UNITED STATES OF AMERICA
Before the
SECURITIES AND EXCHANGE COMMISSION

RECEIVED
DEC 30 2014
OFFICE OF THE SECRETARY

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 RESPONDENTS' MOTION IN LIMINE

TABLE OF CONTENTS

TABLE OF AUTHORITIES

FEDERAL CASES

ADMINISTRATIVE CASES

FEDERAL STATUTES

LOCAL RULES

MISCELANEOUS

I. INTRODUCTION

Respondents move *in limine* to exclude evidence allegedly inconsistent with the OIP and mount a variety of baseless attacks on the Division's experts. As an initial matter, Respondents frame their arguments under Rule 702 of the Federal Rules of Evidence and *Daubert v. Merrell Dow Pharms., Inc.*, 509 U.S. 579 (1993)—standards the Commission has not adopted in Administrative Proceedings. Rather, the touchstone of admissibility in this proceeding is *relevance*, and Respondents *do not* claim that the Division's proposed expert evidence fails that standard. Respondents' motion (the "Motion") should be denied on this basis alone.

Respondents' remaining arguments fall equally short of warranting the drastic remedy of excluding the Division's experts or foreclosing arguments. They first claim is that the opinions of the Division's experts are "inconsistent" with the allegations of the OIP. To the contrary, the OIP alleges that Respondents lacked a reasonable basis for telling investors that a tiny sliver of Colombia's Llanos basin had "1 to 4 billion barrels" of oil reserves—a claim that, if true, would amount to an unprecedented discovery in Colombia. Likewise, the Division's experts uniformly condemn Respondents' estimates as wishful thinking that was grossly inconsistent with industry standards and common sense.

Respondents also attack the Division's econometric expert (Branko Jovanovic, Ph.D.) who, applying an accepted scientific methodology and controlling for other factors, attributes a statistically significant increase in Houston American's stock price to Respondents' fraud. Respondents do not contend that Jovanovic's opinions are irrelevant. (Indeed, Respondents hired their own expert to opine on the very same matters.) Lacking any basis to meaningfully challenge Jovanovic's credentials or methodology, Respondents cite inapposite cases and nitpick his report. These quibbles *at most* go to the weight of Jovanovic's opinions, not their admissibility.

Finally, Respondents take aim at the Division's oil and gas experts, Ruudjan de Zoeten, Ron Harrell, PE, Richard Bishop, Ph.D., and Wayne Kelley. Again, Respondents do not (and cannot) claim that the experts' opinions are irrelevant. Nor do they challenge their credentials or expertise. Respondents instead mount conclusory attacks that, at most, go to the weight of the experts' opinions. Respondents also gloss over the fact that Harrell, Bishop, and Kelley offer *rebuttal* opinions to the reports of Respondents' experts. Respondents' attempt to preclude the Division from offering a counterpoint to Respondents' proposed experts should be rejected.

Respondents' Motion should be denied.

II. BACKGROUND

A. The Division's Allegations

As alleged in the OIP, 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, 12.) Their other misrepresentations and omissions build on, relate to, or are variations of the misstatements in the Investor Presentation.

B. The Division's Affirmative Experts

1. Ruudjan de Zoeten

De Zoeten is a geoscience consultant for Netherland, Sewell & Associates, Inc. His work includes oil and gas classification and estimation and integrated field studies with an emphasis on incorporating geological, geophysical, and petrophysical assessments with reservoir engineering and production data. In his report, de Zoeten concludes that Respondents' "1 to 4 billion barrels" reserve estimate failed accurately to convey the degree of risk and uncertainty on the CPO-4 block for the following reasons, among others: (i) Respondents mischaracterized closures and plays identified by SK Energy as "leads and prospects;" (ii) Respondents' "1 to 4 billion barrels" reserve estimate was not supported by a valid volumetric analysis; and (iii) Respondents' estimate was not consistent with expected recoveries on Colombia.

2. Branko Jovanovic, Ph.D.

Jovanovic is a Managing Economist at Bates White, LLC, an economic consulting firm. He has taught graduate-level econometrics courses at NYU and Johns Hopkins. In his report, he presents an event study examining how Houston American's stock price moved on days that new information about the CPO-4 block was publicly announced. He concludes that on the day Houston American released its Investor Presentation, its stock price increased by a statistically significant amount. In his rebuttal, Jovanovic describes methodological weaknesses with Respondents' event study and other problems with the report of Respondents' econometric expert.

C. <u>The Division's Rebuttal Experts</u>

1. Ronald Harrell

Harrell is a petroleum engineer with 38 years of experience with Ryder Scott, where he was responsible for reserve and reservoir studies in virtually every petroleum producing region of the world. In his report, Harrell offers the following opinions, among others: (i) Respondents' blanket use of 500 BAF generated an estimate that was unreliable, and was not the product of a competent reservoir engineer; and (ii) use of the term "recoverable reserves" is not justified in any context when describing properties such as the CPO-4 block, where commercial quantities of oil or gas have not been confirmed through the drilling and testing of at least one well.

