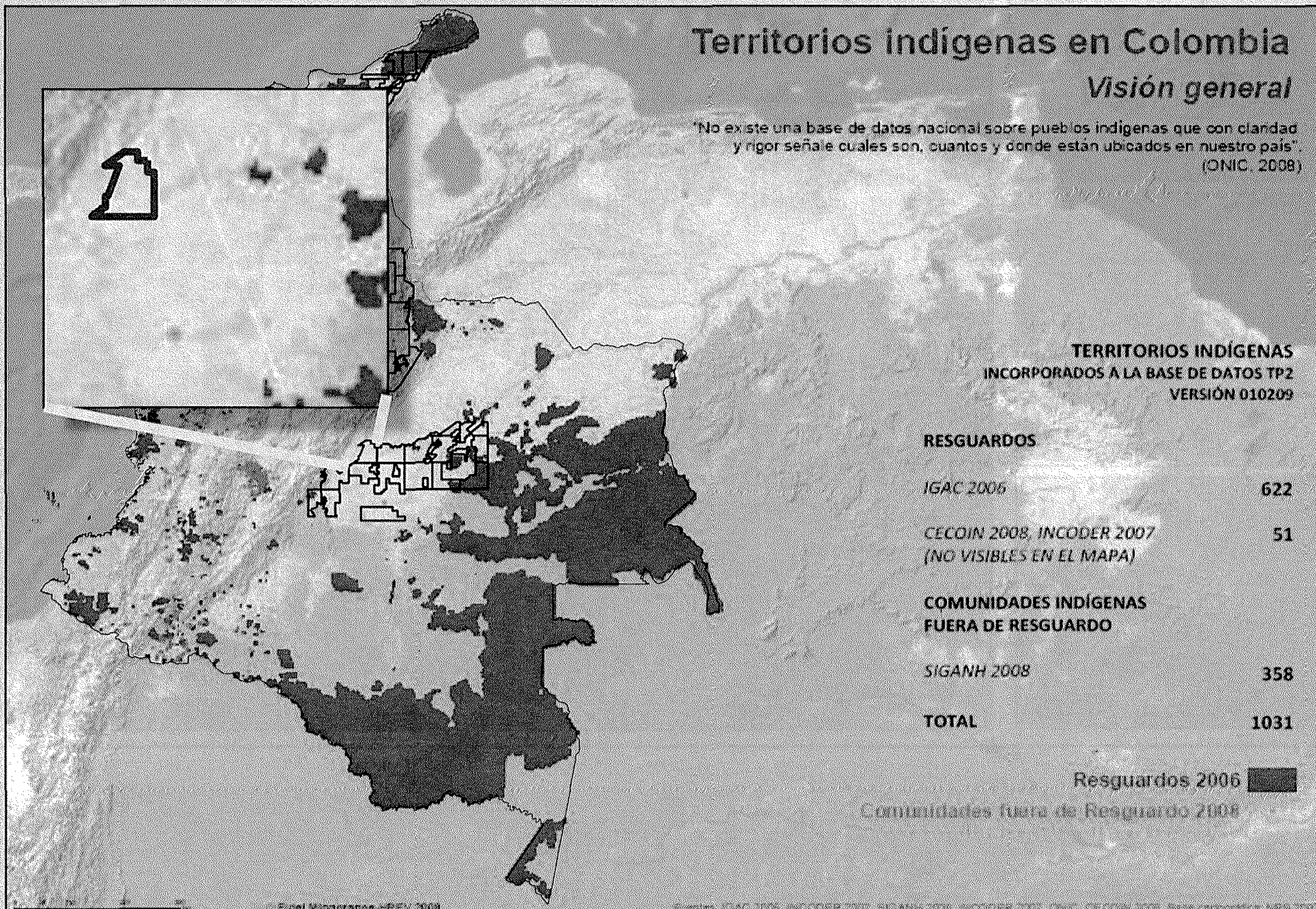
No Indian Reservation Area

Indigenous

No Indigenous Reservation



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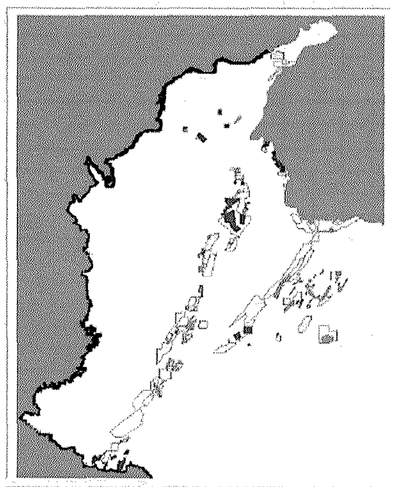
Activity in Colombia

Activity

Áreas en E&P (2003)



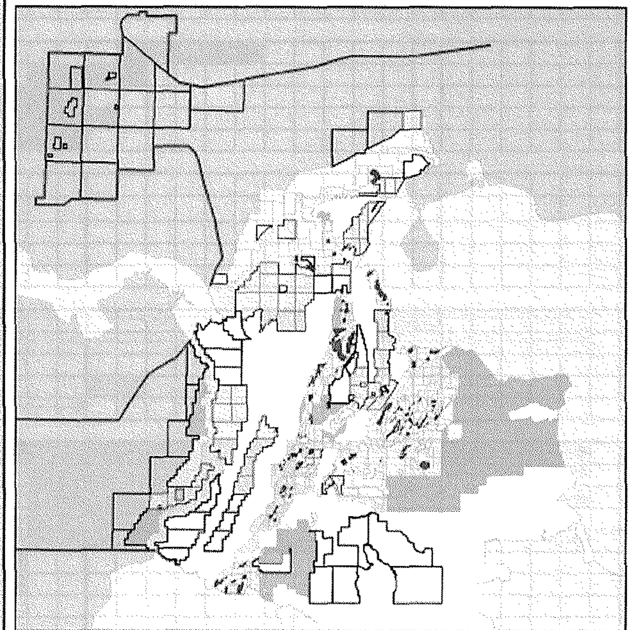
2008 Bid

152 ⇒ 80

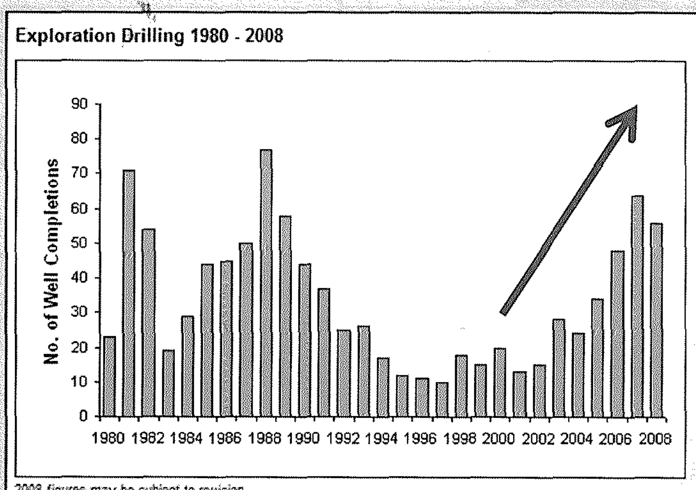
TEA : 8 ⇒ 8

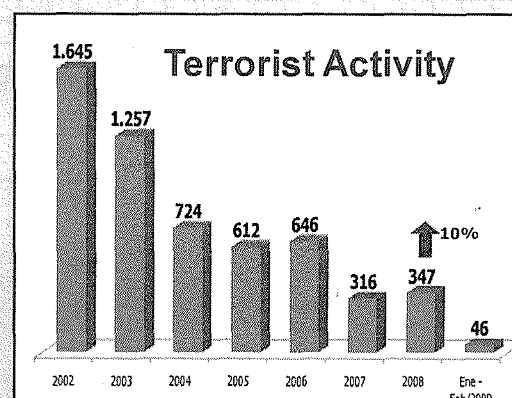
Regular : 42⇒ 22

Mini : 102⇒50



MARZO 26 DE 2009





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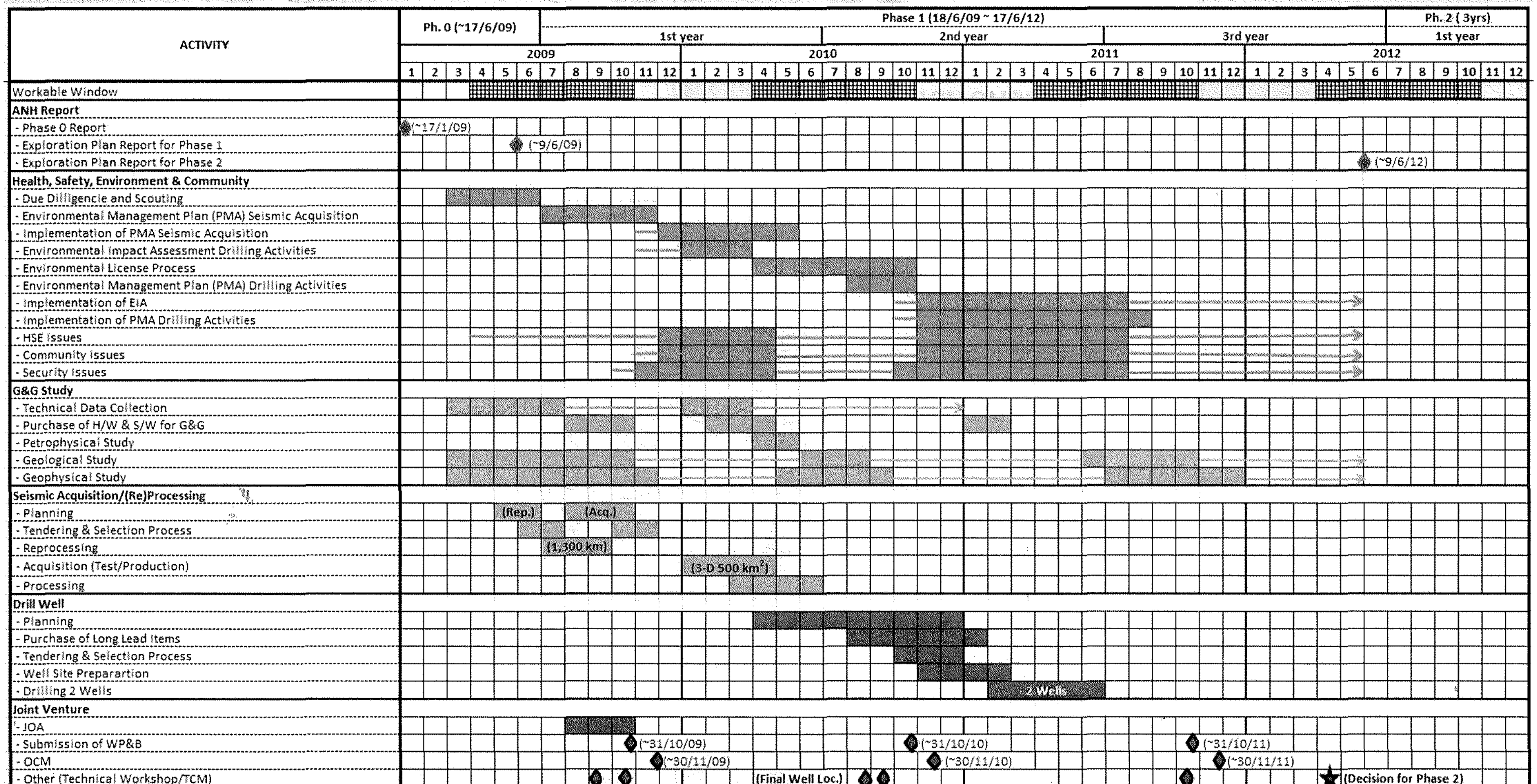
Exploration Plan for Phase 1

CPO-4



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Phase 1 Budget Estimation

3yrs Budget

- **Budget Estimation from 2009 to 2012**

[Thousand US$]

(Unit : KU$)	2009	2010	2011	2012	Total (Phase 0&1)	
Drilling	-	9,585	16,109	238	25,932	2010: Long Lead Item+Well Prep. '2011: 1st Well - 9.89 MMU$ 2nd Well – 11.80 MMU$
G&G	1,129	15,900	558	525	18,112	'10 Seismic Acquisition ($530\ km^2$ * USD $30,000/km^2$)
G&A	1,465	2,661	2,547	2,259	8,932	
HSEC	202	664	1,093	460	2,419	
Contract Commitment	599	-	-		599	Obligation with ANH
TOTAL	3,395	28,810	20,307	3,482	55,994	

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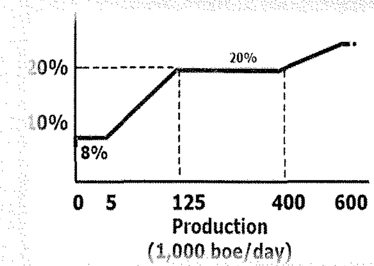
E&P Contract Summary

- **Letter of Credit: 50% of the Phase one (1) Investment ($8.15 MM)**
  (Additional Investment was the 2nd bid parameter and the tie-breaker of Colombia Round 2008)
- **Economic Rights (Rentals): Each Phase US$470,177**
- **Royalties: 8~25%**
  (Gross/According to Monthly Avg. Production Rate)



- **Colombian Government Participation Fee: 31%**
  (After Royalty/The 1st bid parameter of Colombia Round 2008)
- **High Price Tax:** ***(Price @delivery point)x(Production Volume)x{(P-Po)/P} x S***
  P: Benchmark Price (WTI)
  Po: Reference Base Price (If API gravity of liquid is 22°~29°, Po is US$30.22/B)
  S: Percentage of Share (If $30.22/B≤P<$60.44/B, S is 30%)
  (Will be applied after accumulative 5 million Bbls oil production)
- **Colombian Income Tax (From 2008) : 33%**
- **Applicable Law: The Colombian law**
- **Language: Spanish**

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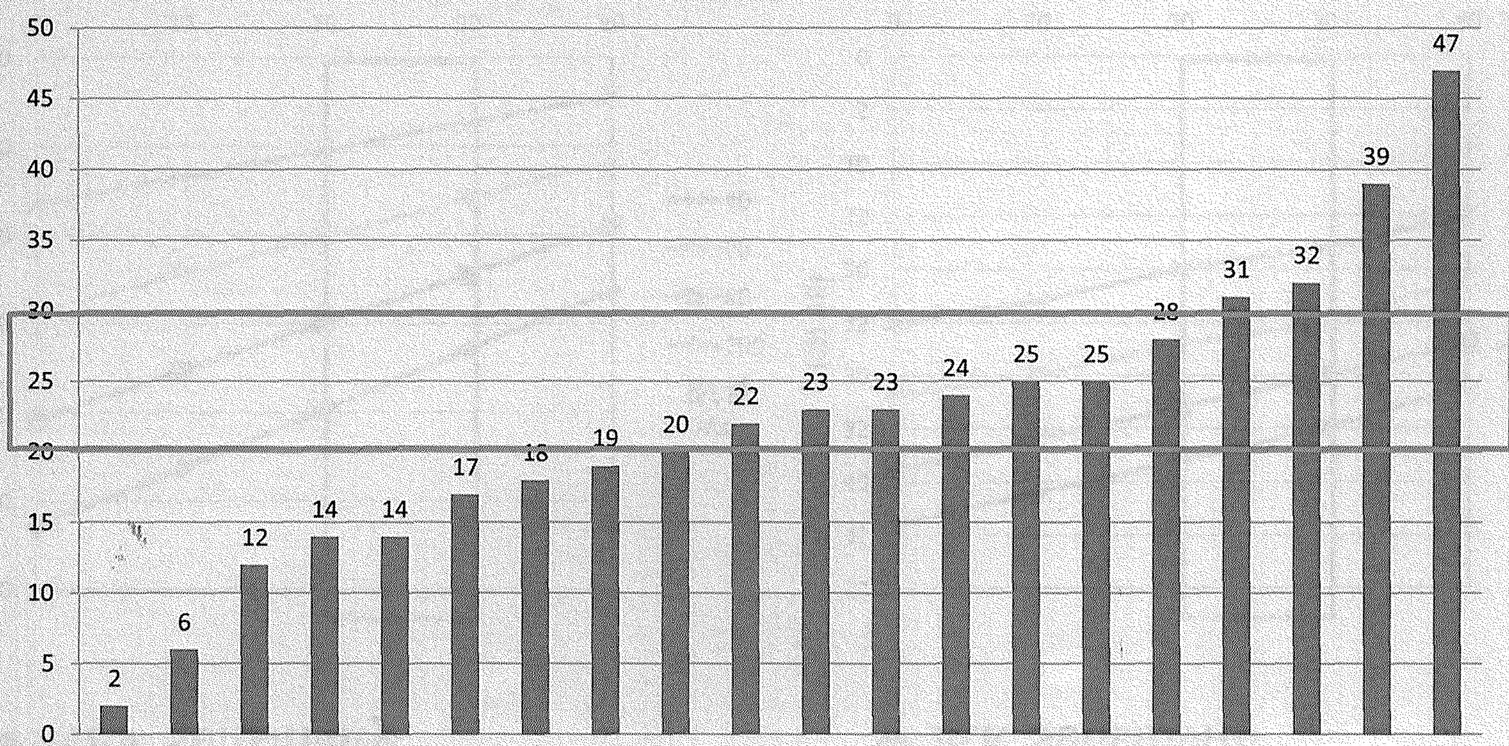
Winner's Bid in Colombia Round 2008

- **20~30% was the reasonable winner's X-factors**



- ✓ Highest Winner: 47% (CPO-7/6 Bidders)
- ✓ Lowest Winner: 2% (CPO-14/ Single Bidder)

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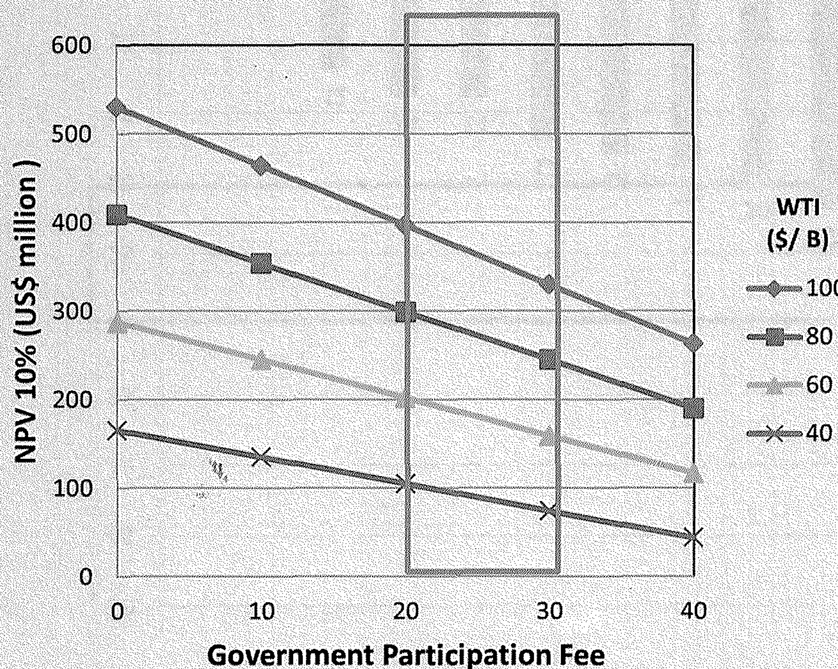
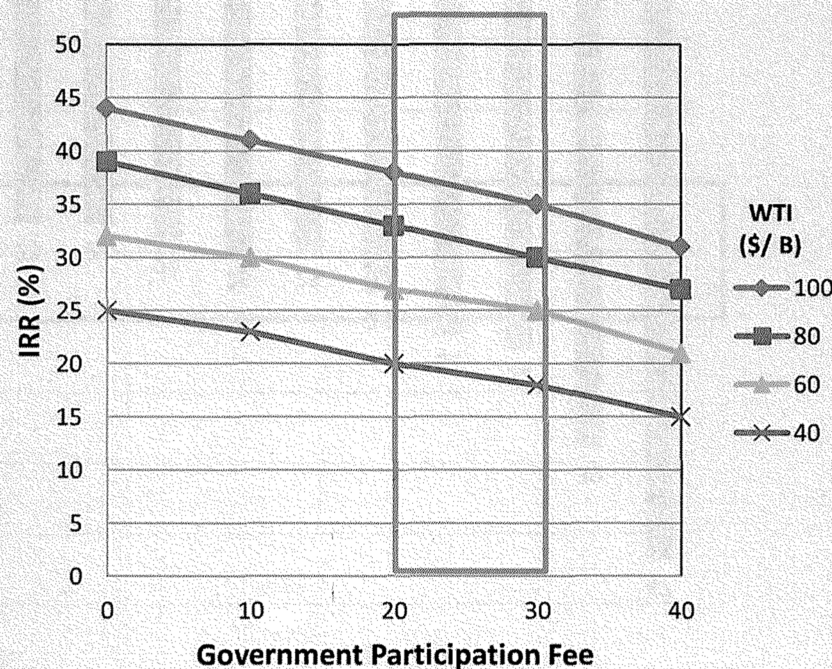
Sensitivity