2. Richard Bishop

Bishop is a petroleum geologist with 29 years of experience at ExxonMobil. Bishop provided a rebuttal report in response to the report of Respondents' expert, Michael Wiggins.

Bishop explains that Wiggins neglected to address six critical assumptions underlying Respondents' estimates. Respondents assumed a maximum value for each of the assumptions, in contravention of easily ascertainable data and basic geological realities. Bishop concludes that even adjusting Respondents' values to the *most optimistic* and supportable value reduces Respondents' four billion barrel estimate to only 262 million barrels.

3. Wayne Kelley

Wayne Kelley is the Managing Director of RSK [UK] Limited, a petroleum consultancy specializing in South America, Africa, and the Middle East. He provided a rebuttal report in response to the report of Respondents' expert, William Abington. Kelley's opinions include, among others: (i) without full and fair disclosure of the assumptions that Respondents used in their "1 to 4 billion barrels" estimate, an investor could not meaningfully evaluate the CPO-4 block's potential; and (ii) Respondents' representations in the Investor Presentation failed accurately to describe the opportunity and risk associated with the block.

III. LEGAL STANDARD

Pursuant to Rule 320 of the Commission's Rules of Practice, "the hearing officer may receive relevant evidence and shall exclude evidence that is irrelevant, immaterial or unduly repetitious." The Commission has *not* adopted Rule 702 of the Federal Rules of Evidence, which governs admissibility of expert testimony, or the Supreme Court's decision in *Daubert v. Merrell Dow Pharms., Inc.*, 509 U.S. 579 (1993). Rather, consistent with Rule 320, the touchstone of admissibility is relevance. *See IMS/CPAS & Assocs.*, Rel. No. 8031, 2001 WL 1359521, at *10 (Nov. 5, 2001) (expert testimony excluded as irrelevant). In evaluating relevance, the Commission considers the expert's testimony in the context of the entire factual record. *E.g., Ira Weiss*, Rel. No. 8641, 2597 n.21 (Dec. 2, 2005), *petition denied*, 468 F.3d 849

(D.C. Cir. 2006) (the Commission gives "such weight to the expert testimony as . . . indicated by the relevant facts in the record").

IV. ARGUMENT

Respondents do not and cannot argue that the Division's expert evidence is irrelevant. Each of the Division's experts opines on matters central to this case, either (i) the reasonableness of Respondents' fraudulent estimate that the CPO-4 block contained "recoverable reserves"—a well-understood industry term reserved for commercially producible quantities of oil—of "1 to 4 billion barrels," or (ii) how this fraud inflated Houston American's stock price. Having conceded relevance, Respondents' Motion should be denied.

Respondents' other arguments are meritless. At most, they go to the weight to be accorded to the Division's experts' opinions. None justifies the drastic remedy of wholesale exclusion.[1]

A. The Division's Expert Evidence Is Consistent with the OIP

Respondents identify a number of purported judicial admissions in the OIP and contend that the Division should be barred from contradicting them with arguments that "SK Energy's estimates were not reasonable and that Houston American could not rely on them." (Motion at 7-8.) Respondents mischaracterize the Division's allegations and arguments, misstate the law, and fail to identify purported judicial admissions that correspond to the relief sought.

[1] Respondents have *not* sought to exclude the entirety of Harrell's report. (Motion, 19.) For the reasons presented below, none of Harrell's opinions should be excluded, but he must at least be permitted to testify given that Respondents do not seek to exclude his opinions in their entirety. Further, Respondents fail to identify with particularity which portions of the Division's expert reports they find objectionable. Their arguments do not appear to address the entirety of any given report, placing an undue burden on the Division and the Court to divine which portions of each report is allegedly flawed. This is an independent reason to deny their Motion and determine the weight to be accorded each expert's opinions in the context of the full factual record.

1. Respondents Misstate the Law of Judicial Admissions

Judicial admissions are those "unequivocal statements as to matters of fact which otherwise would require evidentiary proof." They do not "extend to counsel's statement of his conception of the legal theory of a case, *i.e.*, legal opinion or conclusion." *See Federal Practice & Procedure*, 30B Fed. Prac. & Proc. Evid. §7026 (2014 ed.); *see also*, *Boyte v. Lionhead Holdings*, 2012 WL 2680022, at *4-5 (N.D. Tex. July 6, 2012) ("Judicial admissions generally are restricted to matters of fact which otherwise would require evidentiary proof, and therefore, do not include legal theories or conclusions."); *Miller v. Bill Harbert Int'l Construction, Inc.*, 2007 WL 851871, at *1 (D.D.C. March 14, 2007) ("[judicial] admissions go to matters of fact which, otherwise, would require evidentiary proof . . . the doctrine of judicial admissions has never been applied to counsel's statement of his conception of the legal theory of the case.").

Respondents misapply this straightforward evidentiary doctrine. After reciting various factual allegations concerning the extent of SK Energy's assessment of the CPO-4 block, Respondents argue that it would be "improper to entertain expert opinions and arguments that SK Energy's estimates *were not reasonable* and that Houston American could not rely on them." (Motion, 7-8 (emphasis added).) Respondents thus seek to bind the Division to legal theories concerning the *reasonableness* of SK Energy's estimates and the *reasonableness* of Respondents' purported reliance on them. Respondents' argument is misplaced in at least two respects. First, while citing *factual* allegations, Respondents would bind the Division to a *legal theory* of reasonableness, a plainly improper application of the judicial admission doctrine, particularly where, as here, the Division has never articulated the legal theory in question. *See, e.g.*, *Conrad v. Sherwin Williams Co.*, 2014 WL 526132, at *2 (E.D. Ken. Feb. 7, 2014) (the question of "reasonableness" is "without question a legal conclusion, not a statement of fact," and thus not appropriately the subject of a judicial admission).[2] Second, as discussed below, Respondents do not identify any "unequivocal statements" by the Division that either the Division or its experts have subsequently contradicted. Instead, Respondents distort the Division's allegations to manufacture a conflict where none exists.

2. Respondents Mischaracterize the Division's Allegations and the Opinions of Its Experts

The Division alleges that Respondents' Investor Presentation fraudulently asserted that the CPO-4 block had "estimated recoverable reserves of 1 to 4 billion barrels" of oil. (OIP, ¶ 39.) Respondents' mischaracterize the Division's allegations as *approving* of the low end of that range and taking issue only with the high end. (Motion, 1-3.) Those are not the Division's allegations. The Division alleges that Respondents' *entire* multi-billion barrel estimate was misleading because, among other reasons, it grossly mischaracterized SK Energy's high-risk, low-probability "*total potential*" estimate of 974 million barrels by presenting it as a low-risk, high-probability *floor* of Houston American's range. (OIP, ¶¶ 71-84.)

The Division does not contradict itself by arguing both that SK Energy derived its range of estimates from regional well data and available seismic data (*see* OIP, ¶¶3, 16, 17, 29, 32, 55, 75, 77) and that SK Energy's "total potential" estimate nonetheless reflected a high-risk, low-probability outcome for the CPO-4 block. Indeed, unlike Respondents, SK Energy presented its high-risk, low-probability "total potential" estimate along with a "risk reserve potential" estimate of 300 million barrels. SK Energy's summary of its assessment, which Respondents received in April 2009, stated that the block had "Total 1 Billion BO Potential : 300 MMBO Risk Reserve

[2] The Motion includes a string cite of inapposite cases. *American Title Ins. Co. v. Lacelaw Corp.*, 861 F.2d 224 (9th Cir. 1988) merely upheld a lower court's decision that statements *were not* judicial admissions, and *Hopkins v. Cornerstone America*, 545 F.3d 338 (5th Cir. 2008) held that the defendant *was not* judicially estopped from raising a defense. The other cases fare no better, and none apply the doctrine of judicial admissions in the manner sought by the Motion.

Potential." According to James Fluker, who had a role in preparing this document, SK Energy's 300 million barrel "risk reserve potential" estimate accounted for the high degree of risk and uncertainty associated with some of the "leads" identified by SK Energy and thus for its "total potential" estimate:

> Q The "300" and then "MBO Risk Reserve Potential," what does that mean?
> A **That means out of this, you could in all likelihood expect to find 300 million barrels. That would be a conservative approach and it gives you an idea of what the value of the block is.**
> Q Help me understand something here. A billion barrels of oil potential, how does one go about risking that down to 300 million barrels?
> A **Some of these features, they were only like one seismic line across it, so you knew there was a trap, you just had no idea how big it was. That would probably have a ten percent chance of success. If you had three lines across it, then you would be up say 60 percent chance of success.**

(Fluker Tr., 52:23-53:11.)

SK Energy thus cast its "total potential" estimate in a very different light than did Respondents. Where SK Energy used and clearly described the "total potential" estimate as the high-risk, low-probability *ceiling*, Respondents used it as the low-risk, high-probability *floor* without disclosing SK Energy's much lower range. Accordingly, the Division does not argue that the "total potential" estimate was unreasonable *per se*, only that it was misleading *as used by* Respondents: stripped of relevant context and presented as a high-probability *floor*.

The evidence shows that Respondents intentionally mischaracterized SK Energy's ceiling. For example, on January 8, 2010, Terwilliger sent a Global Hunter research analyst a memo enclosing a summary of SK Energy's "total potential" estimate. In the memo, Terwilliger claimed that "adjust[ing]" SK Energy's 974 million barrel estimate to "accepted recoveries" translated to an estimate of 3.2 billion barrels. (PX-81.) He also said that the "total potential" was "only from the attached 22 leads," implying that SK Energy's "total potential" estimate was just a fraction of the block's potential. (*Id.*) Predictably, Terwilliger's comments were reflected in the next Global Hunter research report on Houston American, which stated: "We believe *SK Energy is being conservative*, however if you were to use the 500 barrels per acre foot number then the unrisked oil potential could exceed three billion barrels"; and "[SK] has found over 100 prospects. Thus far they have high graded 22 of those prospects which contain an estimated 1 billion barrels of unrisked oil potential." (PX-86, 6 (emphasis added).)