● NPV Sensitivity

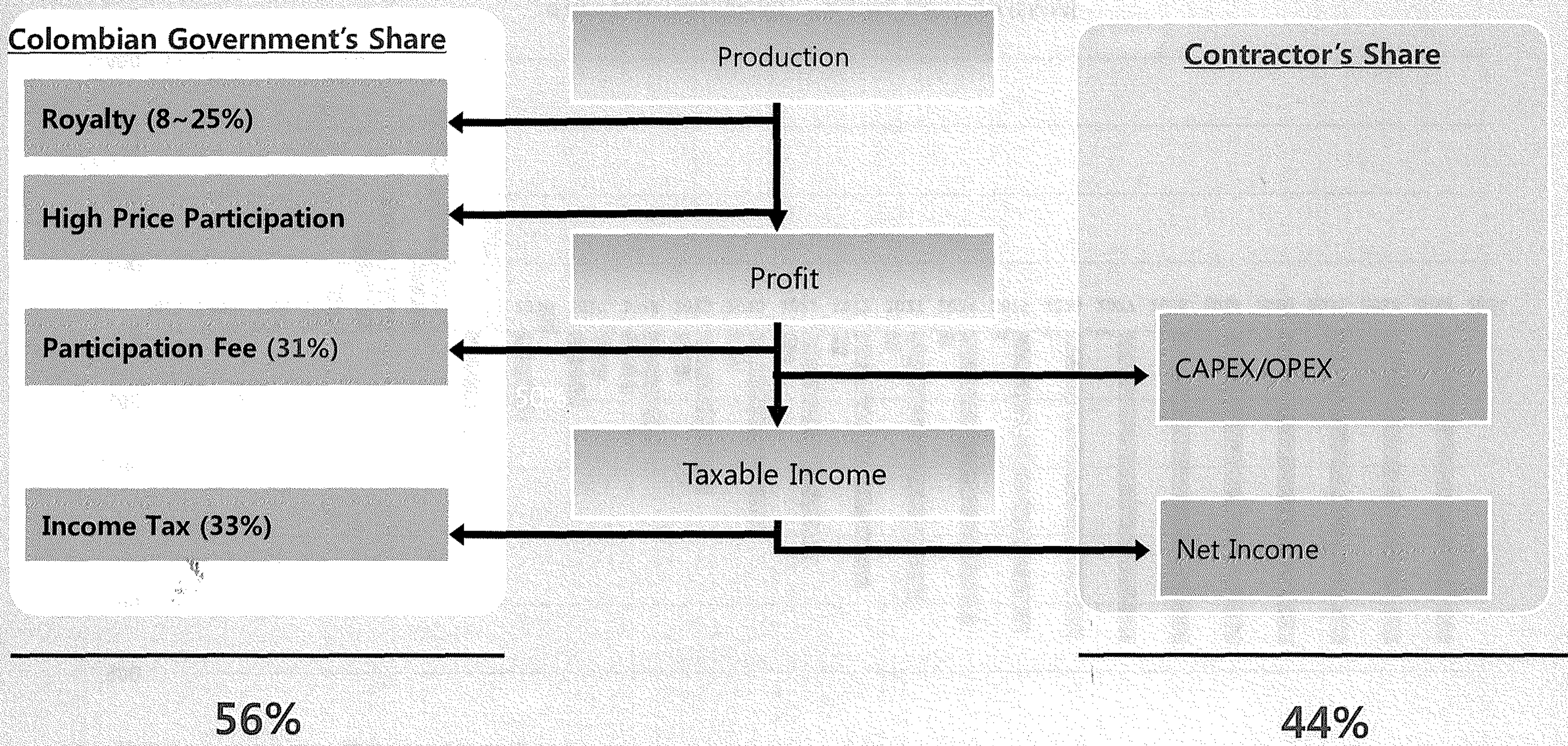


● IRR Sensitivity



※ Assumption: Oil Sale Price (20% Discount from WTI)/ Reserves 52.4 MM Bo/ API 25°
Production Facility & Pipeline to tie-in the existing pipeline (35 km)

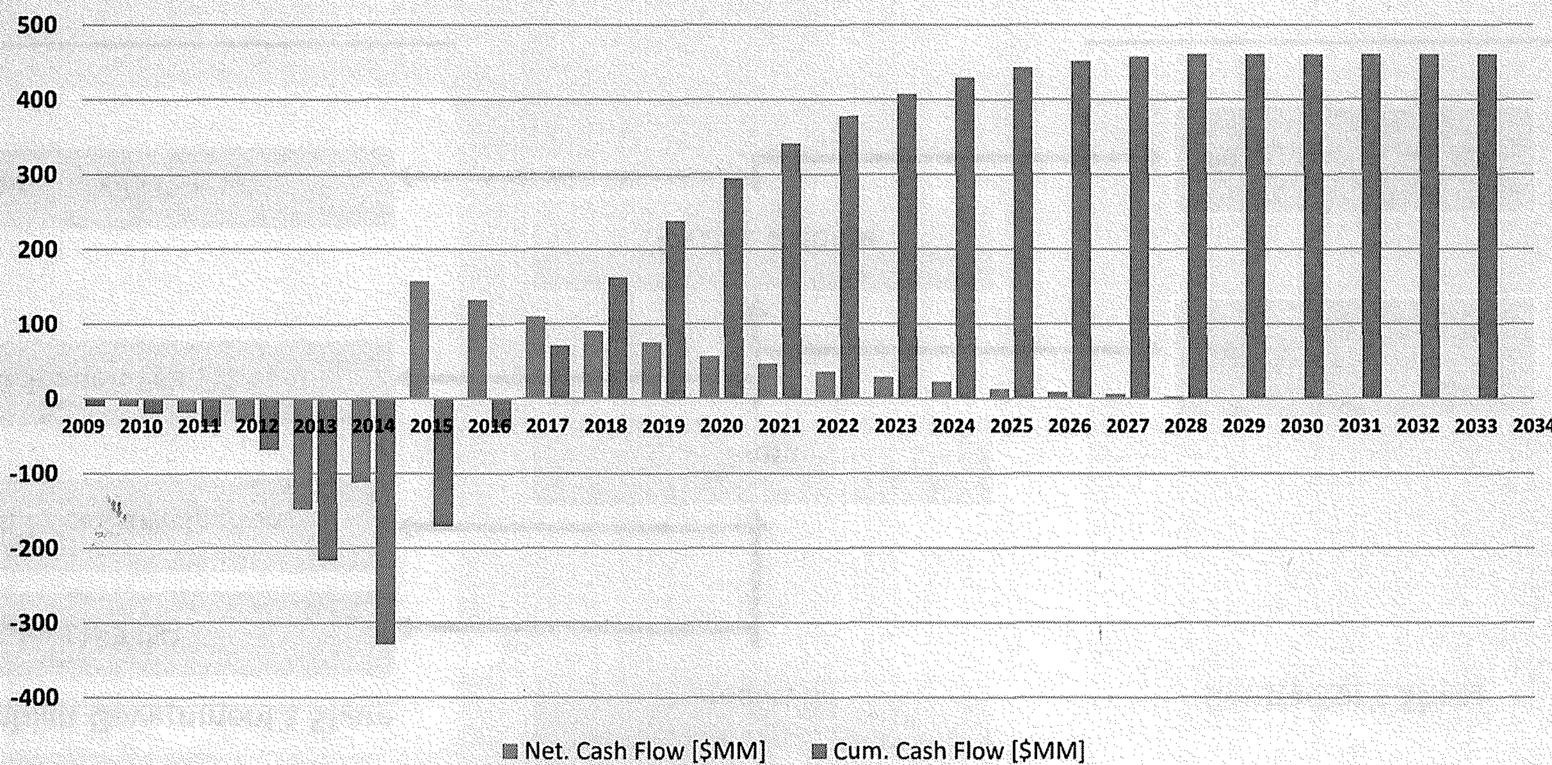
Fiscal Term Structure



※ Assumption: Oil Sale Price $48/B (20% Discount from WTI $60/B)
Reserves 52.4 MM Bo/ API 25°
Production Facility & Pipeline to tie-in the existing pipeline (35 km)

Cash Flow

● Cash Flow Estimation



※ Assumption: Oil Sale Price $48/B (20% Discount from WTI $60/B)
Reserves 52.4 MM Bo/ API 25°
Production Facility & Pipeline to tie-in the existing pipeline (35 km)

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Farm-out Term

FO Interest

- Up to 25%

Farmout Term

- 1 Phase Seismic Cost (Acquisition & Processing) : Two for one of WI
- Others : Ground floor (Pay the interest portion)
  - ➢ Bidding Stage : $ 255,785
  - ➢ Phase 0 ~ Present : Actual Expense * WI

※ This offer will be effective for a thirty day period from October 21st, 2009 and may be withdrawn at any time thereafter without notice.

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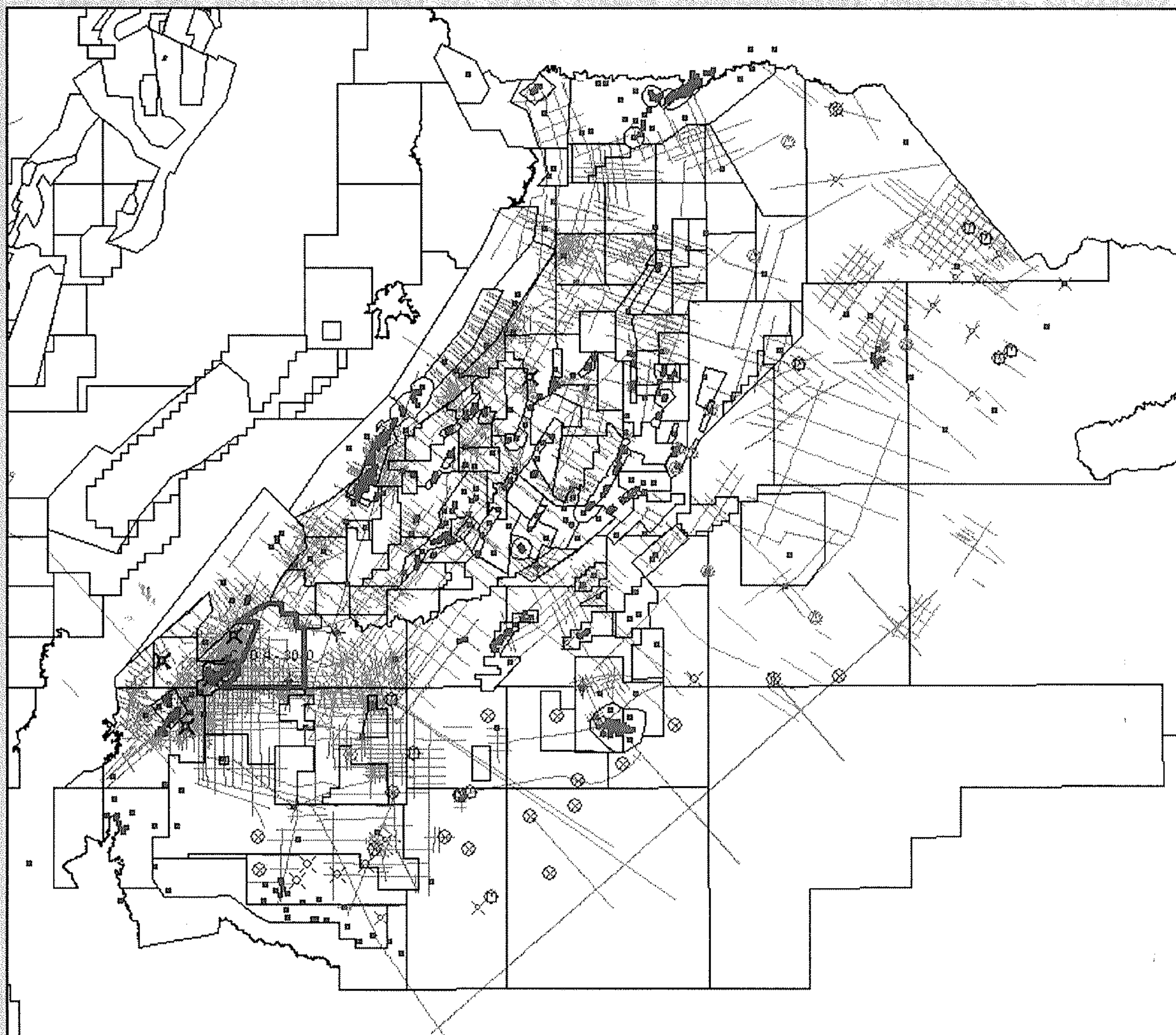
Under-explored Large Area

Potential



Area : 1.4 M ㎢

Sparse 2D : 1825 Km

Only 1 well

감사합니다. !!

Thank You !!

Gracias !!

SK energy

SK energy

SK ENERGY CO LTD
NIT 900.248.965-2

Bogotá D.C., October 30, 2009

SK-CPO4-OPR-0059-09

Mr. John F. Terwilliger
[redacted]

Subject: **Submission of Proposed 2010 Work Program & Budget**

Dear Mr. Terwilliger:

As set forth in Article 6(B) of the Joint Operating Agreement (JOA) signed between Houston American Energy (HAE) and SK Energy, we are delivering the proposed Work Program & Budget detailing the Joint Operations to be performed for the following calendar year (2010). Within thirty (30) days of such delivery, the Operating Committee shall meet to consider and to endeavor to agree on a WP&B.

We will be submitting the complete presentation materials for the upcoming Operating Committee Meeting soon for you to review beforehand.

If you have any questions or suggestions please let us know.

Sincerely yours,

Myung Hwan Lee

Myung Hwan Lee
General Manager
SK Energy - Bogota Office

PLAINTIFF'S EXHIBIT
PX-032

Attached. 2010 proposed WP&B

CC : Mr. C. Kim - Head of E&P Division, SK Energy

Supp 7
HA 289 ATTACH-

Preliminary 2010 WP &
- Block CPO-4

SK Energy - Bogota Office
October 30, 2009

SK energy

Contents

SK energy

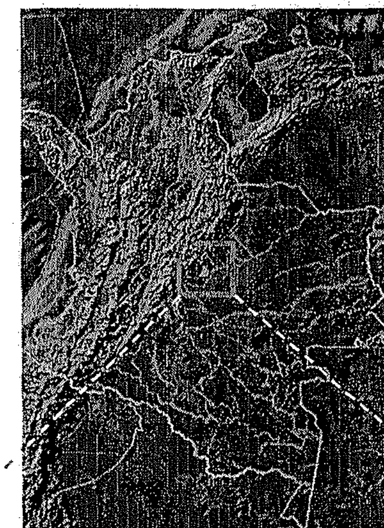
Block Overview

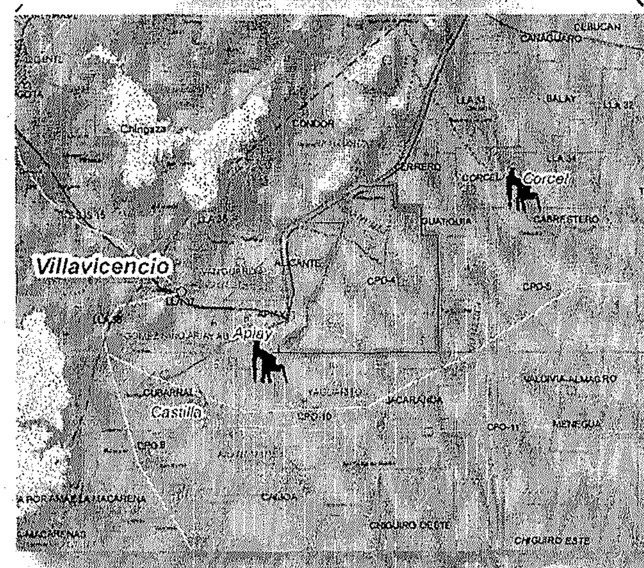
General information

- Location : Onshore, Central Colombia
- Basin : Western Llanos Basin
- Area : 139,859 ha (1,398.59 km^2)
- Effective Date : December 18, 2008
- Contract Type : License Agreement (Royalty & Tax)
- Participant :
  - SK Energy : 75% (Operator)
  - Houston American Energy : 25%

- **Exploration Period & Work Obligation**

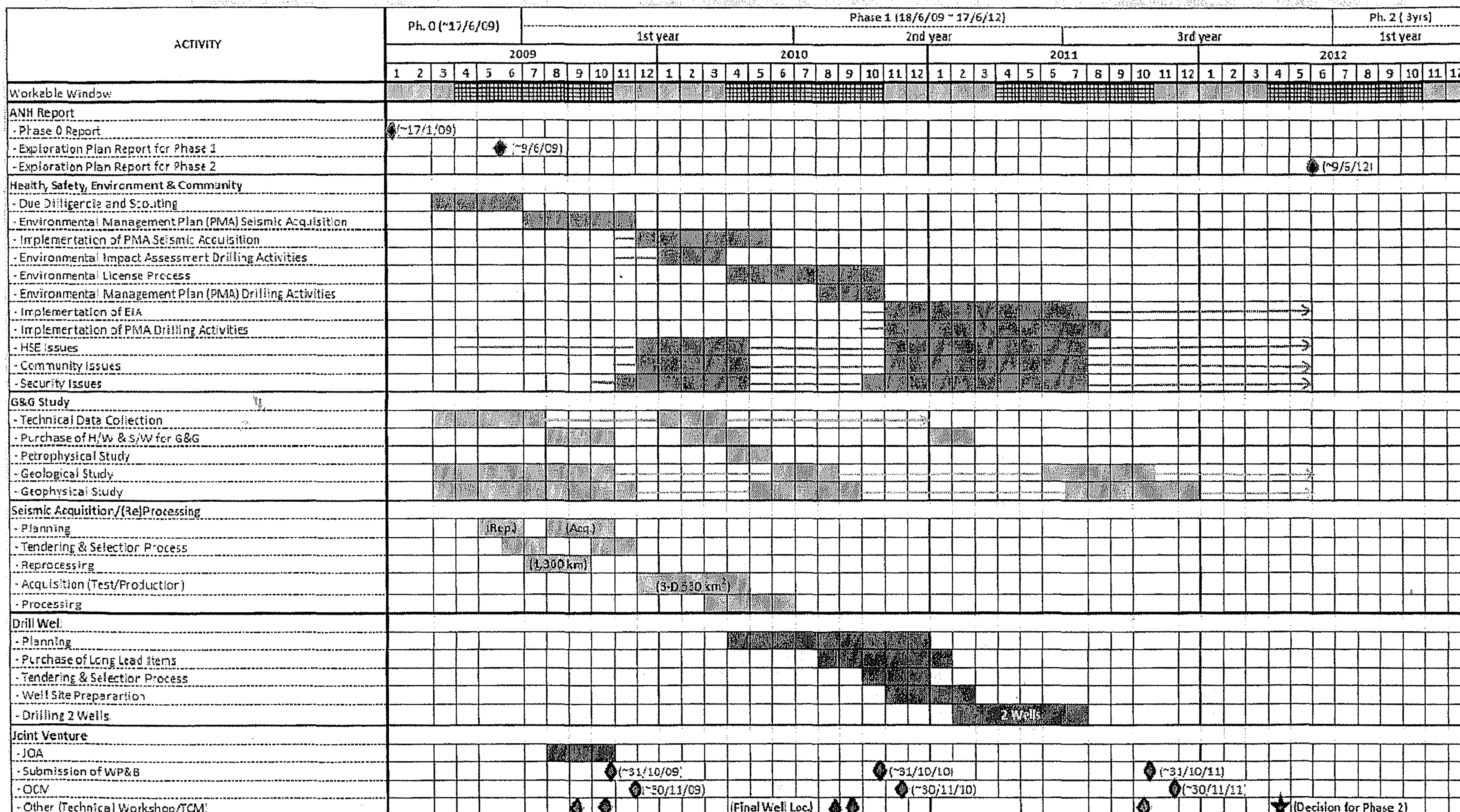
PHASE	PERIOD	WORK OBLIGATION
Phase 0	18.12.'08 ~ 17.6.'09 (6 mos.)	Phase 0 Report
Phase 1	18.6.'09 ~ 17.6.'12 (3 yrs.)	• 400 km 2D Seismic Reprocessing • 620 km 2D New Seismic Acquisition • 2 Exploration Wells
Phase 2	18.6.'12 ~ 17.6.'15 (3 yrs.)	• 400 km 2D Seismic Reprocessing • 3 Exploration Wells





Exploration Plan for Phase 1

■ Exploration Plan for Phase 1



Main Work for 2009

■ 2009 Main Work Program

Work	Work Program	Status
Technical / HSEC	• Technical Data Gathering • S/W and H/W Purchase • Scouting & Due Diligence • Reprocessing Old Seismic Data • PMA (Environmental Mgt. Plan) for Seismic Survey • Seismic Survey Planning & Service Company Selection • Seismic Survey	On-going On-going ~ '09. 6.12 ~ '09.10.31 ~ '09.11.30 ~ '09.11.10 '09.12 ~
Financial/ Commercial	• Office Set-up • Office IT Infra Set-up • Accounting Software Installation	~ '09. 7.18 ~ '09. 8.17 ~ '09.12.31
Partner	• 1st T/OCM • 2nd TCM & Workshop for Seismic Reprocessing • Approval for 2010 Seismic Survey Program • OCM for 2010 WP & B Approval	'09. 9.11 '09.10.14 ~ '09.11.10 ~ '09.11.30

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Main Work for 2010

■ 2010 Main Work Program

Work	Work Program	Plan
G&G/ Drilling	• Seismic Survey (Acquisition & Processing) • Drilling Planning • Purchase of Long-lead Item • EIA Planning and Permit for Drilling • Service Company Selection for Drilling Activities • Well Site Preparation	'09.12 ~ '10. 6 '10. 3 ~ '10. 8 ~ '10. 1 ~ '10.10 '10.10 ~ '10.11 ~
Financial/ Commercial	• SBLC Renewal	~ '10.12.17
Partner	• TCMs • OCM for 2011 WP & B Approval	Upon Request ~ '10.11.30

SK energy

2010 WP&B

Summary

SK Energy & HAE : Block CPO-4

2010 Year Budget - Summary

US Dollars

	1Q	2Q	3Q	4Q	TOTAL	Commentary
Drilling	132,300	520,240	1,519,609	6,027,212	8,199,361	Drilling Planning, Long-lead Item, Well Site Preparation
G&G	18,537,357	868,600	455,339	149,337	20,010,633	3D Seismic Survey(530 km^2)
HSEC	96,739	88,039	53,239	131,539	369,556	
G&A	521,585	461,729	464,824	481,337	1,929,475	
PCO	435,760	83,158	99,790	191,472	810,180	HQ Overhead Charge
Contract Commitment	49,632	49,634	49,634	49,634	198,534	SBLC Commission Fee
GRAND TOTAL	19,773,373	2,071,400	2,642,435	7,030,531	31,517,739	Tax (VAT 16%, WH Tax) Included

SK energy

2010 WP&B

Drilling Detail

SK Energy & HAE : Block CPO-4

2010 Year Budget - Drilling Detail

US Dollars

	1Q	2Q	3Q	4Q	TOTAL	Commentary
Tangibles for 2 Wells	-	167,040	1,319,509	1,709,269	3,195,818	14,000 ft & 15,900 ft wells
Tubular			1,319,509	1,319,509	2,639,018	100% for 2 wells, Casing: 20", 13 3/8", 9 5/8", Tubing: 2 7/8"
Other Materials		167,040		389,760	556,800	100% for 2 wells, Wellhead, Csg Accessories etc.
Intangibles for 2 Wells	65,600	153,100	0	4,103,575	4,322,275	
Site Preparation and Access Roads				1,798,000	1,798,000	100% for 2 wells, including access road construction (5km).
Rent				29,000	29,000	
Rig Mob/Fuel				668,982	668,982	Total cost : US$1.4million
Drill Bit (Prepayment)				232,000	232,000	34% of Total cost in advance
Company Supervision during Rig Mob/ Rig up				100,688	100,688	For 1 month
Other Services (Prepayment)				772,560	772,560	
Well Planning Activities				34,800	34,800	
Environmental Impact Assessment (EIA)	65,600	153,100		20,300	239,000	
PMA - Each Well Drilling Activity				348,000	348,000	
Follow-up Civil Works for Well Site Preparation				49,245	49,245	
Security				50,000	50,000	Army Collaboration
Field Office Equipment				14,268	14,268	
Drilling Labor Cost	66,700	200,100	200,100	200,100	667,000	Drilling Mgr. Engineer. Logistics
TOTAL Drilling	132,300	520,240	1,519,609	6,027,212	8,199,361	

* Assumption :

- Preliminary Well Design : 1st Well (TD 14,000 ft), 2nd Well (TD 15,900 ft)
- 2 Wells will be drilled back-to -back from Feb. 2011.