It is telling that Respondents—despite their assertion that the Division is "attempting to reverse engineer a fraud claim by contradicting positions taken in the OIP"—do not identify any actual arguments advanced by the Division or its experts that conflict with the Division's allegations. While Respondents allude in passing to the Kelley and Bishop reports, they never explain how, or which passages of, the reports are at odds with the OIP. Of course, they are not. Neither Kelley nor Bishop takes issue with SK Energy's estimates *per se*, but rather, with Respondents' *misuse* of those estimates as a starting point for their multi-billion-barrel estimate. Bishop addresses the high degree of risk and uncertainty associated with SK Energy's "total potential" estimate and argues that Respondents' expert, Michael Wiggins, failed to account for those risks and uncertainties when lending his post-hoc endorsement to Respondents' multi-billion barrel estimate. (Bishop, 15.) In relevant part, Bishop's report states:

> Each of these assumptions [used by SK Energy and Houston American] represents a *maximum* value applied to *all* purported prospects and leads . . . . As a result, neither SK's purported 1 billion barrel estimate nor Houston American's 4 billion barrel estimate was a "middle of the road" result. *Both were simply different expressions of extremely low probability deterministic estimates*. . . . [A] bona fide range that truly reflected different levels of probability would have shown the extreme unlikelihood of even 1 billion barrels, let alone 4 billion.

(Bishop, 6 (emphasis added).)

Similarly, Kelley opines that the "[t]he chance of success of discovering 1-4 billion barrels within CPO-4 is facially remote," and that "[w]ithout . . . being provided Houston American's underlying assumptions in describing the potential reward, the investor would have no concept of how far removed the chance of success of discovering commercial hydrocarbons is from the highly unlikely finding of an un-risked bonanza of '1 to 4 billion barrels.'" (Kelley, 9-11.)

The Kelly and Bishop reports are not, as Respondents contend, "simply an attack on the reasonableness of SK Energy's estimates." (*See* Motion, 16.) Rather, they both take issue with, among other things, the way that Respondents grossly understated the degree of risk and uncertainty associated with the block, by mischaracterizing SK Energy's "total potential" estimate without adequately disclosing the associated risks. The arguments presented in the Kelley and Bishop reports are entirely consistent with the Division's allegations in the OIP.

Because Respondents seek to apply the doctrine of judicial admissions improperly and in any event have not identified any actual conflict between the Division's allegations and its experts' opinions, the relief sought by Respondents should be denied.

B. <u>Respondents' Quibbles with the Division's Econometrician Should Be Rejected</u>

1. The Jovanovic Event Study Is Sound

Respondents attack Jovanovic's event study because, they argue, he does not properly account for "confounding factors" that may have affected Houston American's stock price. Respondents are wrong on both the law and the facts. The federal cases Respondents cite in their page-long string citation involve event studies to establish loss causation and damages in private securities class actions. *See, e.g., In re Williams Sec. Litig.-WCG Subclass*, 558 F.3d 1130 (10th

Cir. 2009) (affirming summary judgment on issues of loss causation and damages).[3] As the court explained, a private investor "bears the burden of showing that his losses were attributable to the revelation of the fraud and not the myriad other factors that affect a company's stock price." *Id.* at 1137. When a private litigant relies on an event study to establish that causal connection, its expert must isolate losses caused by the fraud, as the company is not liable for losses resulting from "changed economic circumstances, changed investor expectations, new industry-specific or firm-specific facts, conditions, or other events" occurring independently of the fraud. *Id.* (quoting *Dura Pharm., Inc. v. Broudo*, 544 U.S. 336, 342-43 (2005).)

Loss causation, of course, is not an element of any of the Division's claims against Respondents. *See S.E.C. v. Pirate Investor LLC*, 580 F.3d 233, 239, n. 10 (4th Cir. 2009) ("Unlike private litigants, the SEC need not prove the additional elements of reliance or loss causation.") (collecting cases). Nor does Jovanovic purport to measure investor losses. Rather, Jovanovic establishes (i) Houston American's stock price rose on the date the company released its Investor Presentation, and (ii) this price increase was statistically significant.

That conclusion is relevant to the element of materiality, and Jovanovic's event study is "a relevant factor in the legal assessment of materiality" even if it does not account for all purportedly "confounding factors." *See In re SLM Corp. Sec. Litig.*, No. 08-civ-1029, 2012 WL 209095, at *5 (S.D.N.Y., January 24, 2012) (Pauley, J.). In *SLM Corp.*, for example, the defendants criticized the plaintiffs' event study for not "accounting for potentially confounding information" that might affect how the stock price reacted to corrective disclosures. *Id.* at *4.

[3] The only cases Respondents cite that do not relate to measuring investor losses are *In the Matter of H.J. Meyers & Co. Inc.*, Rel. No. 211, 2002 WL 1828078 (Aug. 9, 2002) and *United States v. Schiff*, 538 F. Supp. 2d 818 (D.N.J. 2008). Neither is helpful to Respondents here. *H.J. Meyers* did not involve an event study, and in any event it addresses the *weight* to be given to expert testimony, not whether the testimony should be excluded. 2002 WL 1828078 at *22-25) (discussing the helpfulness of cross-examination to expose potential areas of weakness in expert's analysis). *Schiff* is inapposite because in that case the defendant had made an affirmative showing of new, unrelated, adverse company information released on the same day as the alleged corrective disclosure. *Schiff*, 538 F. Supp. 2d at 838-39. Respondents have made no such showing, as discussed below.