2010 WP&B

G&G Detail

SK Energy & HAE : Block CPO-4

2010 Year Budget - G&G Detail

US Dollars

	1Q	2Q	3Q	4Q	TOTAL	Commentary
Technical Data Acquisition	29,000		29,000		58,000	
Data Collection and Purchase	29,000		29,000		58,000	
G&G Study		161,884	241,229		403,113	
Petrophysical Analysis		11,600			11,600	
Special Processing		150,284	150,285		300,569	530 km^2 * USD440/km^2 + Tax
Special Seismic Interpretation			90,944		90,944	
Seismic Acquisition (530 km^2)	18,310,782	509,689	35,773	-	18,856,244	
Planning & Site Visit	69,278				69,278	Survey Design QC
Company Audit of Seismic Contractor	46,400				46,400	
Mob & Demob	290,000				290,000	
Acquisition 3D	14,140,400				14,140,400	530 km^2 * USD23,000/km^2 + Tax
Field QC Consulting	225,504				225,504	3QCs (Recording , Drilling & Topography)
Additional Cost	3,337,320				3,337,320	Damage Compensation, Field Test, Standby Cost, Social Investment etc.
Seismic Processing (530 km^2)	32,480	381,511			413,991	530 km^2 * USD400/km^2 + Tax
HSEC Audit of Seismic Contractor	86,344	128,178	35,773		250,295	2 QCs (HSE & Community)
Security	83,056				83,056	Army Collaboration
H/W & S/W Purchase	48,237	47,689			95,926	
G&G Staff Labor Cost	123,448	123,448	123,447	123,447	493,790	2 G&G Staff, 1 Geotechnician (50%)
HQ & Houston Off. Tech. Supp.(Timewrite)	17,500	17,500	17,500	17,500	70,000	
G&G Travel Cost	8,390	8,390	8,390	8,390	33,560	
TOTAL G&G	18,537,357	868,600	455,339	149,337	20,010,633	

2010 WP&B

HSEC Detail

SK Energy & HAE : Block CPO-4

2010 Year Budget - HSEC Detail

US Dollars

	1Q	2Q	3Q	4Q	TOTAL	Commentary
Security Risk Assessment	8,700		8,700		17,400	
Community Investment	43,500	43,500		87,000	174,000	15 Regional Gov. * USD 10,000 + Tax
Health & Safety Issues	7,250	7,250	7,250	7,250	29,000	
HSEC Labor Cost	30,817	30,817	30,816	30,816	123,266	2 HSEC Staff
HSEC Travel Cost	6,472	6,472	6,473	6,473	25,890	
TOTAL HSEC	96,739	88,039	53,239	131,539	369,556	

SK energy

2010 WP&B

G&A Detail

SK Energy & HAE : Block CPO-4
2010 Year Budget - G&A Detail
US Dollars

	1Q	2Q	3Q	4Q	TOTAL	Commentary
Legal Fees/ Tax/ Audit / Translation	26,400	26,400	26,400	26,400	105,600	Law firm, Tax Advice & Audit fee etc
Office Expense	162,899	162,899	162,898	162,899	651,595	60% of common costs
Financial Cost (Debit Tax)	65,016	5,160	8,256	24,768	103,200	0.4% of all of transferred funds
Labor Cost	249,355	249,355	249,355	249,355	997,420	60% of common costs
Travel Costs	10,415	10,415	10,415	10,415	41,660	60% of common costs
G&A Support Timewrite (HQ/Houston)	7,500	7,500	7,500	7,500	30,000	
TOTAL G&A	**521,585**	**461,729**	**464,824**	**481,337**	**1,929,475**	

* According the Exploration Activities in 2010, 60% of common costs are allocated into CPO-4 Block.

** G&A Personnel (11) : GM, FM, Commercial Mgr., Accountant (3), Lawyer, Operation/Adm./Security Coordinator, Secretary

2010 WP&B

PCO

SK Energy & HAE : Block CPO-4
2010 Year Budget - PCO
US Dollars

	1Q	2Q	3Q	4Q	TOTAL	Commentary
HQ Overhead Charge	435,760	83,158	99,790	191,472	810,180	· ~ USD 5.0 m : 5% · USD 5.0 ~ 10.0m : 3% · USD 10.0 m~ : 2%
TOTAL PCO	**435,760**	**83,158**	**99,790**	**191,472**	**810,180**	

* According to the JOA between SK and HAE, total expenditure except SBLC commission fee is the base of HQ overhead charge calculation.

SK energy

2010 WP&B

Contract Commitment

SK Energy & HAE : Block CPO-4

2010 Year Budget - Contract Commitment

US Dollars

	1Q	2Q	3Q	4Q	TOTAL	Commentary
Commissions - LC charges	49,632	49,634	49,634	49,634	198,534	= (14,00,000+2,300,000)/2*1.5% * (1+16%)
TOTAL Contract Commitment	**49,632**	**49,634**	**49,634**	**49,634**	**198,534**	

* The amount of SBLC coverage is half of the obligatory investments (USD 16.3 million) for Phase 1 and the period of SBLC is 18 months. In December 2010, the present SBLC should be renewed.

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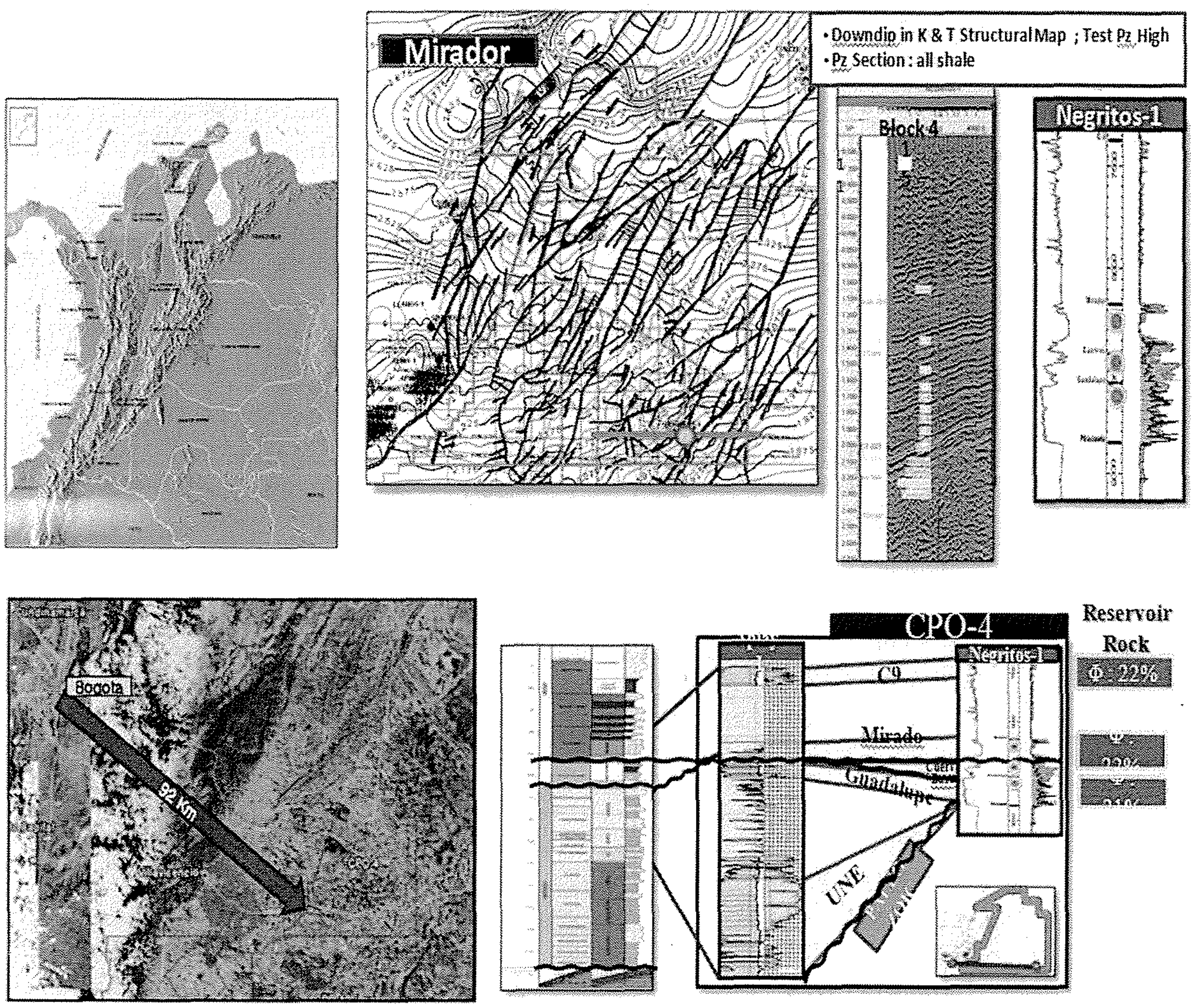
The End of Documents

SK energy

SK E&P Company / Houston Office

CPO-4 Final Report



November 2009

Table 1 – Table showing the prospect size based on area and the calculated reserves listed by prospect number and stratigraphic interval

Area Of Interest	Formation Name	Area	MMBOE (23mmboe/1kac)
c01	Carbonera C7/C9	976	22.45
c02	Carbonera C7/C9	197	4.53
c03	Carbonera C7/C9	355	8.17
c04	Carbonera C7/C9	1,047	24.08
c05	Carbonera C7/C9	1,455	33.47
c06	Carbonera C7/C9	1,132	26.04
c07	Carbonera C7/C9	909	20.91
c08	Carbonera C7/C9	1,665	38.30
c09	Carbonera C7/C9	852	19.60
c10	Carbonera C7/C9	335	7.71
c11	Carbonera C7/C9	944	21.71
c12	Carbonera C7/C9	450	10.35
c13	Carbonera C7/C9	3,320	76.36
c14	Carbonera C7/C9	1,161	26.70
c15	Carbonera C7/C9	1,584	36.43
c16	Carbonera C7/C9	1,576	36.25
c17	Carbonera C7/C9	399	9.18
c18	Carbonera C7/C9	1,247	28.68
c19	Carbonera C7/C9	678	15.59
c20	Carbonera C7/C9	600	13.80
c21	Carbonera C7/C9	424	9.75
c22	Carbonera C7/C9	516	11.87
c23	Carbonera C7/C9	394	9.06
c24	Carbonera C7/C9	427	9.82
c25	Carbonera C7/C9	118	2.71
c26	Carbonera C7/C9	666	15.32
c27	Carbonera C7/C9	320	7.36
c28	Carbonera C7/C9	756	17.39
c29	Carbonera C7/C9	390	8.97
c30	Carbonera C7/C9	95	2.19
c31	Carbonera C7/C9	423	9.73
c32	Carbonera C7/C9	234	5.38
c33	Carbonera C7/C9	233	5.36
m01	Mirador	297	6.83
m02	Mirador	682	15.69
m03	Mirador	530	12.19
m04	Mirador	548	12.60

All Rankings are unrisked MMBOE/acre from TCM

m05	Mirador	679	15.62
m06	Mirador	954	21.94
m07	Mirador	1,238	28.47
m08	Mirador	340	7.82
m09	Mirador	267	6.14
m10	Mirador	252	5.80
m11	Mirador	503	11.57
m12	Mirador	657	15.11
m13	Mirador	707	16.26
m14	Mirador	112	2.58
m15	Mirador	358	8.23
m16	Mirador	404	9.29
m17	Mirador	888	20.42
m18	Mirador	1,201	27.62
m19	Mirador	46	1.06
m20	Mirador	136	3.13
m21	Mirador	333	7.66
m22	Mirador	102	2.35
m23	Mirador	116	2.67
m24	Mirador	213	4.90
m25	Mirador	534	12.28
m26	Mirador	264	6.07
m27	Mirador	121	2.78
m28	Mirador	127	2.92
m29	Mirador	530	12.19
m30	Mirador	192	4.42
m31	Mirador	150	3.45
m32	Mirador	236	5.43
m33	Mirador	96	2.21
m34	Mirador	252	5.80
m35	Mirador	124	2.85
m36	Mirador	106	2.44
m37	Mirador	79	1.82
m38	Mirador	65	1.50
m39	Mirador	45	1.04
m40	Mirador	87	2.00
m41	Mirador	1,941	44.64
m42	Mirador	283	6.51
p01	Paleozoic	332	7.64
p02	Paleozoic	377	8.67
p03	Paleozoic	348	8.00
p04	Paleozoic	266	6.12

p05	Paleozoic	222	5.11
p06	Paleozoic	1,273	29.28
p07	Paleozoic	556	12.79
p08	Paleozoic	61	1.40
p09	Paleozoic	164	3.77
p10	Paleozoic	331	7.61
p11	Paleozoic	258	5.93
p12	Paleozoic	511	11.75
p13	Paleozoic	806	18.54
p14	Paleozoic	720	16.56
p15	Paleozoic	343	7.89
p16	Paleozoic	467	10.74
p17	Paleozoic	576	13.25
p18	Paleozoic	110	2.53
p19	Paleozoic	546	12.56
p20	Paleozoic	1,290	29.67
p21	Paleozoic	1,012	23.28
p22	Paleozoic	256	5.89
p22a	Paleozoic	495	11.39
p23	Paleozoic	268	6.16
p24	Paleozoic	113	2.60
p25	Paleozoic	453	10.42
p26	Paleozoic	267	6.14
p27	Paleozoic	321	7.38
p28	Paleozoic	40	0.92
p29	Paleozoic	238	5.47
p30	Paleozoic	386	8.88
p31	Paleozoic	752	17.30
p32	Paleozoic	215	4.95
p33	Paleozoic	353	8.12
p34	Paleozoic	240	5.52
p35	Paleozoic	174	4.00
p36	Paleozoic	296	6.81
p37	Paleozoic	88	2.02
p38	Paleozoic	340	7.82
p39	Paleozoic	170	3.91
p40	Paleozoic	115	2.65
p41	Paleozoic	170	3.91
p42	Paleozoic	48	1.10
p43	Paleozoic	94	2.16
p44	Paleozoic	61	1.40
p45	Paleozoic	81	1.86

p46	Paleozoic	238	5.47
p47	Paleozoic	139	3.20
Total	**Total**	**59,653**	**1,372.02**

Table 2 - Table showing the prospect size based on the calculated reserves listed by reserve exposure

Area Of Interest	Formation Name	Area	MMBOE (23mmboe/1kac)
c13	Carbonera C7/C9	3,320	76.4
m41	Mirador	1,941	44.6
c08	Carbonera C7/C9	1,665	38.3
c15	Carbonera C7/C9	1,584	36.4
c16	Carbonera C7/C9	1,576	36.2
c05	Carbonera C7/C9	1,455	33.5
p20	Paleozoic	1,290	29.7
p06	Paleozoic	1,273	29.3
c18	Carbonera C7/C9	1,247	28.7
m07	Mirador	1,238	28.5
m18	Mirador	1,201	27.6
c14	Carbonera C7/C9	1,161	26.7
c06	Carbonera C7/C9	1,132	26.0
c04	Carbonera C7/C9	1,047	24.1
p21	Paleozoic	1,012	23.3
c01	Carbonera C7/C9	976	22.4
m06	Mirador	954	21.9
c11	Carbonera C7/C9	944	21.7
c07	Carbonera C7/C9	909	20.9
m17	Mirador	888	20.4
c09	Carbonera C7/C9	852	19.6
p13	Paleozoic	806	18.5
c28	Carbonera C7/C9	756	17.4
p31	Paleozoic	752	17.3
p14	Paleozoic	720	16.6
m13	Mirador	707	16.3
m02	Mirador	682	15.7
m05	Mirador	679	15.6
c19	Carbonera C7/C9	678	15.6
c26	Carbonera C7/C9	666	15.3
m12	Mirador	657	15.1

c20	Carbonera C7/C9	600	13.8
p17	Paleozoic	576	13.2
p07	Paleozoic	556	12.8
m04	Mirador	548	12.6
p19	Paleozoic	546	12.6
m25	Mirador	534	12.3
m29	Mirador	530	12.2
m03	Mirador	530	12.2
c22	Carbonera C7/C9	516	11.9
p12	Paleozoic	511	11.8
m11	Mirador	503	11.6
p22a	Paleozoic	495	11.4
p16	Paleozoic	467	10.7
p25	Paleozoic	453	10.4
c12	Carbonera C7/C9	450	10.4
c24	Carbonera C7/C9	427	9.8
c21	Carbonera C7/C9	424	9.8
c31	Carbonera C7/C9	423	9.7
m16	Mirador	404	9.3
c17	Carbonera C7/C9	399	9.2
c23	Carbonera C7/C9	394	9.1
c29	Carbonera C7/C9	390	9.0
p30	Paleozoic	386	8.9
p02	Paleozoic	377	8.7
m15	Mirador	358	8.2
c03	Carbonera C7/C9	355	8.2
p33	Paleozoic	353	8.1
p03	Paleozoic	348	8.0
p15	Paleozoic	343	7.9
p38	Paleozoic	340	7.8
m08	Mirador	340	7.8
c10	Carbonera C7/C9	335	7.7
m21	Mirador	333	7.7
p01	Paleozoic	332	7.6
p10	Paleozoic	331	7.6
p27	Paleozoic	321	7.4
c27	Carbonera C7/C9	320	7.4
m01	Mirador	297	6.8
p36	Paleozoic	296	6.8
m42	Mirador	283	6.5
p23	Paleozoic	268	6.2
p26	Paleozoic	267	6.1

m09	Mirador	267	6.1
p04	Paleozoic	266	6.1
m26	Mirador	264	6.1
p11	Paleozoic	258	5.9
p22	Paleozoic	256	5.9
m34	Mirador	252	5.8
m10	Mirador	252	5.8
p34	Paleozoic	240	5.5
p46	Paleozoic	238	5.5
p29	Paleozoic	238	5.5
m32	Mirador	236	5.4
c32	Carbonera C7/C9	234	5.4
c33	Carbonera C7/C9	233	5.4
p05	Paleozoic	222	5.1
p32	Paleozoic	215	4.9
m24	Mirador	213	4.9
c02	Carbonera C7/C9	197	4.5
m30	Mirador	192	4.4
p35	Paleozoic	174	4.0
p41	Paleozoic	170	3.9
p39	Paleozoic	170	3.9
p09	Paleozoic	164	3.8
m31	Mirador	150	3.5
p47	Paleozoic	139	3.2
m20	Mirador	136	3.1
m28	Mirador	127	2.9
m35	Mirador	124	2.9
m27	Mirador	121	2.8
c25	Carbonera C7/C9	118	2.7
m23	Mirador	116	2.7
p40	Paleozoic	115	2.6
p24	Paleozoic	113	2.6
m14	Mirador	112	2.6
p18	Paleozoic	110	2.5
m36	Mirador	106	2.4
m22	Mirador	102	2.3
m33	Mirador	96	2.2
c30	Carbonera C7/C9	95	2.2
p43	Paleozoic	94	2.2
p37	Paleozoic	88	2.0
m40	Mirador	87	2.0
p45	Paleozoic	81	1.9

m37	Mirador	79	1.8
m38	Mirador	65	1.5
p44	Paleozoic	61	1.4
p08	Paleozoic	61	1.4
p42	Paleozoic	48	1.1
m19	Mirador	46	1.1
m39	Mirador	45	1.0
p28	Paleozoic	40	0.9
Total	**Total**	**59,653**	**1372.0**

HOUSTON AMERICAN ENERGY CORP.

FORM 10-Q

INDEX

PART I - FINANCIAL INFORMATION

ITEM 1 Financial Statements

HOUSTON AMERICAN ENERGY CORP.
CONSOLIDATED BALANCE SHEETS
(Unaudited)

	September 30, 2009	December 31, 2008
ASSETS		
CURRENT ASSETS		
Cash	$ 4,709,078	$ 9,910,694
Accounts receivable – oil and gas sales	1,251,374	315,631
Escrow receivable	514,938	1,673,551
Prepaid expenses and other current assets	418,757	20,240
Total current assets	6,894,147	11,920,116
PROPERTY, PLANT AND EQUIPMENT		
Oil and gas properties – full cost method		
Costs subject to amortization	20,809,009	17,550,268
Costs not being amortized	2,212,258	2,064,566
Office equipment	11,878	11,878
Total property, plant and equipment	23,033,145	19,626,712
Accumulated depreciation, depletion, and impairment	(15,485,333)	(14,363,581)
Total property, plant and equipment, net	7,547,812	5,263,131
OTHER ASSETS		
Deferred tax asset	5,800,509	5,277,354
Other assets	176,453	176,453
Total Assets	$ 20,418,921	$ 22,637,054
LIABILITIES AND SHAREHOLDERS' EQUITY		
CURRENT LIABILITIES		
Accounts payable	$ 33,578	$ 1,363,827
Accrued expenses	6,069	9,264
Foreign income taxes payable	27,309	10,191
Total current liabilities	66,956	1,383,282
LONG-TERM LIABILITIES		
Deferred rent obligation	17,639	19,614
Reserve for plugging and abandonment costs	252,252	185,910
Total long-term liabilities	269,891	205,524
Commitments and Contingencies	—	—
SHAREHOLDERS' EQUITY		
Preferred stock, $0.001 par value: 10,000,000 shares authorized; 0 shares outstanding	—	—
Common stock, $0.001 par value; 100,000,000 shares authorized; 28,000,772 shares issued and outstanding	28,001	28,001
Additional paid-in capital	22,603,231	22,631,773
Accumulated deficit	(2,549,158)	(1,611,526)
Total shareholders' equity	20,082,074	21,048,248
Total liabilities and shareholders' equity	$ 20,418,921	$ 22,637,054

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

UNITED STATES
SECURITIES AND EXCHANGE COMMISSION
Washington, DC 20549

FORM 10-Q

(Mark One)

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

For the quarterly period ended September 30, 2009

OR

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

For the transition period from __________ to _____________.

Commission File Number 1-32955

HOUSTON AMERICAN ENERGY CORP.

(Exact name of registrant as specified in its charter)

Delaware	[redacted]
(State or other jurisdiction of incorporation or organization)	(IRS Employer Identification No.)

[redacted]
(Address of principal executive offices)(Zip Code)

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

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

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

Indicate by check mark whether the registrant 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. Yes ☐ No ☐

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 "large accelerated filer," "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 ☒

As of November 4, 2009, we had 28,000,772 shares of $0.001 par value Common Stock outstanding.

PLAINTIFF'S EXHIBIT
PX-037

HOUSTON AMERICAN ENERGY CORP.
CONSOLIDATED STATEMENTS OF OPERATIONS
(Unaudited)

	Nine Months Ended September 30,		Three Months Ended September 30,	
	2009	2008	2009	2008
Revenue:				
Oil and gas	$ 3,983,256	$ 8,616,868	$ 2,403,996	$ 2,350,782
Total revenue	3,983,256	8,616,868	2,403,996	2,350,782
Expenses of operations:				
Lease operating expense and severance tax	2,644,359	2,789,630	1,021,312	747,740
Joint venture expenses	127,487	144,919	48,780	43,225
General and administrative expense	2,013,955	2,616,714	620,642	609,398
Depreciation and depletion	1,121,752	913,214	580,020	147,311
Gain on sale of oil and gas properties	—	(7,615,236)	—	—
Total operating expenses	5,907,553	(1,150,759)	2,270,754	1,547,674
Income (loss) from operations	(1,924,297)	9,767,627	133,242	803,108
Other income:				
Interest income	53,886	232,870	9,350	72,427
Total other income	53,886	232,870	9,350	72,427
Net income (loss) before taxes	(1,870,411)	10,000,497	142,592	875,535
Income tax expense (benefit)	(932,777)	5,130,141	(285,986)	76,703
Net income (loss)	$ (937,634)	$ 4,870,356	$ 428,578	$ 798,832
Basic income (loss) per share	$ (0.03)	$ 0.17	$ 0.02	$ 0.03
Diluted income (loss) per share	$ (0.03)	$ 0.17	$ 0.02	$ 0.03
Basic weighted average shares	28,000,772	27,903,915	28,000,772	28,000,772
Diluted weighted average shares	28,000,772	28,065,640	28,023,559	28,209,632

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

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

	For the Nine Months Ended September 30, 2009	2008
CASH FLOWS FROM OPERATING ACTIVITIES		
Net income (loss)	$ (937,634)	$ 4,870,356
Adjustments to reconcile net income (loss) to net cash from operations:		
Depreciation and depletion	1,121,752	913,214
Stock based compensation	811,501	833,623
Accretion of asset retirement obligation	10,221	15,546
Amortization of deferred rent	(1,975)	(198)
Increase in deferred tax asset	(523,155)	—
Gain on sale of oil and gas properties	—	(7,615,236)
Changes in operating assets and liabilities:		
Increase in accounts receivable	(935,743)	(172,109)
Increase in prepaid expense	(398,517)	(30,767)
Increase (decrease) in accounts payable and accrued liabilities	(1,316,324)	290,323
Net cash used in operating activities	(2,169,874)	(895,248)
CASH FLOWS FROM INVESTING ACTIVITIES		
Proceeds from sale of marketable securities	—	9,650,000
Payments for acquisition and development of oil and gas properties	(3,704,208)	(7,180,675)
Proceeds from sale of oil and gas properties, net of expenses	353,896	10,146,655
Decrease in escrow receivable	1,158,613	—
Payments for issuance of notes receivable	(115,724)	—
Receipts for notes receivable	115,724	—
Increase in other assets	—	(98,287)
Net cash provided by (used in) investing activities	(2,191,699)	12,517,693
CASH FLOWS FROM FINANCING ACTIVITIES		
Dividends paid	(840,043)	(562,015)
Exercise of warrants	—	375,000
Net cash used in financing activities	(840,043)	(187,015)
Increase (decrease) in cash and equivalents	(5,201,616)	11,435,430
Cash, beginning of period	9,910,694	417,818
Cash, end of period	$ 4,709,078	$ 11,853,248
SUPPLEMENTAL CASH FLOW INFORMATION:		
Interest paid	$ —	$ —
Taxes paid	$ 122,190	$ 5,107,652
NONCASH INVESTING AND FINANCING INFORMATION		
Cash proceeds from sale of oil and gas properties escrowed	$ —	$ 1,673,551
Change in asset retirement obligation	$ 56,121	$ —

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

HOUSTON AMERICAN ENERGY CORP.
Notes to Consolidated Financial Statements
(Unaudited)

NOTE 1 – BASIS OF PRESENTATION AND SIGNIFICANT ACCOUNTING POLICIES

The accompanying unaudited financial statements of Houston American Energy Corp., a Delaware corporation (the "Company"), have been prepared in accordance with accounting principles generally accepted in the United States of America for interim financial information and with the instructions to Form 10-Q. They do not include all of the information and footnotes required by accounting principles generally accepted in the United States of America for a complete financial presentation. In the opinion of management, all adjustments, consisting only of normal recurring adjustments, considered necessary for a fair presentation, have been included in the accompanying unaudited financial statements. Operating results for the periods presented are not necessarily indicative of the results that may be expected for the full year.

These financial statements should be read in conjunction with the financial statements and footnotes, which are included as part of the Company's Form 10-K for the year ended December 31, 2008.

Concentration of Credit Risk

Financial instruments that potentially subject the Company to a concentration of credit risk include cash, cash equivalents and any marketable securities. The Company had cash deposits of approximately $3,889,073 in excess of the FDIC's $250,000 current insured limits at the period end. The Company has not experienced any losses on its deposits of cash and cash equivalents.

Earnings per Share

Basic earnings per share is computed by dividing net income (loss) available to common shareholders by the weighted average common shares outstanding for the period. Diluted earnings per share reflects the potential dilution that could occur if securities or other contracts to issue common shares were exercised or converted into common shares that then shared in the earnings of the Company. The Company's only outstanding potentially dilutive securities are options and warrants. Dilutive options and warrants had the effect of increasing diluted weighted average shares outstanding by 22,787, 208,860 and 161,725 common shares, respectively, for the three months ending September 30, 2009 and 2008, and the nine months ending September 30, 2008.

For the three and nine months ended September 30, 2009, options and warrants to purchase 1,706,211 and 1,728,998 shares of common stock, respectively, were excluded from the diluted EPS calculation because their effect would have been antidilutive. For the three months and nine months ended September 30, 2008, options and warrants to purchase 1,373,743 and 1,420,608 shares of common stock were excluded from the diluted EPS calculation because their exercise price was greater than the average market price of common shares during those periods.

NOTE 2 – CHANGES IN PRESENTATION

Certain financial presentations for the periods presented for 2008 have been reclassified to conform to the 2009 presentation.

NOTE 3 – RECENT ACCOUNTING PRONOUNCEMENTS

In June 2009, the FASB issued SFAS No. 168, *The FASB Accounting Standards Codification and the Hierarchy of Generally Accepted Accounting Principles* ("SFAS 168" or ASC 105-10). SFAS 168 (ASC 105-10) establishes the Codification as the sole source of authoritative accounting principles recognized by the FASB to be applied by all nongovernmental entities in the preparation of financial statements in conformity with GAAP. SFAS 168 (ASC 105-10) was prospectively effective for financial statements issued for fiscal years ending on or after September 15, 2009, and interim periods within those fiscal years. The adoption of SFAS 168 (ASC 105-10) on July 1, 2009 did not impact the Company's results of operations or financial condition. The Codification did not change GAAP; however, it did change the way GAAP is organized and presented. As a result, these changes impact how companies reference GAAP in their financial statements and in their significant accounting policies. The Company implemented the Codification in this Report by providing references to the Codification topics alongside references to the corresponding standards.

In June 2008, the FASB issued FSP EITF 03-6-1 (ASC 260-10), *Determining Whether Instruments Granted in Share-Based Payment Transactions Are Participating Securities* ("FSP EITF 03-6-1" or ASC 260-10). FSP EITF 03-6-1 (ASC 260-10) addresses whether instruments granted in share-based payment transactions are participating securities prior to vesting and, therefore, need to be included in computing earnings per share under the two-class method described in SFAS No. 128 (ASC 260-10), *Earnings Per Share*. FSP EITF 03-6-1(ASC 260-10) is effective for the Company as of January 1, 2009 and in accordance with its requirements it will be applied retrospectively. The adoption of FSP EITF 03-6-1 (ASC 260-10) did not have a material impact on the Company's consolidated financial statements.

On December 31, 2008, the SEC published the final rules and interpretations updating its oil and gas reporting requirements. Many of the revisions are updates to definitions in the existing oil and gas rules to make them consistent with the petroleum resource management system, which is a widely accepted standard for the management of petroleum resources that was developed by several industry organizations. Key revisions include changes to the pricing used to estimate reserves to the utilization of a 12-month average price rather than a single day spot price which eliminates the ability to utilize prices subsequent to the end of a reporting period in those instances where the full cost ceiling was exceeded and subsequent pricing exceeds pricing at the end of a reporting period, the ability to include nontraditional resources in reserves, the use of new technology for determining reserves, and permitting disclosure of probable and possible reserves. The SEC will require companies to comply with the amended disclosure requirements for registration statements filed after January 1, 2010, and for annual reports on Form 10-K for fiscal years ending on or after December 15, 2009. Early adoption is not permitted. The Company is currently assessing the impact that the adoption will have on the Company's disclosures, operating results, financial position and cash flows.

In August 2009, the FASB issued ASU 2009-05 (ASC 820-10) to provide clarification on measuring liabilities at fair value when a quoted price in an active market is not available. In particular, ASU 2009-05 specifies that a valuation technique should be applied that uses either the quote of the liability when traded as an asset, the quoted prices for similar liabilities when traded as assets, or another valuation technique consistent with existing fair value measurement guidance. ASU 2009-05 (ASC 820-10) is prospectively effective for financial statements issued for interim or annual periods ending after October 1, 2009. The Company is currently assessing the impact the adoption of ASU 2009-05 (ASC 820-10) will have on its results of operations or financial condition.

With the exception of the pronouncements noted above, no other accounting standards or interpretations issued or recently adopted are expected to a have a material impact on the Company's consolidated financial position, operations or cash flows.

NOTE 4 – SALE OF OIL AND GAS PROPERTIES - CARACARA AND OTHER

Gain on Sale of Oil and Gas Properties

In June 2008, the Company, through Hupecol Caracara LLC as owner/operator under the Caracara Association Contract, sold all of its interest in the Caracara Association Contract and related assets for a total cash consideration of $11,917,418.

The following table presents pro forma data that reflects revenue, income from continuing operations, net income and income per share for the three and nine months ended September 30, 2008 as if the Caracara transaction had occurred at the beginning of that period.

Pro-Forma Information:	Three Months Ended September 30, 2008	Nine Months Ended September 30, 2008
Oil and gas revenue	$ 2,350,782	$ 5,612,003
Income (loss) from operations	824,561	(70,203)
Net income (loss)	$ 820,285	$ (24,459)
Basic income (loss) per share	$ 0.03	$ (0.00)
Diluted income (loss) per share	$ 0.03	$ (0.00)

Escrow Receivable

Pursuant to the terms of the sale of the Caracara assets, on the closing date of the sale, a portion of the purchase price was deposited in escrow to settle post-closing adjustments under the purchase and sale agreement. The Company's proportionate interest in the escrow deposit totaled $1,673,551, and was recorded as Escrow receivable. On June 17, 2009, $1,158,613 of the funds deposited in escrow was released to the Company based on post-closing adjustments. At September 30, 2009, the balance of the funds held in escrow, including $514,938 representing the Company's proportionate interest in the escrow deposit, continued to be held in escrow pending resolution of disputes among Hupecol, the purchaser of the Caracara assets and Ecopetrol.

The net proceeds and the gain realized from the sale of the Caracara assets may be adjusted based on post-closing adjustments.

Sale of Domestic Leasehold Interests

On July 16, 2009, the Company received $353,896 from the sale of part of its interest in the Profit Island and North Profit Island prospects. The proceeds received were recorded as a reduction of oil and gas properties. The Company retained an interest in both of the prospects. See "Note 9 – Oil and Gas Acquisitions – Domestic Leases".

NOTE 5 – NOTES RECEIVABLE

On February 4, 2009, the Company entered into a letter agreement (the "Letter Agreement") with Yazoo Pipeline Co., L.P., Sterling Exploration & Production Co., L.L.C., and Matagorda Operating Company (together, the "Debtors"), pursuant to which the Company agreed to provide debtor-in-possession financing ("DIP Financing") to the Debtors subject to approval of the Letter Agreement by the U.S. Bankruptcy Court for the Southern District of Texas (the "Bankruptcy Court"). On February 4, 2009, the Bankruptcy Court entered an order approving the DIP Financing on the terms set out in the Letter Agreement.

Under the terms of the Letter Agreement, the Company advanced a total of $115,724 to the Debtors. Advances incurred interest at 10% per annum and were to be repaid in full ninety (90) days from approval of the DIP Financing by the Bankruptcy Court, or the earlier consummation of a sale of the principal assets of the Debtors to the Company.

Pursuant to its rights under the Letter Agreement, after conducting due diligence with respect to the Debtors, the Company elected to terminate negotiations with the Debtors with respect to the potential acquisition of the assets of the Debtors. On April 10, 2009, the Debtors repaid the DIP Financing in full in the amount of $117,897, including principal and interest, and at September 30, 2009, no amounts were owed to the Company relative to the DIP Financing.

NOTE 6 – STOCK-BASED COMPENSATION EXPENSE AND WARRANTS

The Company periodically grants options to employees, directors and consultants under the Company's 2005 Stock Option Plan and the Company's 2008 Equity Incentive Plan. The Company is required to make estimates of the fair value of the related instruments and recognize expense over the period benefited, usually the vesting period.

In 2008, the Company's Board of Directors adopted the Houston American Energy Corp. 2008 Equity Incentive Plan (the "2008 Plan" and, together with the 2005 Plan, the "Plans"). The terms of the 2008 Plan allow for the issuance of up to 2,200,000 shares of the Company's common stock pursuant to the grant of stock options and restricted stock. Persons eligible to participate in the Plans are key employees, consultants and directors of the Company.

During the nine months ended September 30, 2008, the Company granted 3,333 options to the members of the Board of Directors, 1,050,000 options to employees and 55,600 shares of restricted stock. Shares available for issuance under the Plans as of September 30, 2009 totaled 1,161,002.

2009 Stock Option and Warrant Activity

A summary of stock option activity and related information for the nine months ended September 30, 2009 is presented below:

	Options	Weighted-Average Exercise Price	Aggregate Intrinsic Value
Outstanding at January 1, 2009	1,392,333	$ 6.21	
Granted	146,665	2.05	
Exercised	—	—	
Forfeited	—	—	
Outstanding at September 30, 2009	1,538,998	$ 5.81	$ 301,731
Exercisable at September 30, 2009	568,998	$ 4.53	$ 129,541

In June 2009, the Company granted to its Chief Financial Officer 120,000 options to purchase shares of the Company's common stock. The exercise price is $2.05 per share. The options have a term of ten years and vest over three years.

Also in June 2009, the Company granted to its directors 26,665 options to purchase shares of the Company's common stock. The options vest immediately, and have an exercise price of $2.05 per share and a term of ten years.

The above options were valued at a total of $221,006 using the Black-Scholes option-pricing model and the following parameters: (1) 3.19% risk-free discount rate, (2) expected volatility of 87.625%, (3) $0 expected dividends, and (4) an expected option life of 6.0 years for each grant calculated pursuant to the terms of SAB 107 as the options granted qualify as 'plain vanilla' under that literature.

As of September 30, 2009, total unrecognized stock-based compensation expense related to non-vested stock options was $4,125,115. The unrecognized expense is expected to be recognized over the weighted average period of 2.62 years and the weighted average remaining contractual terms of the outstanding options and exercisable options at September 30, 2009 are 8.32 and 7.49 years, respectively.

Also at September 30, 2009, the Company had 190,000 warrants outstanding with a remaining contractual life of 1.23 years. The weighted average exercise price for all remaining outstanding warrants was $3.00. The warrants had an intrinsic value of $96,900 at September 30, 2009.

Share-Based Compensation Expense

The following table reflects share-based compensation, all of which has been included in general and administrative expense, recorded by the Company for the three months ended September 30, 2009 and 2008:

	Three Months Ended September 30, 2009	Three Months Ended September 30, 2008
Share-based compensation expense included in reported net income	$ 268,627	$ 256,023
Basic and diluted EPS effect of share-based compensation expense	$ (0.01)	$ (0.01)

The following table reflects share-based compensation, all of which has been included in general and administrative expense, recorded by the Company for the nine months ended September 30, 2009 and 2008:

	Nine Months Ended September 30, 2009	Nine Months Ended September 30, 2008
Share-based compensation expense included in reported net income	$ 811,501	$ 833,626
Basic and diluted EPS effect of share-based compensation expense	$ (0.03)	$ (0.03)

NOTE 7 – 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.

The Company has computed the tax provision for the nine months ended September 30, 2009 in accordance with the provisions of FASB Interpretation No. 18 (ASC 740 and ASC 270), *Accounting for Income Taxes in Interim Periods* and Accounting Principles Board Opinion No. 28, *Interim Financial Reporting*.

During the third quarter, the Company updated its tax projection for the remainder of the year based upon events through September 30, 2009 and management's expectations for the balance of 2009, and consequently, recorded a tax benefit of $285,986 during the three months ended September 30, 2009. The income tax benefit for the three and nine months ended is attributable primarily to net operating losses generated in Colombia and the United States, and the refund of approximately $548,000. The Company recognized the benefit based upon management's expectations that the Company will be able to realize these losses during the remainder of fiscal year 2009 or is expected to recognize a deferred tax asset related to such losses at December 31, 2009 that will more likely than not be realized.

NOTE 8 – DIVIDEND

During the quarter ended September 30, 2009, the Company declared and paid cash dividends to its shareholders of $0.005 per share, or an aggregate of $140,014. During the nine months ended September 30, 2009, the Company declared and paid cash dividends to its shareholders of $0.03 per share, or an aggregate of $840,043.

NOTE 9 – OIL AND GAS ACQUISITIONS

Domestic Leases

During the nine months ended September 30, 2009, the Company acquired interests in four prospects in Louisiana, the N. Jade and W. Jade prospects, acquired for $67,480, and the Profit Island and North Profit Island prospects, acquired for $350,644. Subsequent to purchasing its interest in the Profit and North Profit Island prospects, on July 16, 2009, the Company sold down part of its interest in the Profit Island and North Profit Island prospects. The Company retained an interest in both of the prospects.

During the nine months ended, September 30, 2009, we acquired (1) a 2.5% working interest in over 4,500 acres under lease within a 50,000 acre area of mutual interest (AMI) in Karnes County, Texas, for a purchase price of $75,000, and (2) a 1.25% Overriding Royalty in the same leases and all acreage within the AMI, for a purchase price of $100,000. Per the contract, we will be carried to the completion point on the first well.

Serrania Contract Farmout

In June 2009, the Company entered into a farmout agreement with Shona Energy Limited pursuant to which the Company will pay 25% of designated Phase 1 geological and seismic costs in return for a 12.5% interest in the Serrania Contract for Exploration and Production covering the approximately 110,769 acre Serrania Block in Colombia.

Los Picachos TEA

On September 2, 2009, the Company elected to participate at its percentage interest (12.5%) in the Los Picachos Technical Evaluation Agreement (the "TEA").

The TEA was entered into on August 26, 2009 by and between the Columbian National Hydrocarbons Agency and Hupecol Operating Co. LLC and encompasses an 86,235 acre region located to the west and northwest of the Serrania block, which is located in the municipalities of Uribe and La Macarena in the Department of Meta in the Republic of Colombia.

As a result of the election to participate, the Company agreed to pay its proportionate share, or 12.5%, of the acquisition costs and costs for the minimum work program contained in the TEA.