The court disagreed, reasoning that at the relevant procedural stage (*i.e.*, class certification), the plaintiffs were required to show only materiality, *not* loss causation. *Id.* The expert's event study showed a significant price decline on the corrective disclosures and so was relevant to the materiality inquiry. *Id.* Just as the court in *SLM Corp.* refused to incorporate a loss causation analysis into a materiality assessment, so too should Respondents' arguments be rejected here.

In any event, Jovanovic's event study does isolate what caused the change in Houston American's stock price. It controls for industry and market variables by incorporating the daily returns of both the S&P 500 index and the CRB Wildcatters Index. (Jovanovic, ¶¶ 42-53.) It also takes into account the fact that Houston American's fraud coincided with tail end of the financial crisis, which caused market volatility to change over the relevant period. (*Id.* at ¶ 51.) Finally, it identifies the information in the Investor Presentation, specifically the resource volume estimate, that one would expect to affect an oil and gas company's stock price. (*Id.* at ¶¶ 22-30, 63.)

Respondents identify potential "confounding factors" in other parts of the Investor Presentation, but none discloses new information. For example, Respondents cite "descriptions of SK Energy" and "an upward revision of the well rates for production on the adjacent Corcel Block" as potentially confounding factors. Houston American had previously disclosed SK Energy's role as operator on the CPO-4 block. Information about the Corcel Block was also already public: Houston American itself took the information from Petrominerales's website. (*See* PX-026 (press release announcing farm-in agreement), 1; PX-043 (Investor Presentation), 22 (citing Petrominerales.com).)

Information previously disclosed to the public would not affect Houston American's stock price. *See Local 703, I.B. of T. Grocery & Food Employees Welfare Fund v. Regions Fin.*

Corp., 762 F.3d 1248, 1256 (11th Cir. 2014) ("A corollary of the efficient market hypothesis is that disclosure of confirmatory information—or information already known by the market—will not cause a change in the stock price. This is so because the market has already digested that information and incorporated it into the price.").[4] Jovanovic did not ignore the effect of these "confounding factors"; they *had no effect* because they were previously known to the market.

2. Respondents' Other Critiques of the Report are Unfounded

In his initial report, Jovanovic examines the movement of Houston American's stock price on dates when new information about the CPO-4 block was publicly announced. (Jovanovic, ¶¶ 6-7.) His report gives a broad picture of how the market reacted to news related to the block. Respondents criticize him for not analyzing the economic materiality of statements not made in public or merely confirmatory of their initial misstatements about "recoverable reserves" on the block. That critique is misplaced. Non-public disclosures (like Respondents' oral misstatements to individual investors that SK Energy's estimate was 3-5 billion barrels) or confirmatory disclosures (like the repetition of the fraudulent 1-4 billion barrel estimate[5]) would not affect Houston American's stock price, at least not as directly as misstatements in a press release, but are nonetheless material. And in any event, Jovanovic does quantify the cumulative effect of Houston American's oral misrepresentations to investors, which Respondents overlook entirely in their Motion. (Jovanovic Rebuttal, ¶¶ 58-62.)

Respondents also challenge Jovanovic's description of how volume estimates would affect investors' valuations of Houston American's stock price. Far from being a "conclusory

---

[4] Respondents concede that the market for Houston American's stock was efficient by offering their own event study.

[5] Respondents have repeatedly characterized a Global Hunter report from January 19, 2010, as a corrective disclosure because it "disclosed SK Energy's lower estimate." (Motion, 13.) As discussed above, Global Hunter's analyst reported SK's estimate as being from only 22 of 100 identified leads and prospects, giving investors the false impression that SK Energy's "total potential" estimate was based on only a fraction of all potential reservoirs, a falsehood Terwilliger fed the analyst earlier that month. (*See supra*, Section IV.A.2.)

opinion," as Respondents characterize it, Jovanovic's analysis is grounded in basic economic and financial theory. This is explained in detail in his initial report, which Respondents ignore. (Jovanovic, ¶¶ 22-30.) Citing relevant literature, Jovanovic explains how oil and gas volume estimates are incorporated into a discounted cash flow analysis and overall valuation of the firm. (*Id.*) Houston American's assets are its interests in potentially oil-bearing properties. That Respondents would question the notion that larger volume estimates would translate into higher stock prices betrays a basic intellectual dishonesty.