NOTE 10 – GEOGRAPHICAL INFORMATION

The Company currently has operations in two geographical areas, the United States and Colombia. Revenues for the nine months ended September 30, 2009 and Long Lived Assets as of September 30, 2009 attributable to each geographical area are presented below:

	Nine Months Ended September 30, 2009	
	Revenues	Long Lived Assets, Net
United States	$ 117,895	$ 2,271,603
Colombia	3,865,361	5,276,209

NOTE 11 - COMMITMENTS AND CONTINGENCIES

Lease Commitment

The Company leases office facilities under an operating lease agreement that expires May 31, 2012. The lease agreement requires future payments as follows:

Year	Amount
2009	$ 19,746
2010	84,315
2011	86,684
2012	36,530
Total	$ 227,275

For the three and nine months ended September 30, the total base rental expense was $18,446 and $65,686, respectively, in 2009 and $20,919 and $52,746, respectively, in 2008. The Company does not have any capital leases or other operating lease commitments.

Possible Hupecol Transaction

On September 21, 2009, management of the Company was advised that Hupecol LLC ("Hupecol") had retained Scotia Waterous for purposes of evaluating a possible transaction (a "Transaction") involving the monetization of five exploration and production contracts covering approximately 413,000 acres comprising the Leona Block, La Cuerva Block, Dorotea Block, Las Garzas Block and Cabiona Block in Colombia. The Transaction may involve the sale of some or all of the assets and operations of the subject properties, an exchange or trade of assets, or other similar transaction and may be effected in a single transaction or a series of transactions.

Scotia Waterous has established a process whereby interested parties may evaluate a potential Transaction with the objective of completing one or more Transactions before year-end 2009.

The Company is an investor in Hupecol and the Company's interest in the assets and operations of Hupecol that would be included in any Transaction represent a substantial portion of the Company's assets and operations in Colombia and are the principal revenue producing assets and operations of the Company. The Company's management intends to closely monitor the nature and progress of the Transaction in order to protect the interests of the Company and its shareholders. However, the Company has no effective ability to alter or prevent a Transaction and is unable to predict whether or not a Transaction will in fact occur or the nature or timing of any such Transaction. Further, the Company is unable to estimate the actual value that it might derive from any such Transaction and whether any such Transaction will ultimately be beneficial to the Company and its shareholders.

NOTE 12 - SUBSEQUENT EVENTS

CPO 4 Farmout

On October 16, 2009, the Company announced the approval by the National Hydrocarbon Agency in Colombia ("ANH") of a Farmout Agreement and Joint Operating Agreement with SK Energy Co. LTD., a Korean multinational conglomerate ("SK"), relating to the CPO 4 Contract for Exploration and Production (the "CPO 4 Contract") covering the 345,452 net acre CPO 4 Block located in the Western Llanos Basin in the Republic of Colombia.

Under the Joint Operating Agreement, effective retroactive to May 31, 2009, SK will act as operator of the CPO 4 Block and the Company will pay 25.0% of all past and future cost related to the CPO 4 block, as well as an additional 12.5% of the Seismic Acquisition Costs incurred during the Phase 1 Work Program, for which the Company will receive a 25.0% interest in the CPO 4 Block. The Company's share of the past costs incurred is $194,584.

The Phase 1 Work Program consists of reprocessing approximately 400 kilometers of existing 2-D seismic data, the acquisition, processing and interpretation of a 2-D seismic program containing approximately 620 kilometers of data and the drilling of two exploration wells. The Phase 1 Work Program is estimated to be completed by June 17, 2012. The Company's costs for the entire Phase 1 Work Program are estimated to total approximately $15,000,000 over the next three years.

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

Forward-Looking Information

This Form 10-Q quarterly report of Houston American Energy Corp. (the "Company") for the nine months ended September 30, 2009, contains certain forward-looking statements within the meaning of Section 27A of the Securities Act of 1933, as amended, and Section 21E of the Securities Exchange Act of 1934, as amended, which are intended to be covered by the safe harbors created thereby. To the extent that there are statements that are not recitations of historical fact, such statements constitute forward-looking statements that, by definition, involve risks and uncertainties. In any forward-looking statement, where we express an expectation or belief as to future results or events, such expectation or belief is expressed in good faith and believed to have a reasonable basis, but there can be no assurance that the statement of expectation or belief will be achieved or accomplished.

The actual results or events may differ materially from those anticipated and as reflected in forward-looking statements included herein. Factors that may cause actual results or events to differ from those anticipated in the forward-looking statements included herein include the Risk Factors described in Item 1A of our Form 10-K for the year ended December 31, 2008.

Readers are cautioned not to place undue reliance on the forward-looking statements contained herein, which speak only as of the date hereof. We believe the information contained in this Form 10-Q to be accurate as of the date hereof. Changes may occur after that date, and we will not update that information except as required by law in the normal course of our public disclosure practices.

Additionally, the following discussion regarding our financial condition and results of operations should be read in conjunction with the financial statements and related notes contained in Item 1 of Part 1 of this Form 10-Q, as well as the Risk Factors in Item 1A and the financial statements in Item 7 of Part II of our Form 10-K for the fiscal year ended December 31, 2008.

Critical Accounting Policies

The discussion and analysis of our financial condition and results of operations is based upon our financial statements, which have been prepared in accordance with accounting principles generally accepted in the United States of America. We believe certain critical accounting policies affect the more significant judgments and estimates used in the preparation of our financial statements. A description of our critical accounting policies is set forth in our Form 10-K for the year ended December 31, 2008. As of, and for the quarter ended, September 30, 2009, there have been no material changes or updates to our critical accounting policies other than the following updated information relating to Unevaluated Oil and Gas Properties:

Unevaluated Oil and Gas Properties. Unevaluated oil and gas properties not subject to amortization include the following at September 30, 2009:

	September 30, 2009
Acquisition costs	$ 286,933
Evaluation costs	1,898,703
Retention costs	26,622
Total	$ 2,212,258

The carrying value of unevaluated oil and gas prospects above is attributable, in full, to properties in the United States. We are maintaining our interest in these properties and development has or is anticipated to commence within the next twelve months.

Current Year Developments

Production Levels, Commodity Prices and Revenues

Our production levels and revenues during the quarter and nine months ended September 30, 2009, as compared to the same period in 2008, were affected by the sale of our Caracara prospect in 2008 and the sharp decline in oil and natural gas prices that began during the second half of 2008 and continued through the third quarter of 2009. As a result of depressed commodity prices, our operator in Colombia temporarily shut-in production from a majority of our Colombian properties and we had no sales in Colombia from February 13, 2009 through April 5, 2009.

During the nine months ended September 30, 2008, the Caracara prospect accounted for approximately 29,954 barrels of oil (net to the Company) produced, or 49% of our oil production, and $3,004,865 of revenues.

Drilling Activity

During the nine months ended September 30, 2009, we drilled 12 international wells in Colombia, as follows:

- Nine wells were drilled on concessions in which we hold a 12.5% working interest, of which four were in production at September 30, 2009, one was shut in, and four were dry holes.
- One well was drilled on a concession in which we hold a 6.25% working interest and was a dry hole.
- Two wells were drilled on a concession in which we hold a 1.6% working interest and both were in production at September 30, 2009

During the nine months ended September 30, 2009, we drilled one domestic well, the Wilberts & Sons #1 (Home Run Prospect) which was a dry hole and re-completed one domestic well, the Allar # 1 which was placed into production on May 27, 2009.

At September 30, 2009, drilling operations were ongoing in Colombia on 1 well.

Domestic Leasehold Activity

During the nine months ended September 30, 2009, we acquired interests in four additional prospects in Louisiana, the N. Jade and W. Jade prospects, acquired for $67,480, and the Profit Island and North Profit Island prospects, acquired for $350,644. Subsequent to purchasing our interest in the Profit and North Profit Island prospects, on July 16, 2009 we received $353,896 from the sale of part of our interest in the Profit Island and North Profit Island prospects. We still retain an interest in both of the prospects.

During the nine months ended, September 30, 2009, we acquired (1) a 2.5% working interest in over 4,500 acres under lease within a 50,000 acre area of mutual interest (AMI) in Karnes County, Texas, for a purchase price of $75,000, and (2) a 1.25% Overriding Royalty in the same leases and all acreage within the AMI, for a purchase price of $100,000. Per the contract, we will be carried to the completion point on the first well.

Colombian Farm-Outs and Participations.

In June 2009, we entered into a farmout agreement with Shona Energy Limited pursuant to which we will pay 25% of designated Phase 1 geological and seismic costs relating to the Serrania Contract for Exploration and Production relating to the approximately 110,769 acre Serrania Block in Colombia and for which we will receive a 12.5% interest in the Serrania Contract.

In September 2009, we elected to participate for our percentage interest (12.5%) in the Los Picachos Technical Evaluation Agreement (the "TEA"). The TEA was entered into in August 2009 by and between the Columbian National Hydrocarbons Agency (the "ANH") and Hupecol Operating Co. LLC and encompasses an 86,235 acre region located to the west and northwest of the Serrania block, which is located in the municipalities of Uribe and La Macarena in the Department of Meta in the Republic of Colombia. As a result of the election to participate, we agreed to pay our proportionate share, or 12.5%, of the acquisition costs and costs for the minimum work program contained in the TEA.

On October 16, 2009, we announced the approval by the ANH of a Farmout Agreement and Joint Operating Agreement with SK Energy Co. LTD., a Korean multinational conglomerate ("SK"), relating to the CPO 4 Contract for Exploration and Production (the "CPO 4 Contract") covering the 345,452 net acre CPO 4 Block located in the Western Llanos Basin in the Republic of Colombia.

Under the Joint Operating Agreement, effective retroactive to May 31, 2009, SK will act as operator of the CPO 4 Block and we agreed to pay 25.0% of all past and future cost related to the CPO 4 block as well as an additional 12.5% of the Seismic Acquisition Costs incurred during the Phase 1 Work Program, for which we will receive a 25.0% interest in the CPO 4 Block. Our share of the past costs is $194,584.

The Phase 1 Work Program consists of reprocessing approximately 400 kilometers of existing 2-D seismic data, the acquisition, processing and interpretation of a 2-D seismic program containing approximately 620 kilometers of data and the drilling of two exploration wells. The Phase 1 Work Program is estimated to be completed by June 17, 2012. Our costs for the entire Phase 1 Work Program are estimated to total approximately $15,000,000 over the next three years.

Acquisition Activity

In light of our debt-free capital structure, solid cash position and low overhead and in response to conditions in the oil and gas market, in particular the non-economical cost and capital structures of many operators and financiers following the sharp decline in commodity prices during the second half of 2008 continuing into early 2009, during the first half of 2009, we began actively seeking opportunistic oil and gas acquisitions.

Pursuant to those efforts, on February 4, 2009, we entered into a letter agreement (the "Letter Agreement") with Yazoo Pipeline Co., L.P. ("Yazoo"), Sterling Exploration & Production Co., L.L.C. ("Sterling"), and Matagorda Operating Company (together with Yazoo and Sterling, the "Debtors"), pursuant to which we agreed to provide debtor-in-possession financing ("DIP Financing") to the Debtors subject to approval of the Letter Agreement by the U.S. Bankruptcy Court for the Southern District of Texas (the "Bankruptcy Court"). On February 4, 2009, the Bankruptcy Court entered an order approving the DIP Financing on the terms set out in the Letter Agreement.

Under the terms of the Letter Agreement, we agreed to advance to the Debtors up to $300,000, with all advances bearing interest at 10% per annum and being repayable in full ninety (90) days from approval of the DIP Financing by the Bankruptcy Court, or the earlier consummation of a sale of the principal assets of the Debtors to our company. Under the Letter Agreement, we and the Debtors agreed to commence negotiations and due diligence with respect to the potential acquisition by our company of the principal assets of the Debtors based on certain financial terms described in the Letter Agreement. Advances were made under the Letter Agreement in the total amount of $115,724.

Pursuant to our rights under the Letter Agreement, after conducting due diligence with respect to the Debtors, we determined to terminate negotiations with the Debtors with respect to the potential acquisition of the assets of the Debtors. On April 10, 2009, the Debtors repaid the DIP Financing in full in the amount of $117,897, including principal and interest, and at September 30, 2009 no amounts were owed to us relative to the DIP Financing.

We intend to continue to seek out and evaluate opportunities to acquire existing oil and gas assets and operations where we determine attractive returns on invested capital can be realized in current market conditions and superior returns can be derived from a recovery in primary prices. There is no assurance, however, that we will be successful in our efforts to identify and acquire oil and gas assets or operations or that any acquisitions that may be consummated will provide the returns expected by management.

Possible Hupecol Transaction

In September 2009, we were advised that Hupecol LLC had retained Scotia Waterous for purposes of evaluating a possible transaction (a "Transaction") involving the monetization of five exploration and production contracts covering approximately 413,000 acres comprising the Leona Block, La Cuerva Block, Dorotea Block, Las Garzas Block and Cabiona Block in Colombia. The Transaction may involve the sale of some or all of the assets and operations of the subject properties, an exchange or trade of assets, or other similar transaction and may be effected in a single transaction or a series of transactions. Scotia Waterous has established a process whereby interested parties may evaluate a potential Transaction with the objective of completing one or more Transactions before year-end 2009.

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

Seismic Activity

During the nine months ended September 30, 2009, our operator in Colombia acquired approximately 155 square miles of additional seismic and geological data. The additional data relates primarily to the Serrania and La Cuerva concessions where we hold 12.5% and 1.59% working interest, respectively. Our share of the costs of such data acquisition was $438,875.

Compensation Expense – Stock Options

During the nine months ended September 30, 2009, we granted 120,000 stock options to our Chief Financial Officer and 26,665 stock options to our non-employee directors. Our total non-cash compensation expense for the three and nine months ended September 30, 2009 was $268,627 and $811,501, respectively.

Results of Operations

Oil and Gas Revenues. Total oil and gas revenues increased 2.3% to $2,403,996 in the three months ended September 30, 2009 compared to $2,350,782 in the three months ended September 30, 2008. For the nine month period, oil and gas revenues decreased 53.8% to $3,983,256 in the 2009 period from $8,616,868 in the 2008 period.

The decrease in revenue for the nine month period is principally due to (1) the sale of our Caracara interest during 2008, which accounted for $3,004,865 of our revenue in the 2008 nine month period, (2) lower oil and gas prices during the 2009 period and (3) the cessation of production and sales from the majority of our Colombian properties for 52 days during the 2009 nine month period.

The following table sets forth the gross and net producing wells, net oil and gas production volumes and average hydrocarbon sales prices for the quarter and nine months ended September 30, 2009 and 2008:

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2009	2008	2009	2008
Gross producing wells	27	19	23	39
Net producing wells	2.38	1.59	2.25	1.61
Net oil and gas production (BOE)	35,131	23,995	71,274	88,243
Average sales price – BOE (per barrel)	$ 68.43	$ 97.96	$ 55.89	$ 97.65

The change in gross and net producing wells reflects the 2008 sale of our Caracara interest offset by the increase in average working interest during 2009, while the change in net oil and gas production reflects the same factors plus the effects of the temporary cessation of production of a majority of our Colombian properties during the 2009 period. Giving pro forma effect to exclude sales revenues from the Caracara interest, which was sold in June 2008, oil and gas revenues for the first nine months of 2008 would have been $5,612,003.

Oil and gas sales revenues for the first nine months of 2009 and 2008, by region, were as follows:

	Columbia	U.S.	Total
2009 Nine Month Period			
Oil sales	$ 3,865,361	$ 51,090	$ 3,916,451
Gas sales	$ —	$ 66,805	$ 66,805
2008 Nine Month Period			
Oil sales	$ 8,206,600	$ 146,153	$ 8,352,753
Gas sales	$ —	$ 264,115	$ 264,115

Lease Operating Expenses. Lease operating expenses, excluding joint venture expenses relating to our Columbian operations discussed below, increased 36.6% to $1,021,312 in the 2009 quarter from $747,740 in the 2008 quarter. For the nine month period, lease operating expenses decreased 5.2% to $2,644,359 in the 2009 period from $2,789,630 in the 2008 period.

The increase in lease operating expenses as a percentage of revenues, from 32.4% of revenues for the 2008 nine month period to 66.4% of revenues for the 2009 period, was primarily attributable to the temporary cessation of production from a majority of our Colombian properties during the 2009 period as discussed above, the steep decline in oil and gas prices and an increase in our average working interest following the Caracara sale, as well as increased cost in Colombia relating to personnel expenses, facilities and equipment expenses, catering expenses, road maintenance, as well environmental services expenses. Following is a summary comparison of lease operating expenses for the periods.

		Columbia	U.S.	Total
Quarter	- 2009	$ 991,090	$ 30,222	$ 1,021,312
	- 2008	$ 714,443	$ 33,297	$ 747,740
Nine Months	- 2009	$ 2,604,799	$ 39,560	$ 2,644,359
	- 2008	$ 2,673,584	$ 116,046	$ 2,789,630

Hupecol, our operator in Colombia, has implemented cost cutting measures in order to improve field economics from our Colombian operations. We have also seen declines in drilling and operating costs in the Llanos Basin which, together, are expected to result in improved margins during the balance of 2009 and beyond.

Joint Venture Expenses. Our allocable share of joint venture expenses attributable to the Colombian Joint Venture totaled $48,780 during the 2009 quarter and $43,225 during the 2008 quarter. For the nine month period, joint venture expenses totaled $127,487 during 2009 as compared to $144,919 during 2008.

The decrease in joint venture expenses for the nine months ended September 30, 2009, was attributable to a decrease in drilling activity.

Depreciation and Depletion Expense. Depreciation and depletion expense was $580,020 and $147,311 for the quarters ended September 30, 2009 and 2008, respectively, and $1,121,752 and $913,214 for the nine months ended September 30, 2009 and 2008, respectively.

The increase in depreciation and depletion is due to increased production accompanying an increase in our average working interest position, and a decrease in Colombian reserves primarily attributable to lower commodity prices.

General and Administrative Expenses. General and administrative expense increased by 1.8% to $620,642 during the 2009 quarter from $609,398 during the 2008 quarter and decreased by 23% to $2,013,955 during the 2009 nine month period from $2,616,714 during the 2008 period.

The decrease in general and administrative expense was primarily attributable to decreases in employee compensation and professional fees, including a decrease of $750,000 related to cash bonuses paid in 2008 not repeated in 2009, $400,320 related to restricted stocks grants in 2008 and partially offset by a $355,187 increase in the stock option portion of stock based compensation.

Gain on Sale of Oil and Gas Properties. The sale of our Caracara assets resulted in a gain of $7,615,236 during the 2008 nine month period.

Other Income. Other income consists of interest earned on cash balances and marketable securities. Other income totaled $9,350 during the 2009 quarter as compared to $72,427 during the 2008 quarter and $53,886 during the 2009 nine month period as compared to $232,870 during the 2008 period.

The decrease in other income resulted from the sale of the balance of our marketable securities during early 2008 and a reduction in interest rates on short-term cash investments, partially offset by interest earned on DIP Financing provided to the Creditors under the Letter Agreement.

Income Tax Expense/Benefit. Income tax expense decreased to a benefit of $285,986 during the 2009 quarter from an expense of $76,703 during the 2008 quarter and to a benefit of $932,777 during the 2009 nine month period from an expense of $5,130,141 during the 2008 period. The income tax benefit during 2009 was primarily attributable to net operating losses generated in Colombia and the United States and the refund during the third quart of 2009 of approximately $548,000.

The decrease in income tax expense during the 2009 quarter and nine month period was attributable to higher commodity prices and the one time sale of the Caracara assets which resulted in profitable operations during 2008 as compared to 2009, when we incurred a loss from operations due to the steep decline in oil and gas prices and other factors discussed above. Currently, the Company expects to be able to utilize the incremental foreign tax credit carry forward and net operating loss generated during the 2009 periods and therefore, no additional valuation allowance has been recorded to date. The Company recorded no U.S. income tax liability in the 2009 or 2008 quarter or nine month periods.

Financial Condition

Liquidity and Capital Resources. At September 30, 2009, we had a cash balance of $4,709,078 and working capital of $6,827,191 compared to a cash balance of $9,910,694 and working capital of $10,536,834 at December 31, 2008. The change in working capital during the nine month period was primarily attributable to the drilling of wells, the acquisition of oil and gas properties, payment of dividends and the payment of operating cost in Colombia.

Operating activities used $2,169,874 of cash during the 2009 nine month period as compared to $895,248 used during the 2008 period. Excluding the decrease in operating cash from the gain on the Caracara sale in 2008, the change in operating cash flow was primarily attributable to the current net loss, increases in current receivables and decreases in current payables.

Investing activities used $2,191,699 during the 2009 nine month period compared to $12,517,693 provided during the 2008 period. The funds used in investing activities principally reflect investments in oil and gas properties and assets of $3,704,208 during the 2009 period and $7,180,675 during the 2008 period. For the 2009 period, funds used in investing activities was partially offset by the receipt of $1,158,613 in monies from the escrow account related to the sale of the Caracara assets. For the 2008 period, funds used in investing activities were more than offset by funds provided by the sale of marketable securities of $9,650,000 and the net funds provided by the sale of the Caracara assets of $10,146,655.

Financing activities used $840,043 during the 2009 period, consisting of cash dividends paid. Financing activities used $187,015 during the 2008 period, consisting of cash dividends paid of $562,015 partially offset by $375,000 of proceeds from the exercise of warrants.

Long-Term Liabilities. At September 30, 2009, we had long-term liabilities of $269,891 as compared to $205,524 at December 31, 2008. Long-term liabilities at September 30, 2009 and December 31, 2008 consisted of a reserve for plugging costs and a deferred rent obligation.

Capital and Exploration Expenditures and Commitments. Our principal capital and exploration expenditures relate to ongoing efforts to acquire, drill and complete prospects. We expect that future capital and exploration expenditures, other than anticipated capital expenditures associated with our interest in the CPO 4 Contract, will be funded principally through funds on hand and funds generated from operations.

During the first nine months of 2009, we invested $3,704,208 for the acquisition and development of oil and gas properties, consisting of (1) drilling of 12 wells in Colombia $2,325,438, (2) seismic cost in Colombia $426,017, (3) delay rentals on U.S. properties $19,112, (4) leasehold costs on U.S. properties $644,094, and (5) drilling of one U.S. well $289,547.

At September 30, 2009, our only material contractual obligation requiring determinable future payments was a lease relating to the Company's executive offices which was unchanged when compared to the 2008 Form 10-K.

At September 30, 2009, our acquisition and drilling budget for the balance of 2009 totaled approximately $2,119,584, which consisted of the drilling of three wells in Colombia for $1,125,000, additional seismic cost of $800,000, and payment to SK of past cost related to the CPO 4 block of $194,584. 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. In particular, we note that, in light of the sharp decline in commodity prices during the second half of 2008 and early 2009, we expect to see an increase in asset acquisition opportunities as operators and financiers are faced with uneconomical cost and capital structures resulting in forced liquidations of holdings. We intend to evaluate, and as appropriate pursue, asset acquisition opportunities. Should we pursue any such opportunities, our acquisition and drilling budget could be materially altered.

Management anticipates that, depending on the timing of activities relating to the CPO 4 Contract, our current financial resources combined with expected operating cash flows will meet our anticipated objectives and business operations, including planned property acquisitions and drilling activities, for at least the next 12 months without the need for additional capital. Management presently anticipates that our expenditures relating to the CPO 4 Contract will be approximately $15 million through 2011. We do not presently have adequate funds on hand to finance our anticipated expenditures on the CPO 4 contract and expect to seek additional financing to support our undertakings in that regard. The timing, amount and terms of funding that we may seek to support our CPO 4 Contract undertakings is dependent upon the timing of development of the CPO 4 Block, the results of efforts to sell a portion of our assets, and the results of our operations generally, in addition to prevailing market conditions. Further, management continues to evaluate producing property acquisitions as well as a number of drilling prospects. It is possible that we may require and seek additional financing if additional drilling prospects are pursued beyond those presently under consideration. We have no commitments to provide any additional financing should we require and seek such financing and there is no guarantee that we will be able to secure additional financing on acceptable terms, or at all, to support our undertakings relative to the CPO 4 Contract or other prospects that we pursue.

Off-Balance Sheet Arrangements

We had no off-balance sheet arrangements or guarantees of third party obligations at September 30, 2009.

Inflation

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

ITEM 3 QUANTITATIVE AND QUALITATIVE DISCLOSURES ABOUT MARKET RISK

Commodity Price Risk

The price we receive for our oil and gas production heavily influences our revenue, profitability, access to capital and future rate of growth. Crude oil and natural gas are commodities and, therefore, their prices are subject to wide fluctuations in response to relatively minor changes in supply and demand. Historically, the markets for oil and gas have been volatile, and these markets will likely continue to be volatile in the future. The prices we receive for production depends on numerous factors beyond our control.

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

ITEM 4 CONTROLS AND PROCEDURES

Evaluation of Disclosure Controls and Procedures

Under the supervision and the participation of our management, including our principal executive officer and principal financial officer, we conducted an evaluation as of September 30, 2009 of the effectiveness of the design and operation of our disclosure controls and procedures, as such term is defined under Rule 13a-15(e) promulgated under the Securities Exchange Act of 1934, as amended. Based on this evaluation, our principal executive officer and our principal financial officer concluded that our disclosure controls and procedures were effective as of September 30, 2009.

Changes in Internal Control over Financial Reporting

No change in our internal control over financial reporting (as defined in Rule 13a-15(f) under the Securities Exchange Act of 1934) occurred during the quarter ended September 30, 2009 that has materially affected, or is reasonably likely to materially affect, our internal control over financial reporting.

PART II

ITEM 6 EXHIBITS

Exhibit Number	Description
31.1	Certification of CEO pursuant to Section 302 of the Sarbanes-Oxley Act of 2002
31.2	Certification of CFO pursuant to Section 302 of the Sarbanes-Oxley Act of 2002
32.1	Certification of CEO Pursuant to 18 U.S.C. Section 1350, as Adopted Pursuant to Section 906 of the Sarbanes-Oxley Act of 2002
32.2	Certification of CFO Pursuant to 18 U.S.C. Section 1350, as Adopted Pursuant to Section 906 of the Sarbanes-Oxley Act of 2002

SIGNATURES

Pursuant to the requirements of the Securities Exchange Act of 1934, the registrant has duly caused this report to be signed on behalf by the undersigned thereunto duly authorized.

HOUSTON AMERICAN ENERGY CORP.

By: /s/ John F. Terwilliger
John F. Terwilliger
CEO and President

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

Date: November 5, 2009

SECURITIES AND EXCHANGE COMMISSION
Washington, D.C. 20549

FORM 8-K

CURRENT REPORT
Pursuant to Section 13 or 15(d) of the
Securities Exchange Act of 1934

Date of report (Date of earliest event reported): November 9, 2009

HOUSTON AMERICAN ENERGY CORP.

(Exact name of registrant as specified in Charter)

Delaware	1-32955	76-0675953
(State or other jurisdiction of incorporation or organization)	(Commission File No.)	(IRS Employer Identification No.)

801 Travis Street, Suite 1425
Houston, Texas 77002

(Address of Principal Executive Offices)(Zip Code)

713-222-6966

(Issuer Telephone number)

(Former name or former address, if changed since last report)

Check the appropriate box below if the Form 8-K filing is intended to simultaneously satisfy the filing obligations of the registrant under any of the following provisions (see General Instruction A.2. below):

☐ Written communications pursuant to Rule 425 under the Securities Act (17 CFR 230.425)

☐ Soliciting material pursuant to Rule 14a-12 under the Exchange Act (17 CFR 240.14a-12)

☐ Pre-commencement communications pursuant to Rule 14d-2(b) under the Exchange Act (17 CFR 240.14d-2(b))

☐ Pre-commencement communications pursuant to Rule 13e-4(c) under the Exchange Act (17 CFR 240.13e-4(c))

PLAINTIFF'S
EXHIBIT
PX-042

Item 7.01. Regulation FD Disclosure.

Houston American Energy Corp. (the "Company") has prepared updated slides for use in connection with investor presentations. The presentation slides to be used are attached to this Current Report on Form 8-K as Exhibit 99.1 and are incorporated herein solely for purposes of this Item 7.01.

In accordance with General Instruction B.2 of Form 8-K, the information set forth in this Item 7.01, including Exhibit 99.1, is furnished pursuant to Item 7.01 and shall not be deemed "filed" for purposes of Section 18 of the Securities Exchange Act of 1934, as amended (the "Exchange Act"), or otherwise subject to the liabilities under that section, nor shall such information be deemed incorporated by reference in any filing under the Securities Act of 1933, as amended, or the Exchange Act, except as shall be expressly set forth by specific reference in such a filing.

Item 9.01. Financial Statements and Exhibits.

(c) Exhibits

99.1 Investor Presentation Slides

SIGNATURES

Pursuant to the requirements of the Securities Exchange Act of 1934, the Registrant has duly caused this Report to be signed on its behalf by the undersigned hereunto duly authorized.

HOUSTON AMERICAN ENERGY CORP.

Dated: November 9, 2009

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

Exhibit 99.1

HOUSTON AMERICAN ENERGY CORP

Investor Presentation

November 2009

HOUSTON AMERICAN ENERGY CORP

PLAINTIFF'S EXHIBIT
PX-043

Forward-Looking Statements

This presentation contains forward-looking statements, including those relating to our future financial and operational results, reserves or transactions, that are subject to various risks and uncertainties that could cause the Company's future plans, objectives and performance to differ materially from those in the forward-looking statements. Forward-looking statements can be identified by the use of forward-looking terminology such as "may," "expect," "intend," "plan," "subject to," "anticipate," "estimate," "continue," "present value," "future," "reserves," "appears," "prospective," or other variations thereof or comparable terminology. Factors that could cause or contribute to such differences could include, but are not limited to, those relating to the results of exploratory drilling activity, the Company's growth strategy, changes in oil and natural gas prices, operating risks, availability of drilling equipment, availability of capital, weaknesses in the Company's internal controls, the inherent variability in early production tests, dependence on weather conditions, seasonality, expansion and other activities of competitors, changes in federal or state environmental laws and the administration of such laws, the general condition of the economy and its effect on the securities market, the availability, terms or completion of any strategic alternative or any transaction and other factors described in "Risk Factors" and elsewhere in the Company's Form 10-K and other filings with the SEC. While we believe our forward-looking statements are based upon reasonable assumptions, these are factors that are difficult to predict and that are influenced by economic and other conditions beyond our control.

The United States Securities and Exchange Commission permits oil and gas companies, in their filings with the SEC, to disclose only proved reserves that a company has demonstrated by actual production or conclusive formation tests to be economically and legally producible under existing economic and operating conditions. We use certain terms in this document, such as non-proven, resource potential, Probable, Possible, Exploration and unrisked resource potential that the SEC's guidelines strictly prohibit us from including in filings with the SEC. These terms include reserves with substantially less certainty, and no discount or other adjustment is included in the presentation of such reserve numbers. The recipient is urged to consider closely the disclosure in our Form 10-K, File No. 001-32955, available from us at 801 Travis, Suite 1425, Houston, Texas 77002. You can also obtain this form from the SEC by calling 1-800-SEC-0330.

Company Overview

- Houston American Energy Corp (NASDAQ:HUSA), the “Company”, is a growth-oriented independent energy company engaged in the exploration, development and production of crude oil and natural gas resources

Market Cap:	$112.0 MM	Debt Outstanding:	$0.0
Average Volume:	54,000	Shares Outstanding:	28,000,772

- Operations focused in Colombia
  - Current production of approximately 850 barrels of oil equivalent per day
  - Participated in drilling of 100 wells in Colombia to date
  - Developing new international projects with a focus on Colombia, Peru and Brazil

- Significant concessions in Colombia with substantial drilling inventory identified by advanced 3-D seismic interpretation
  - Over 895,000 gross acres with more than 100 currently identified drilling prospects

Investment Opportunity

- Unique portfolio of high impact, large reserve potential projects in Colombia
  - Pure-play small cap oil focused investment opportunity with substantial upside potential
  - Significant acreage position focused in the Llanos Basin in Colombia
  - Favorable government royalties and fiscal terms on existing contracts
- Significant Technical Partner with SK Energy, a leading Asian integrated oil and gas company
- Proven Track Record
  - Participating in successful drilling program led by Hupecol
  - Drilled 100 wells in Colombia with a 70% success rate to date
  - With approximately $19.8MM in invested capital management has generated in excess of $112.0MM of market capital to date
- Low cost structure
  - Non-operator strategy allows for minimal corporate staff
  - Colombian properties have lower finding and development costs versus U.S. conventional and unconventional reserves
- Experienced management and board of directors with access to proprietary deal flow
- Simple capitalization structure

Business Strategy

- Explore and develop existing properties through the drill bit
  - Increase production and cash flow by drilling and completing identified well locations
  - Quantify value of our asset base through an aggressive testing and drilling program
  - Explore for and develop additional proved reserves on approximately 150,000 net acres
- Acquire additional interest in oil and gas properties through partnerships and joint ventures with experienced operators
  - Target acquisitions that enhance our core areas
  - Focus on high impact, lower risk drilling prospects
- Capitalize on the expertise, experience and strategic relationships of the management team and board of directors

International Assets

International Operations - Llanos Basin Colombia

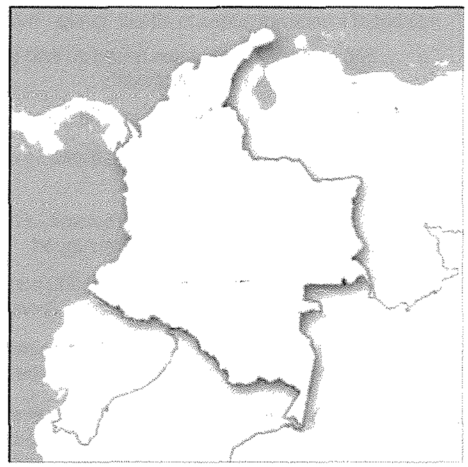
Interest in Eight Concessions and One Technical Evaluation Agreement

Operator	Interest
SK Energy	25.0% working interest in the CPO 4 concession covering ~ 345,452 acres
Shona	12.5% working interest in the Serrania concession covering ~ 110,769 acres
Hupecol	12.5% interest in the Los Picachos Technical Evaluation Agreement (the "TEA") ~ 86,235 acres
Hupecol	12.5% working interest in the Las Garzas concession covering ~ 103,000 acres
Hupecol	12.5% working interest in the Leona concession covering ~ 70,343 acres
Hupecol	12.5% working interest in the Cabiona concession covering ~ 86,066 acres
Hupecol	12.5% working interest in Dorotea concession covering ~ 51,321 acres
Hupecol	6.25% working interest in the Surimena concession covering ~ 69,000 acres
Hupecol	1.6% working interest in La Cuerva contract covering ~ 48,000 acres

Overview of Colombia

- President Alvaro Uribe Velez (re-elected May 28, 2006) - Pro Business
- Main US ally in South America
- Population: 45,644,023
- Capital Bogotá: 7,881,156 citizens
- Exchange rate 2009: 1,949 COP$/US$
- Gross domestic product, GDP, 2008: US$ 395.4 Billion
- GDP / Capita, 2008: $8,800
- Current Production of 600,000 bbl/day
- Estimated 1.36 Billion barrels of proven reserves

Colombia

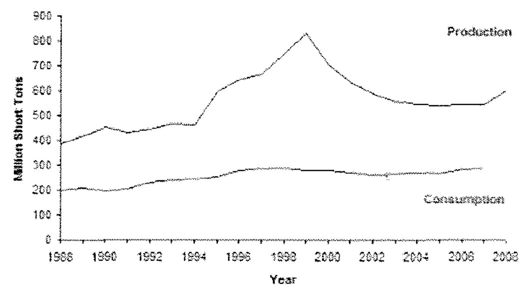


Source: Wood Mackenzie, IHS, CIA.GOV

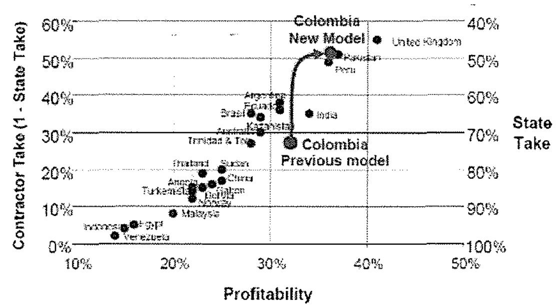
Overview of Colombia

- Colombia is currently a net exporter (~ 282,000 bbls/d) of crude oil, but the country's reserves and production have been declining
- To combat this decline, the Colombian government enacted a number of incentives aimed to attract foreign investment:
    - Sliding scale royalty rates based on field size, with an 8% royalty rate for most fields
    - 100% company ownership of production projects
    - Eliminated government back-in rights on new concessions
    - Vastly improved security environment - President Uribe on offensive with broad popular support
    - Military increased 273,000 to 370,000 personnel in 2 years. US assistance at US$600 million/year
    - Progressive Colombia fiscal changes similar to those in UK which spurred renewed interest in the North Sea
- Colombia has a well developed infrastructure system comprising of over 3,700 miles of crude and product pipelines. This system is concentrated on transporting crude from the main producing basins (Llanos and Magdalenas)

Colombia's Oil Production and Consumption



Source: EIA Country Energy Profiles; Short Term Energy Outlook



Source: Wood Mackenzie, IHS, CIA.GOV

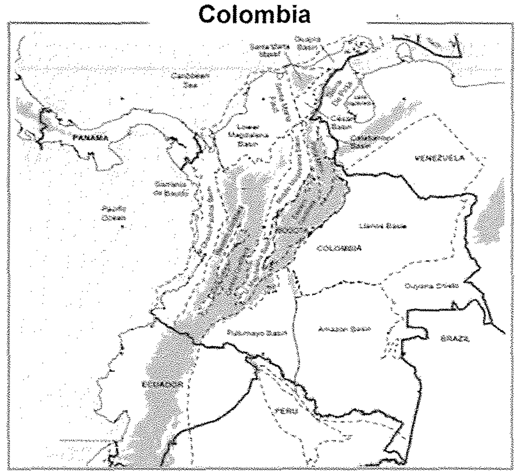
HOUSTON AMERICAN ENERGY CORP

Llanos Basin

- The Llanos Basin covers an area of approximately 125,000 square miles
- Its primary geologic formations are: the Upper Cretaceous, Paleocene and Eocene
- There are currently more than 25 operators located in the Llanos Basin
- The Llanos Basin is one of the most active basins in Colombia

Other Llanos Basin Operators

Colombia



Source: Wood Mackenzie, IHS, CIA.GOV

SK Energy - CPO 4 Block

Overview of SK Energy

Large Asian conglomerate with an integrated business model

Refining and Petroleum Business

In 2008, SK Energy had $27.12 billion USD in sales (71% of revenues), with refining capacity of 1.1 million barrels of oil per day. This represents the largest capacity in Korea, as well as one of the largest in all of Asia

Petrochemical Business

SK Energy is the undisputed leader in the petrochemical business in Korea. During 2008 SK sold 8,445,000 tons of petrochemical products for $8.75 billion USD in sales in 2009

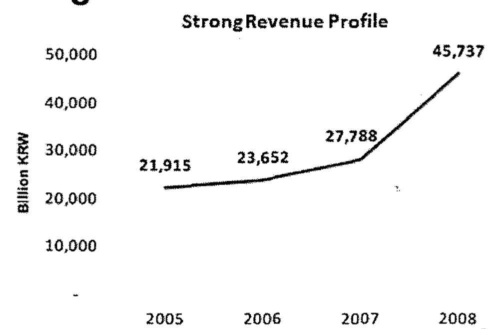
E&P Business

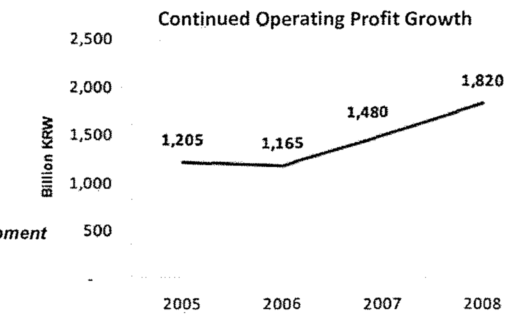
SK Energy Participates in 34 oil and gas blocks and four LNG projects in 17 countries, with proved oil equivalent reserves of 520 million barrels (BOE).

Lubricants Business

Leading lubricant manufacturer in Korea. During 2008 SK Energy sold 9,531,000 barrels of Lubricants

It should also be noted that SK Energy has Research and Development and Technology businesses that are leaders in the industry.





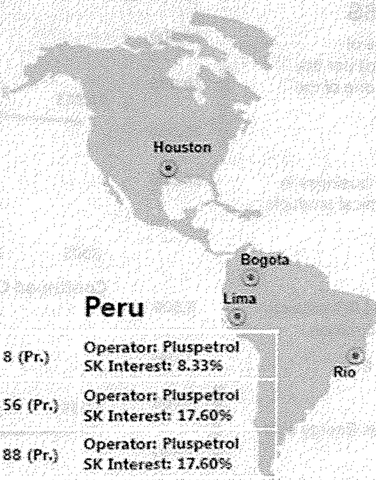
Source: SK Energy Presentation
1 USD = 1189 KRW

SK Energy E&P Activities

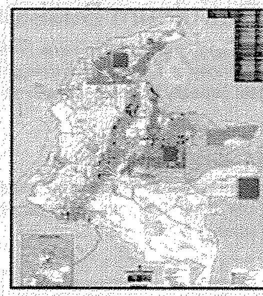
SK Energy

34 Blocks (11 Dev./Prod. and 23 Exp.) and 4 LNG Businesses in 17 Countries

- Reserves: 520 MM Boe at the end of 2008

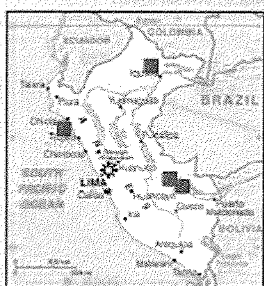


Colombia



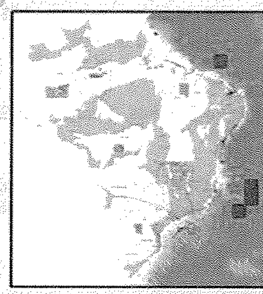
CPE-5 (Ex.)	Operator: BHP SK Interest: 28.6%
CPO-4 (Ex.)	Operator: SK SK Interest: 75%
SSJN-5(Ex.)	Operator: SK SK Interest: 50%

Peru



Block 8 (Pr.)	Operator: Pluspetrol SK Interest: 8.33%
Block 56 (Pr.)	Operator: Pluspetrol SK Interest: 17.60%
Block 88 (Pr.)	Operator: Pluspetrol SK Interest: 17.60%
Z-46 (Ex.)	Operator: SK SK Interest: 90%
Peru LNG	Operator: Hunt SK Interest: 20%

Brazil



BMC-8 (Pr.)	Operator: Devon SK Interest: 40%
BMC-30 (Ex.)	Operator: Anadarko SK Interest: 20%
BMC-32 (Ex.)	Operator: Devon SK Interest: 26.67%
Bar-3 (Ex.)	Operator: Devon SK Interest: 30%

SK Energy - Farmout Agreement and JOA - CPO 4

- Contract entered between National Hydrocarbon Agency of Colombia and SK Energy, a leading Korean conglomerate
- Right to earn an undivided 25% of the rights of the CPO 4 Contract located in the Western Llanos Basin in the Republic of Colombia
- 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
- The Block is located along the highly productive western margin of the Llanos Basin and is adjacent to Apiay field which is estimated to have in excess of 610 million barrels of 25-33 API oil recoverable. On the CPO 4 Block's Northeast side lies the Corcel Block where well rates of 2,000 to 14,000 barrels of initial production per day have been announced for recent discoveries.
- In addition, the CPO 4 Block is located nearby oil and gas pipeline infrastructure.
- The Company has agreed to pay 25% of all past and future cost related to the CPO 4 block as well as an additional 12.5% of the seismic acquisition costs incurred during Phase 1 Work Program
- All future cost and revenue sharing (excluding the phase 1 seismic cost) will be on a heads up basis; 75% SK Energy and 25% HUSA - no carried interest or other promoted interest on the block