Finally, Respondents misconstrue the arguments in Jovanovic's rebuttal regarding Petrominerales. In her report, Allen attributes the rise in Houston American's stock price during the relevant period to news about production at the nearby Corcel block, which, she asserts, gave investors more confidence about the CPO-4 block. Jovanovic makes the simple point that good news about the Corcel block would have worked in tandem with Respondents' inflated estimates for the CPO-4 block. (Jovanovic Rebuttal, ¶¶ 8-12.) He also explains that analysts' contemporaneous valuations of the CPO-4 block reflect more than good news about the Corcel block. To demonstrate that point, he hypothesizes how an analyst would value the CPO-4 block if the analyst merely believed that the CPO-4 block was just like the Corcel block. (*Id.*, ¶¶ 13-15.) In that instance, the analyst would value Houston American's interest in the CPO-4 block at less than $1.50 per share. (*Id.*, ¶ 15.) But in fact analysts valued Houston American's interest at nearly $12 per share. (Jovanovic, 11, Fig. 3.) Hope that the CPO-4 block would merely duplicate the Corcel block's success is insufficient to explain the bulk of the value attributed to the CPO-4 block by market analysts. The vast majority of the value is attributable to Respondents' fraudulent estimates.

3. Jovanovic Refutes Allen's Analysis

If for no other reason, Jovanovic's opinions should not be excluded because his event study directly refutes Allen's conclusions. Allen conducts her own event study, and Respondents would use it to undermine the materiality of Respondents' fraudulent estimates—estimates that went directly to the potential value of Houston American's stock. Jovanovic's event study design and his rebuttal report expose deep methodological problems with Allen's event study. For example, she does not control for changes in market volatility, and she selects inappropriate industry indices to control for industry factors. (Jovanovic Rebuttal, ¶¶ 32-45.) Respondents offer no basis for excluding Jovanovic's critique of Allen's event study or other conclusions that lack an adequate quantitative basis. (*See id.*, ¶¶ 18-19 (noting that Allen opines about the materiality of information related to Petrominerales but does not test for statistical significance six of seven dates on which new information about Petrominerales was released).)

C. <u>The Division's Oil and Gas Experts</u>

Respondents tacitly concede—as they must—that the Division's oil and gas experts offer relevant opinions. Indeed, this case hinges on whether Respondents had a reasonable basis for their fraudulent prediction that they might actually extract "1 to 4 billion barrels" of oil from the CPO-4 block. The Division's industry experts' opinions are directly relevant to this issue and helpful in understanding how far Respondents' estimates deviated from available data and industry norms. Respondents' Motion should be denied because they concede the relevance of these opinions and offer no other valid reason to exclude them.

Further, Respondents have *themselves* hired nearly identical experts on the same subject matters. Respondents' experts Wiggins and Abington opine on the science, business, and economics of oil and gas exploration. Indeed, three of the Division's experts are offered solely to *rebut* matters put at issue *by Respondents*. Harrell and Bishop respond to discrete and nonoverlapping matters raised by Wiggins, and Kelley responds to matters raised by Abington.[6] In essence, Respondents argue that they should be permitted to introduce extensive expert testimony on concededly relevant subjects, and the Division should not. While it reserves the right to challenge the significance and credibility of Wiggins' and Abington's opinions, the Division did not move to exclude them wholesale precisely because their opinions are conceivably relevant (a low bar) to matters indisputably at issue in this case. Respondents cannot have it both ways—either expert testimony on the oil and gas industry and the science behind volume estimates is relevant (and thus admissible) or *all* of the parties' experts on these subjects should be excluded.

Finally, Respondents rehash their baseless argument that the Division's oil and gas experts are somehow "inconsistent" with the OIP. This argument should be rejected for the reason discussed in Part IV.A.2, *supra*.

Respondents' other arguments fail for the reasons set forth below.

1. Bishop

Bishop is an experienced and distinguished geologist with decades of experience estimating hydrocarbon volumes and valuing oil and gas assets. He was retained to rebut a portion of Wiggins' report, specifically with respect to the scientific basis and reasonableness of Houston American's grossly inflated and fraudulent estimate that the CPO-4 block contained "recoverable reserves of 1 to 4 billion barrels."

Bishop explains that any hydrocarbon volume estimate must be examined for the reasonableness of both its *inputs* and *outputs*. He explains that Respondents' estimate of "recoverable reserves of 1 to 4 billion barrels" relied on unreasonable inputs—*i.e.*, Respondents'

[6] Respondents' conclusory "redundancy" objection (Motion, 21) should be rejected. They do not identify what portions of the Division's expert reports are allegedly redundant. In fact, the Divisions' rebuttal experts address discrete matters raised by each of Respondents' experts.

undisclosed and unreasonable assumption that *every* factor affecting the overall estimate would be 100% favorable in all regards. (*E.g.*, Bishop, 6.) Bishop further explains that it is standard industry practice to test the *output* of any hydrocarbon volume estimate for overall reasonableness—something Wiggins did not do. In this case, the output—"recoverable reserves of 1 to 4 billion barrels"—is facially unreasonable when compared to average field sizes, sizes of recent discoveries, total oil discovered, and total undiscovered oil in the Llanos basin. (*Id.* at 12-15.)