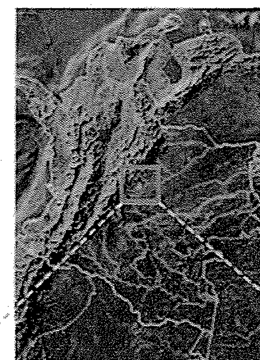
Block Overview

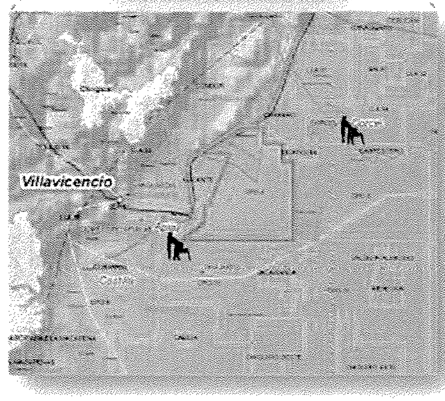
General information

- Location : Onshore, Central Colombia
- Basin : Western Llanos Basin
- Area : 139,859 ha (1,398.59 km^2)
- Effective Date : December 18, 2008
- Contract Type : License Agreement (Royalty & Tax)
- Participant :
  - SK Energy : 75% (Operator)
  - Houston American Energy : 25%

- **Exploration Period & Work Obligation**

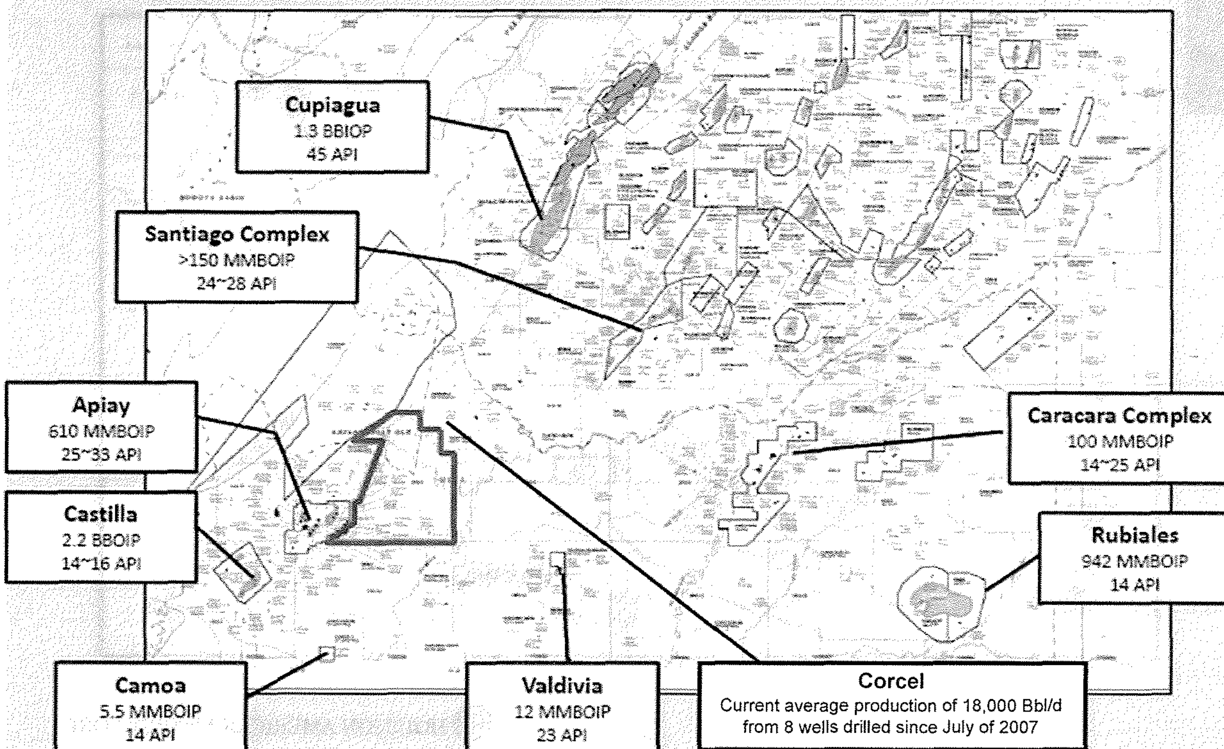
PHASE	PERIOD	WORK OBLIGATION
Phase 0	18.12.'08 ~ 17.6.'09 (6 mos.)	Phase 0 Report
Phase 1	18.6.'09 ~ 17.6.'12 (3 yrs.)	• 400 km 2D Seismic Reprocessing • 620 km 2D New Seismic Acquisition • 2 Exploration Wells
Phase 2	18.6.'12 ~ 17.6.'15 (3 yrs.)	• 400 km 2D Seismic Reprocessing • 3 Exploration Wells



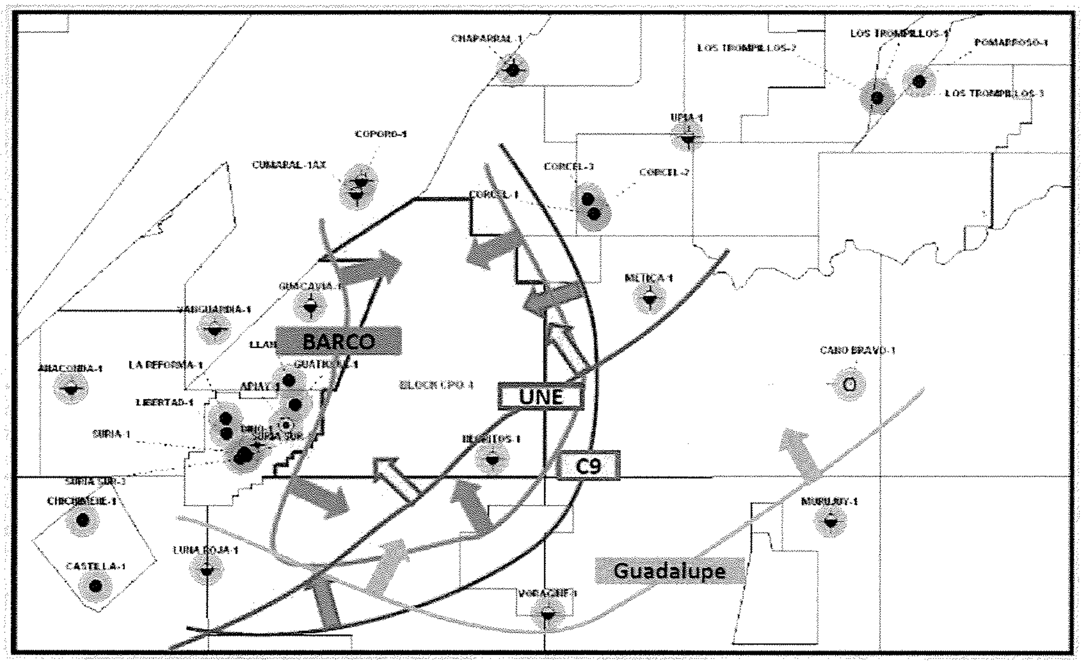


Surrounded Area by Existing Fields

Source Rock

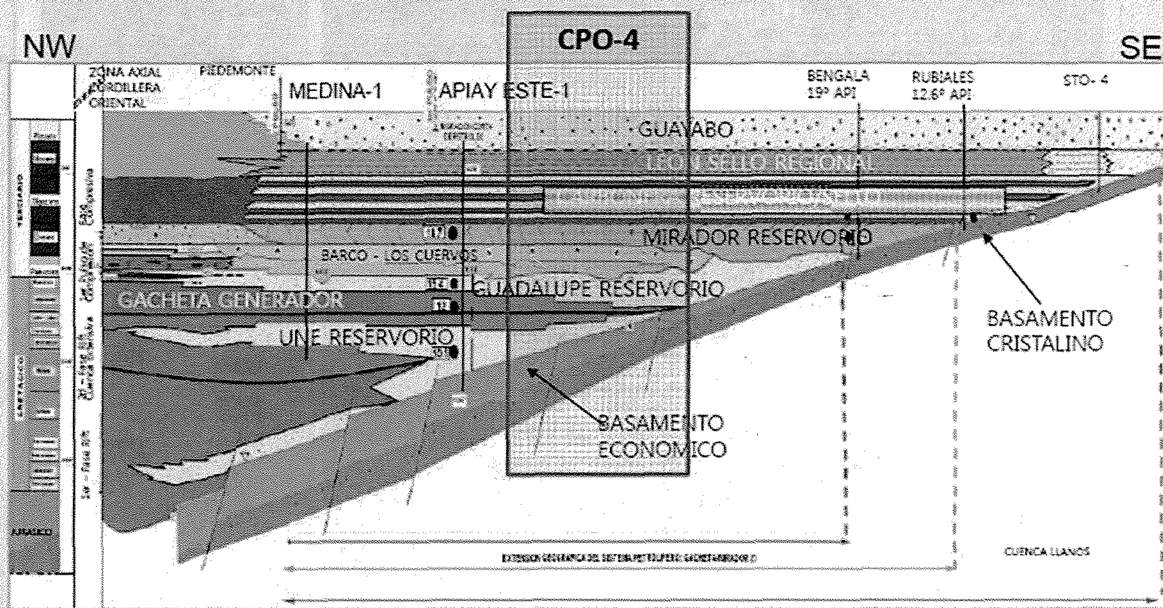


Reservoir Distribution



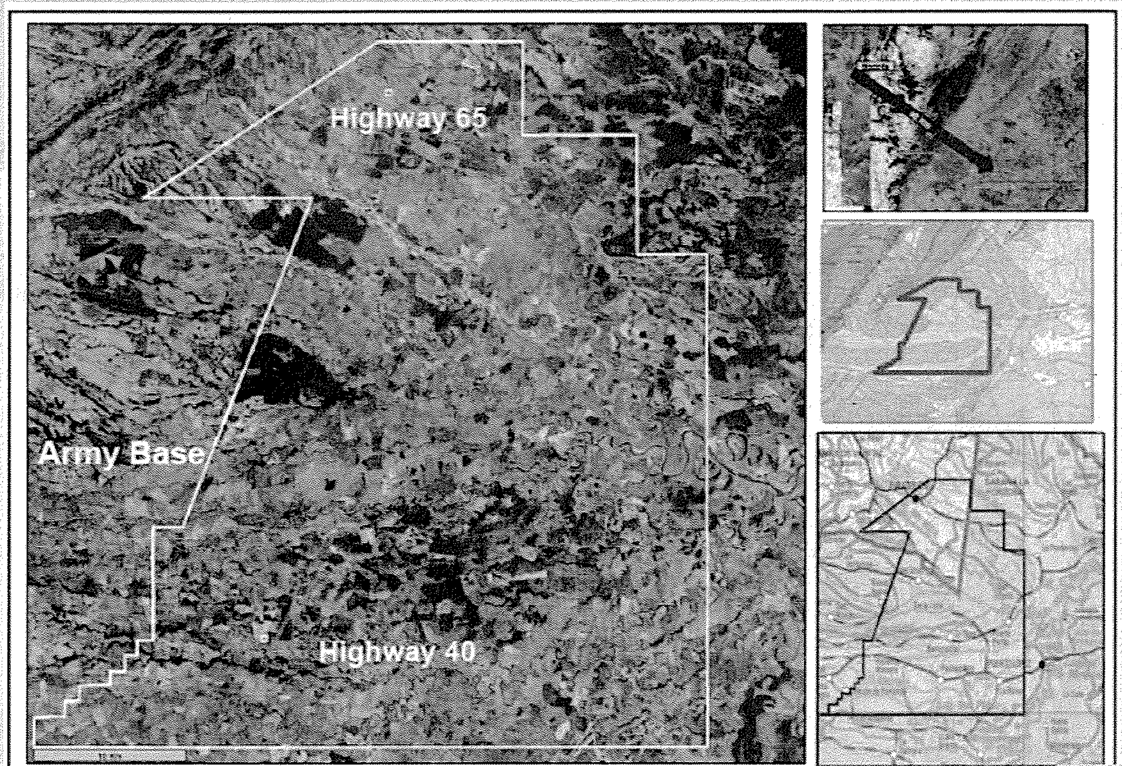
Multi Reservoir

Reservoir Rock

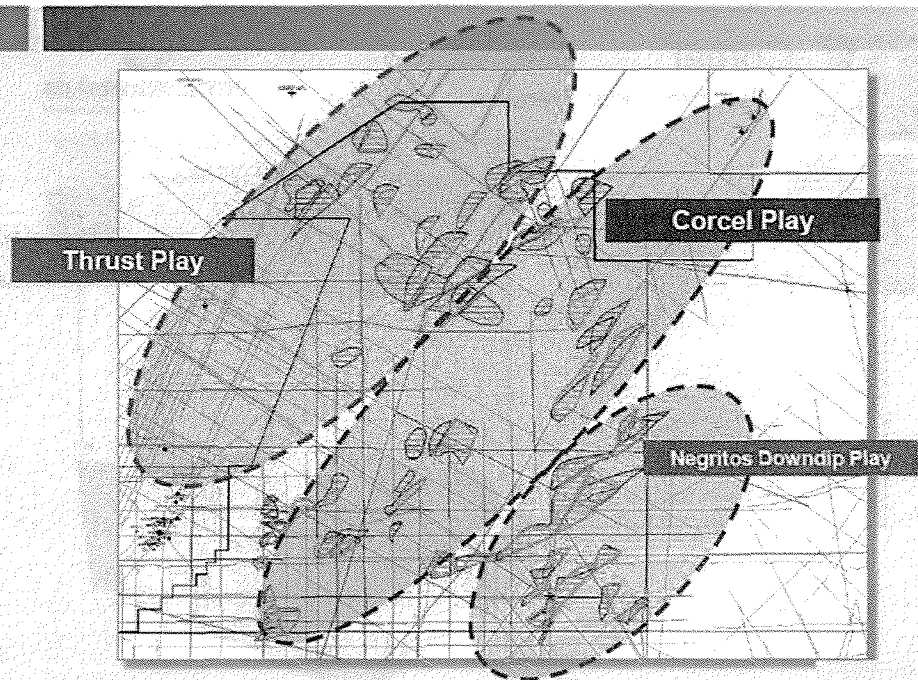


Excellent Working Environment

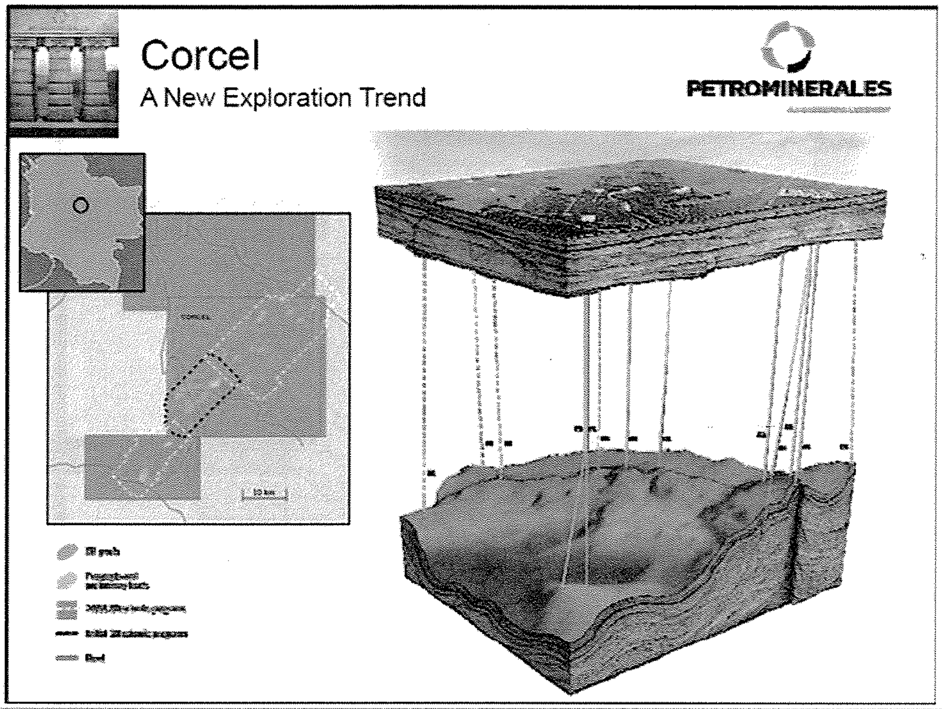
Working Environment



Multiple Reservoir Plays



Corcel Overview



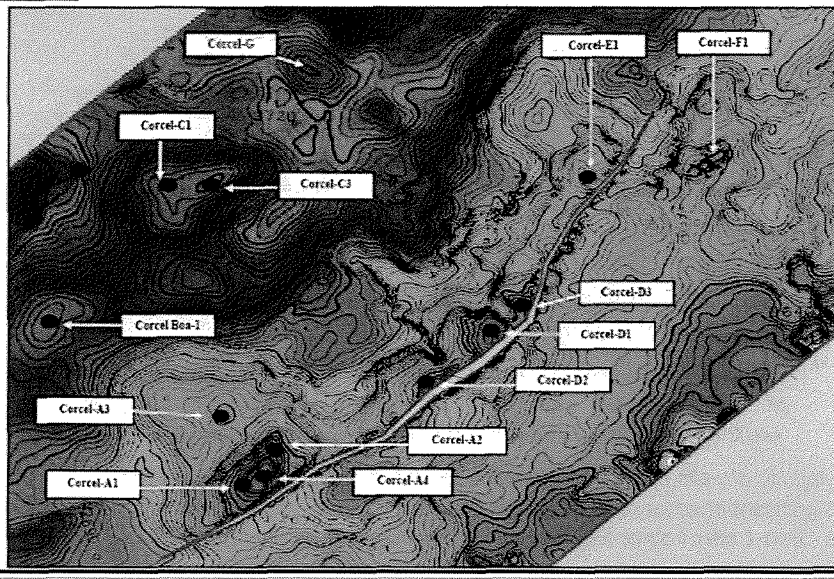
Source: Petrominerales.com

Corcel Overview *(continued)*

Corcel

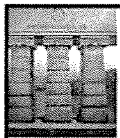
Long-term Exploration & Development Potential

PETROMINERALES



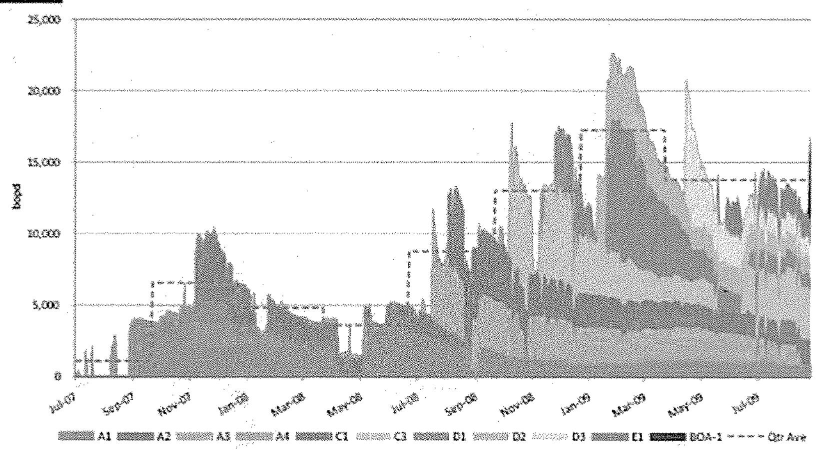
Source: Petrominerales.com

Corcel Overview *(continued)*



Historical Corcel Production

PETROMINERALES



- Majority of wells now in the more stable part of the production curve
- Significant inventory of exploration locations with majority of Block still to be explored

Note - Boa-1 offline since September 5th for workover

Source: Petrominerales.com

Corcel Overview *(continued)*

- Production from Corcel's wells have averaged in excess of 5,500 barrels of oil per day for the first thirty days of production declining to approximately 2,000 barrels of oil per day after the first year of production.

- Production after the first year of production is expected to decline marginally at 5 to 10% per annum

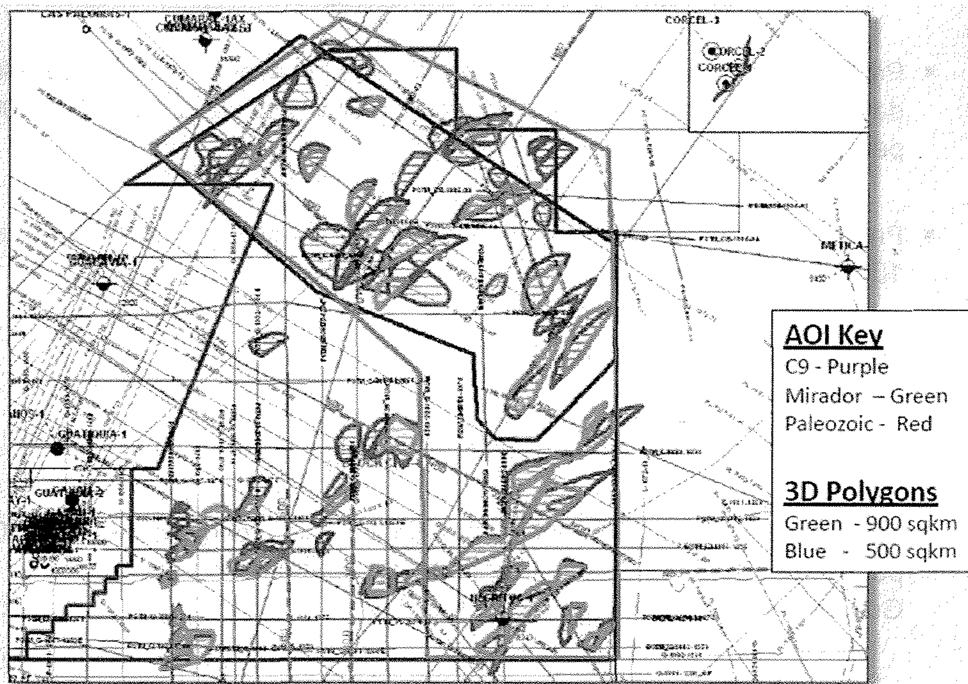
- Multiple stacked pay sands

- Active water drive is expected to result in high ultimate recoveries

- The Corcel-A2 side-track well (drilled Sept. 09) is producing over 10,000 barrels of oil per day of 30 API oil at less than 1% water cut from the Lower Mirador, Upper Guadalupe and Lower Guadalupe sands.

Source: Petrominerales.com

Proposed 3D Areas with Structure Maps



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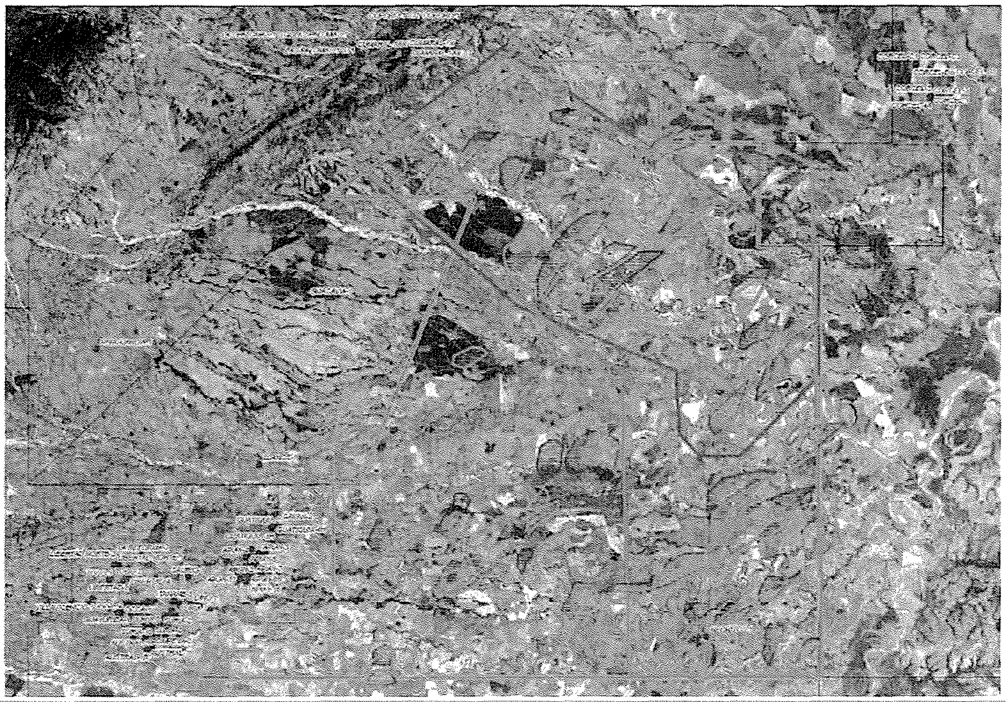
Land Satellite Image with Structures and 3D Areas



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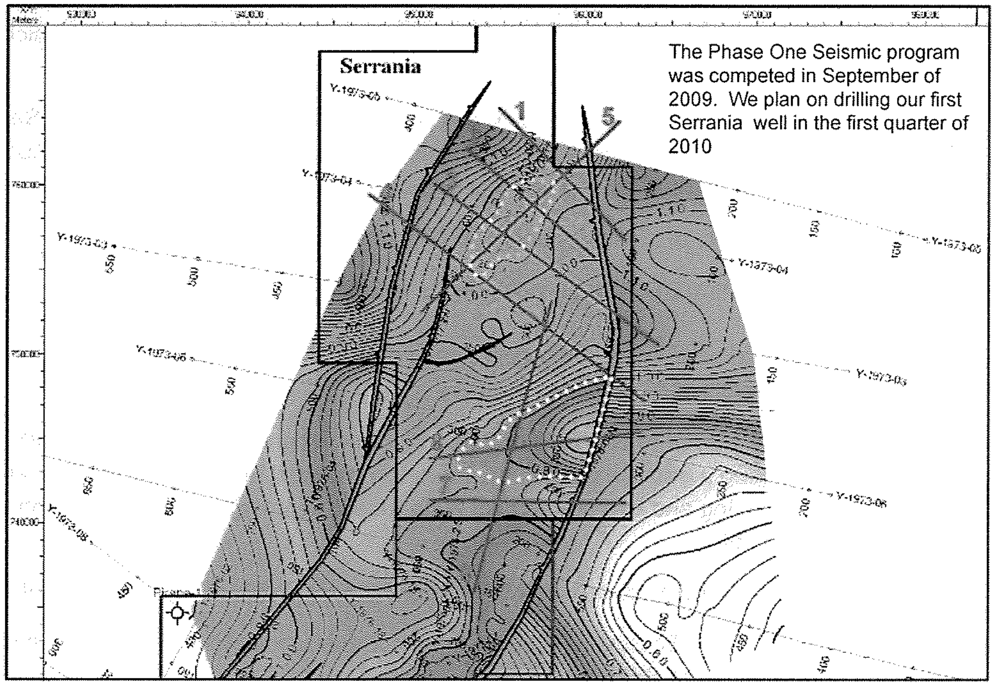
Serrania Block and Los Picachos

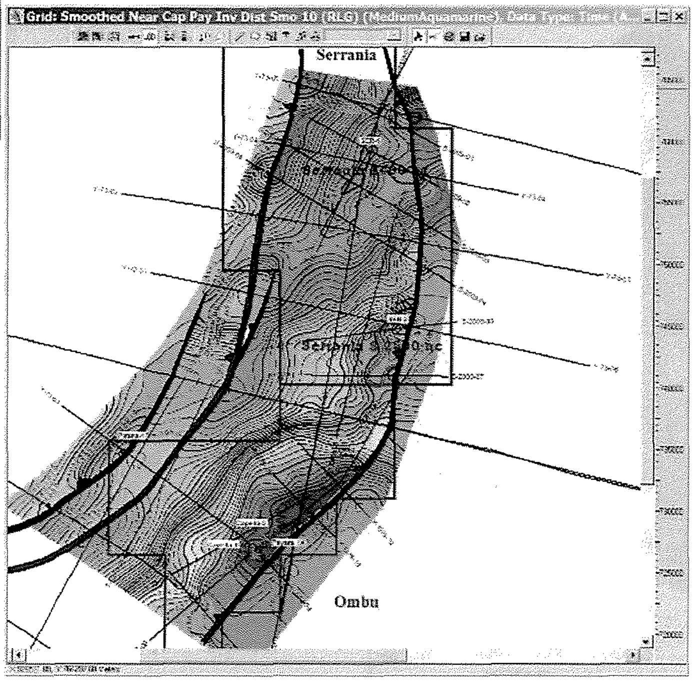
Serrania Block and Los Picachos

- Contract entered between Shona Energy (Colombia) Limited (major investors of which include Encap and Nabors) and Houston American Energy on June 24, 2009
- Right to earn an undivided twelve and one half percent (12.5%) of the rights to the Serrania Contract for Exploration and Production (the Serrania Contract) which covers the Serrania Block located in the municipalities of Uribe and La Macarena in the Department of Meta
- Serrania Block consists of approximately 110,769 acres
- Oil Royalty: 8% to 5,000 BOPD and sliding scale to 20% at 125,000 BOPD
- The Block is located adjacent to the recent Ombu discovery, which is estimated to have potentially over one billion barrels of oil in place
- The Company has agreed to pay 25% of Phase 1 Work Program. The Phase 1 work program consist of completing a geochemical study, reprocessing existing 2-D seismic data, and the acquisition, processing and interpretation of 2D seismic program containing approximately 116 kilometers of 2-D data
- The Company's is expected to drill its first well on Serrania Block in the 1st quarter of 2010
- Los Picachos Technical Evaluation Agreement encompasses an 86,235 acre region located to the west and northwest of the Serrania block

Serrania Phase One Seismic Program



Picture of Ombu field extension onto Serrania



Key Points
Ombu Field

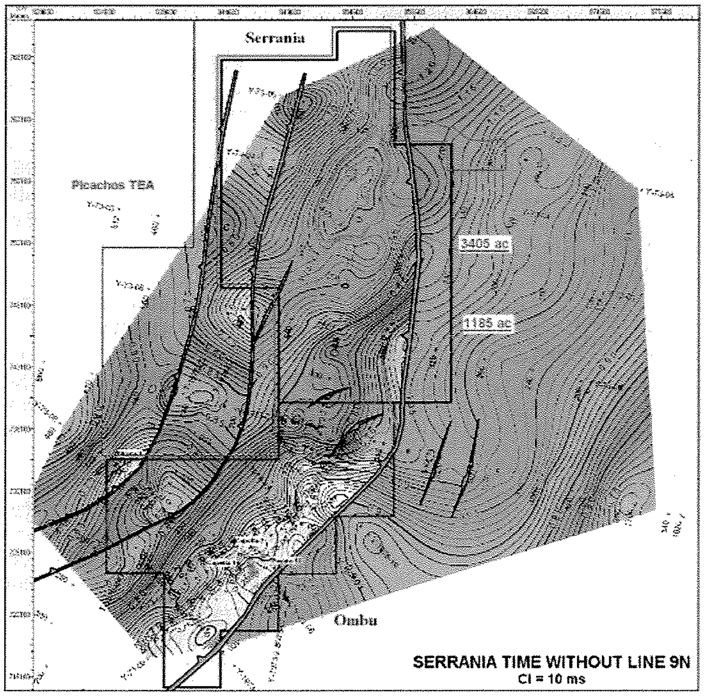
Canacol Energy LTD (TSX-V: CNE) - 10% owner of the Ombu field is estimating that there is up to 1.1 billion barrels of original oil in place on the Ombu field

Emerald Energy - 90% owner and operator of the Ombu field recently sold to Sinochem Resources for approximately $836 million USD. Emerald's major assets were located in Syria and Colombia. Emerald's major Colombian asset was the Ombu field in the Llanos Basin

In 2009 Emerald Energy after drilling 5 wells on the Ombu field was given potential recoverable reserves of 122 million barrels by Netherland, Sewell & Associates, Inc. Production rates of the five wells ranged from 100 to 400 bbl/d

Source: Emeraldenergy.com, Canacolenergy.com

Los Picachos TEA



Los Picachos encompasses an 86,235 acre region located to the west and northwest of the Serrania block

Los Picachos establishes a future growth area for the Serrania concession

Initial 2-D data has identified several large prospects located on the Los Picachos TEA similar to those found on the Ombu Block to the south east

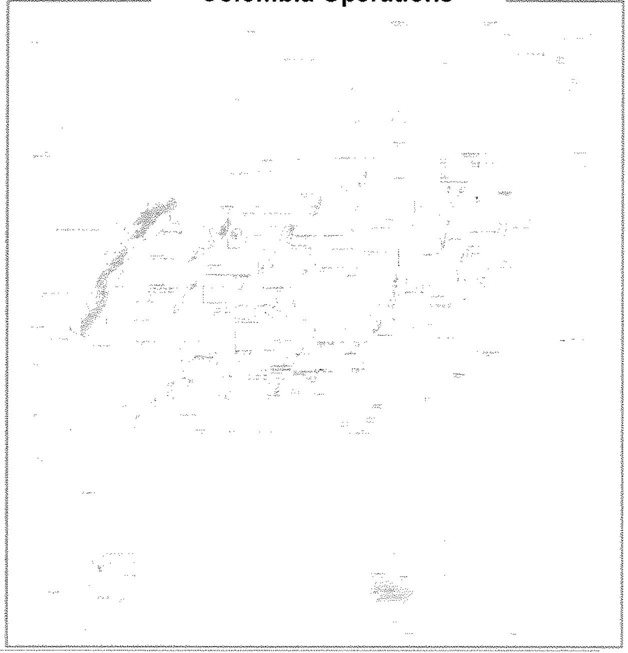
Hupecol Operated Assets

Hupecol Colombian Operations

- Operator: Hupecol
- Hupecol has acquired significant concessions in the Llanos Basin since Houston American Energy's inception in April 2001. The following are HUSA's effective working interests based on its indirect ownership interests in Hupecol:
  - La Cuerva 1.6% W.I.
  - Dorotea 12.5% W.I.
  - Leona 12.5% W.I.
  - Cabiona 12.5% W.I.
  - Las Garzas 12.5% W.I.
  - Surimena 6.25% W.I.

  ** Highlighted Concessions are currently for sale*
- Current net production of 850 boe/d
- Currently 5 of the six concessions operated by Hupecol are for sale by Scotia Waterous

Colombia Operations



HOUSTON AMERICAN ENERGY CORP

Overview of Hupecol *(Private Company)*

- Operator of the majority of the Company's existing producing Colombian assets
- Privately held E&P company with offices in Colombia and Texas
  - Hupecol's managing partner currently operates significant production and gathering facilities domestically in the U.S.
  - Operates with an extensive staff of geologists, petroleum engineers, geophysical and accounting professionals
- One of the more active independents operating in Colombia
  - Hupecol currently produces approximately 7,500 barrels of oil equivalent per day in Colombia
  - Hupecol sits on the Board of Directors of the Colombian Petroleum Association General Assembly along with Perenco, Petrobras, ExxonMobil, Hocol, and Terpel
- Proven track record
  - In June 2008, the Company, through Hupecol Caracara LLC as owner/operator, sold all of the Caracara assets to Cepsa, covering approximately 232,500 acres for USD $920 million
  - As a result of the sale of the Caracara assets, HUSA received net proceeds of $11.55 mm
  - Drilled over 100 wells in Colombia to date with a 70% success ratio

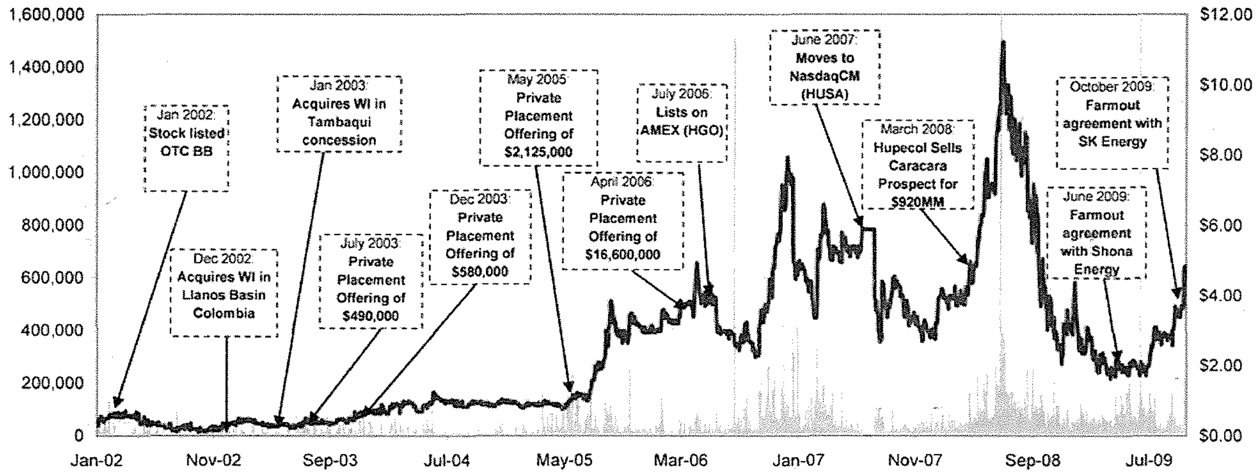
Appendix

Budget through December 2010

Project	Working Interest	Use of Fund	Gross Project Expenditure ($000)	HUSA Net Capex ($000)
Colombian Budget				
SK Energy – CPO 4 [(1)]	25.0%	3-D Seismic	$20,000	$7,500
SK Energy – CPO 4	25.0%	2 Well Prep.	$8,200	$2,050
SK Energy – CPO 4	25.0%	Overhead	$4,100	$1,025
Shona – Serrania [(2)]	12.5%	2-D Seismic	$3,200	$800
Shona – Serrania	12.5%	Drill two Wells	$10,000	$1,250
Hupecol – Existing Assets [(3)]	12.5%	Drill eight wells	$24,000	$3,000
Colombia Total			**$69,500**	**$15,625**
Domestic Budget				
Crown Mineral Acquisition	36.0%	Mineral Acquisition	$1,425	$513
North Jade Prospect	22.5%	Drill One Well	$10,000	$2,250
Grand Total			**$80,925**	**$18,388**

(1) Per the SK Farm-Out agreement, HUSA pays an additional 12.5% of the Seismic Acquisition Cost.
(2) Per the Shona Farm-Out Agreement, HUSA pays an additional 12.5% of the Seismic Acquisition Cost.
(3) Cash flow from existing production is expected to fund all future Capex. Select properties are presently being offered for sale.

Stock Price Performance Chart



Period	Period Start Date	Average Close	Average Daily Volume	Total Volume Traded	Daily Closing Price High	Daily Closing Price Low
Last Month	10/2/2009	$4.04	51,891	1,193,490	$4.84	$3.38
Last 60 Days	9/2/2009	3.58	52,628	2,368,240	$4.84	$2.58
Last 90 Days	8/2/2009	3.35	46,305	3,102,410	$4.84	$2.58
Last 120 Days	5/2/2009	2.71	80,540	10,631,280	$4.84	$1.72
Last 365 days	11/2/2008	2.64	63,491	16,634,660	$4.84	$1.64

HUSA Financial Overview

- Strong Balance Sheet with no debt.
- Significant production growth since the first quarter of 2009 from existing Hupecol operated properties.

Summary Balance Sheet

$ Thousands	Q3 2009	Q2 2009	Q1 2009	FY2008
Cash	$4,709.1	$4,886.2	$6,455.8	$9,910.7
Oil and Gas Properties	20,809.0	22,906.9	20,852.1	19,614.8
Debt	$0.0	$0.0	$0.0	$0.0
Shareholders Equity	20,082.1	19,524.9	19,257.7	21,048.2

Summary Income Statement

$ Thousands	Q3 2009	Q2 2009	Q1 2009	FY2008
Oil & Gas Revenue	$2,404.0	$1,134.1	$445.1	$10,622.1
Operating Income (1)	133.2	(576.2)	(1,481.4)	5,912.4
Basic Shares Outstanding (MM)	28.0	28.0	28.0	28.0

(1) Operating income is adjusted for impairment of oil and gas properties brought on by low commodity prices at 12/31/2008.

Management Biography

John F. Terwilliger, President and CEO

John F. Terwilliger has served as the Company's President, Chairman and Chief Executive Officer since its inception in April 2001. From 1988 to 2001, Mr. Terwilliger served as Chairman of the Board and President of Moose Oil and Gas Company, a Houston based exploration and production company focused on operations in the Texas Gulf Coast region. Prior to 1988, Mr. Terwilliger was Chairman of the Board and President of Cambridge Oil Company, a Texas based exploration and production company. John is a member of the Houston Geological Society, Houston Producers Forum, Independent Petroleum Association of America and the Society of Petroleum Engineers.

James J. Jacobs -Chief Financial Officer

James "Jay" Jacobs has served as the Company's Chief Financial Officer since joining the Company in July 2006. From April 2003 until joining the Company in July 2006, Mr. Jacobs served as an Associate and as Vice President in the Energy Investment Banking division at Sanders Morris Harris, Inc., an investment banking firm headquartered in Houston Texas, where he specialized in energy sector financings and transactions for a wide variety of energy companies. Prior to joining Sanders Morris Harris, Mr. Jacobs worked as a financial analyst for Duke Capital Partners where he worked on the execution of senior secured, mezzanine, volumetric production payment, and equity transactions for exploration and production companies. Prior to joining Duke Capital Partners, Mr. Jacobs worked in the Corporate Tax Group of Deloitte and Touché LLP. Mr. Jacobs holds a B.B.A. and a Masters in Professional Accounting from the McCombs School of Business at the University of Texas in Austin and is a Certified Public Accountant.

Board of Directors

Lee Tawes
Mr. Tawes is Executive Vice President, Head of Investment Banking and a Director of Northeast Securities, Inc. Prior to joining Northeast Securities, Mr. Tawes held management and research analyst positions with C.E. Unterberg, Towbin, Oppenheimer & Co. Inc., CIBC World Markets and Goldman Sachs & Co. from 1972 to 2001. Mr. Tawes has served as a Director of Baywood International, Inc. since 2001 and of GSE Systems, Inc. since 2006. Mr. Tawes is a graduate of Princeton University and received his MBA from Darden School at the University of Virginia

Ted Broun
Mr. Broun is the owner/operator of Broun Energy, LLC, an oil and gas exploration and production company. He co-founded, and, from 1994 to 2003, was Vice President and Managing Partner of Sierra Mineral Development, L.C., an oil and gas exploration and production company. Previously, Mr. Broun was a partner and consultant in Tierra Mineral Development, L.C. and served in various petroleum engineering and management capacities with Atlantic Richfield Company, Tenneco Oil Company, ITR Petroleum, Inc. General Atlantic Resources, Inc. and West Hall Associates, Inc. Mr. Broun received his B.S. in Petroleum Engineering from the University of Texas and an M.S. in Engineering Management from the University of Alaska.

Stephen Hartzell
Since 2003, Mr. Hartzell has been an owner/operator of Southern Star Exploration, LLC, an independent oil and gas company. From 1986 to 2003, Mr. Hartzell served as an independent consulting geologist. From 1978 to 1986, Mr. Hartzell served as a petroleum geologist, division geologist and senior geologist with Amoco Production Company, Tesoro Petroleum Corporation, Moore McCormack Energy and American Hunter Exploration. Mr. Hartzell received his B.S. in Geology from Western Illinois University and an M.S. in Geology from Northern Illinois University.

John Boylan
Mr. Boylan has served as a financial consultant to the oil and gas industry since January 2008. Mr. Boylan served as a manager of Atasca Resources, an independent oil and gas exploration and production company, from 2003 through 2007. Previously, Mr. Boylan served in various executive capacities in the energy industry, including both the exploration and production and oil services sectors. Mr. Boylan's experience also includes work as a senior auditor for KPMG Peat Marwick and a senior associate project management consultant for Coopers & Lybrand Consulting. Mr. Boylan holds a B.B.A. with a major in Accounting from the University of Texas and an M.B.A. with majors in Finance, Economics and International Business from New York University.