Respondents do not challenge Bishop's qualifications or methodology. They instead take aim at two narrow slivers of his report, neither of which should be excluded (let alone his entire report). First, they complain that Bishop makes the commonsense observation that a reasonable investor would want to know that Respondents' estimate of "1 to 4 billion barrels" rested on patently unreasonable assumptions, had an infinitesimal "chance of success," and was not merely an "unrisked" estimate, as Wiggins contends. (Motion, 15-16; Bishop, 5.) Contrary to Wiggins, Bishop explained what the term "unrisked" means in the oil and gas industry and why it is important:

> Perhaps the most straightforward analogy is from baseball. All batters have a theoretical chance to bat 1.000 in a season, but we wouldn't say that 1.000 is their "unrisked" batting average. That just wouldn't be in line with reality. The "risked" batting average is one that takes into account the probability that the batter might play poorly, maybe so poorly that he loses his job. Contrast that to the "unrisked" estimate of his batting average, which assumes the player will remain healthy and in the lineup—but not that he'll get a hit every time he steps up to the plate.

The substance of Bishop's opinion regarding the term "unrisked" is plainly within his expertise and directly rebuts Wiggins report.

Second, seizing on what is obviously a typo, Respondents proclaim that Bishop's report "is simply an attack on the reasonableness of SK Energy's estimates[.]" (Motion, 16.)

Respondents' refer to a single heading in Bishop's report that inadvertently referred to "SK" rather than "Houston American." (Bishop Rebuttal, 12.) The substance of the section following that heading (along with the rest of Bishop's report) plainly addresses the reasonableness of *Respondents'* estimate of "recoverable reserves of 1 to 4 billion barrels." Respondents attempt to capitalize on an obvious typo should be rejected.

2. Kelley

Kelley is an energy executive with decades of experience providing valuations of oil and gas assets. Among other things, Kelley demonstrates that Respondents' estimate of "recoverable reserves of 1 to 4 billion barrels" grossly overstated the CPO-4 block's potential and implicitly understated the chance of actually realizing such astronomical recoveries. His rebuttal opinions are directed to Abington, a CPA with little industry experience, who purports to opine on the soundness of Houston American's business strategy and the adequacy of its disclosures.

Respondents do not challenge Kelley's qualifications or expertise. Nor do they contend that his opinions are somehow irrelevant. For these reasons alone, Respondents' challenge should be rejected.

Respondents primarily contend that Kelley failed to take into consideration various alleged "facts" (many of which are disputed or mischaracterized by Respondents). (Motion, 16-17.) Even if this were true, such quibbles go to the weight of Kelley's opinions, not their admissibility. *See United States v. 14.38 Acres of Land More of Less Situated in Leflore County, Mississippi*, 80 F.3d 1074, 1077 (5th Cir. 1996) ("questions relating to the bases and sources of an expert's opinion affect the weight to be assigned that opinion rather than its admissibility"); *see also Daubert*, 509 U.S. at 596 ("[v]igorous cross-examination, presentation of contrary evidence, and careful instruction on the burden of proof are the traditional and appropriate means of attacking shaky but admissible evidence."); *Pipitone v. Biomatrix, Inc.*, 288 F.3d 239, 250

(5th Cir. 2002) (same). Respondents are free to attempt to undermine Kelley's opinions with facts they think he failed to address. But they are not entitled to the exclusion of admittedly relevant expert testimony.

Respondents next argue that Kelley's opinions are "unscientific" on the ground that he does not cite "empirical research." (Motion, 17-18.) But *Daubert*—even if it applied in this proceeding—is not so rigid. As the Fifth Circuit has explained, when considering non-scientific expert opinions like Kelley's, "other indicia of reliability are considered under *Daubert*, including professional experience, education, training, and observations." *United States v. Simmons*, 470 F.3d 1115, 1123 (5th Cir. 2006) (citing *Pipitone v. Biomatrix, Inc.*, 288 F.3d 239, 247 (5th Cir. 2002)); *see also Kuhmo Tire Co. v. Carmichael*, 526 U.S. 137, 150 (1999) ("the relevant reliability concerns [of expert testimony] may focus upon personal knowledge or experience."). In such cases, courts have "broad discretion to determine 'whether Daubert's specific factors are, or are not, reasonable measures of reliability in a particular case[.]'" *Id.* (citing *Kuhmo Tire Co.*, 526 U.S. at 153). Respondents' objection that Kelley's methodology is "unscientific" has no merit.

Respondents' remaining arguments simply rehash their view of the merits. They plainly disagree with Kelley's opinions,[7] but that is no reason to exclude relevant and reliable expert testimony.

---

[7] Respondents apparently agree that "any competent oil and gas professional would know" that the probability of recovering "1 to 4 billion barrels" on the CPO-4 block was "effectively zero." (Motion, 18.) While they characterize this observation as "poisonous" to the Division's case, it is in fact damning of Respondents' conduct. Terwilliger held himself out as an experienced and competent oil and gas executive, yet made extravagant misrepresentations to investors that Respondents appear to agree had "effectively zero" chance of success. While sophisticated investors *might* have seen through Respondents' fraud, this in no way excuses their fraudulent and material misrepresentations.

3. Harrell

Harrell is a distinguished petroleum engineer, prolific speaker and author on petroleum engineering, and a former long-time executive of a preeminent petroleum engineering firm, Ryder Scott. Based on his extensive and unchallenged expertise, Harrell rebuts three of Wiggins' opinions, concluding that:

1. 500 BAF was not a reasonable recovery factor in the western Llanos basin area.

2. Use of the term "recoverable reserves" in the 2009 Investor Presentation was misleading and deviated from industry standards.

3. The value metric of $20 per barrel of recoverable oil was not reasonable when evaluating oil resources in the Llanos basin.

Respondents *do not challenge* Harrell's first opinion. They instead focus on his second and third opinions. As with the Division's other oil and gas experts, Respondents do not contend that Harrell's opinions are irrelevant, and they do not challenge his qualifications or expertise.

Respondents appear to fault Harrell for not opining on one of the ultimate legal issues in this case—*i.e.*, whether Respondents' misstatements and omissions were material. (Motion, 19.) Of course, it would be improper for an expert to reach a *legal* conclusion. *See, e.g., Matthews v. Ashland Chem., Inc.*, 770 F.2d 1303, 1311 (5th Cir. 1985) (trial court properly precluded an expert from giving a legal conclusion). Respondents also miss the point of Harrell's opinions, which (i) simply respond to matters raised by Wiggins and (ii) demonstrate, as a factual matter and as a matter of industry practice, that there was no reasonable basis for Respondents' astronomical estimate of "recoverable reserves of 1 to 4 billion barrels."

As with Kelley, Respondents also contend that Harrell failed to consider certain information and rehash their various arguments on the merits. These are not bases to exclude the concededly relevant rebuttal opinions of a qualified expert.

4. De Zoeten

De Zoeten is the Division's expert on hydrocarbon volume estimation. Like Wiggins, he provides background on industry accepted methods for hydrocarbon volume estimation and industry accepted terminology. He further provides an independent evaluation of Respondents' estimate of "recoverable reserves of 1 to 4 billion barrels" and criticizes, in rebuttal, Wiggins' analysis.

As with the Division's other oil and gas experts, Respondents do not (because they cannot) assail the relevance of de Zoeten's opinions. Nor do they challenge his qualifications or expertise. They instead mount four tepid and conclusory attacks on a few portions of de Zoeten's report, none of which justify excluding those portions of his report that are addressed, much less the entirety of his affirmative and rebuttal reports.

Respondents first rehash their argument that Respondents' misuse of the industry term "reserves"—which they appear to concede *was* misused—was allegedly not misleading. (Motion, 20.) This argument is just that—an argument that Respondents' view of the evidence is the correct view of the evidence. Their disagreement with the Division's case, and de Zoeten's opinions, is not a reason to exclude otherwise relevant expert testimony. Further, to the extent Respondents think that de Zoeten overlooked certain facts, they have fodder for cross-examination, not a reason to exclude any portion of de Zoeten's reports.[8] *See, e.g., 14.38 Acres of Land*, 80 F.3d at 1077.

---

[8] Respondents also say that "this case does not involve SEC-filed 'reporting'" and conclude, without analysis or citation to authority, that this incorrect observation renders de Zoeten's opinions "not reliable or helpful." (Motion, 20.) This is a red herring. As explained in the Division's opposition to Respondents' motion for summary disposition, the Division does not contend that Respondents were required to use only the industry terms permitted in SEC filings (*i.e.*, proved reserves). Rather, the Division contends (and de Zoeten confirms) that the terms "reserves" and "resources" have settled and widely understood meanings in the oil and gas industry, and misuse of the terms is misleading. (*See, e.g.,* Division's Opp'n to Resps. Mot. for Summ. Disp., 26.)

Second, Respondents argue that their own definition of "leads and prospects," which appears nowhere in the November 2009 Investor Presentation, somehow trumps accepted industry definitions. (Motion, 20-21.) This is nothing more than argument and disagreement with the Division's expert. It is not a basis to exclude de Zoeten's opinions regarding industry usage of those terms.[9]

Respondents next mischaracterize a single paragraph of de Zoeten's report and, in a single sentence, say that he "speculates" about the potential for investor confusion. (Motion, 21.) To the contrary, de Zoeten merely makes the commonsense observation that misusing well-understood and accepted terminology has the capacity to confuse. Respondents offer no analysis or authority for why this justifies excluding any portion of de Zoeten's reports.

Finally, Respondents claim (in two sentences) that the entirety of de Zoeten's reports should be thrown out, allegedly for lack of "an adequate scientific or factual basis." They cite a single line of de Zoeten's report stating that he did not reinterpret seismic or well log data underlying SK Energy's estimates but did consider numerous other materials. (De Zoeten, ¶ 12.) Respondents do not attempt to explain why this matters or renders any aspect of de Zoeten's report suspect, nor did their own expert's rebuttal report take issue with the "scientific or factual basis" of de Zoeten's work. Indeed, *Respondents' own expert* does not appear to have considered the data that Respondents now claim is fatal to de Zoeten's report. (Wiggins, ¶ 52.)

Respondents' scattershot quibbles with de Zoeten's reports should be rejected.

V. **CONCLUSION**

Respondents' motion should be denied.

---

[9] Without analysis or citation to authority, Respondents fault de Zoeten for "provid[ing] no scientific analysis of how companies actually use PRMS definitions[.]" (Motion, 21.) This argument is a nonsensical outgrowth of Respondents' position that they were free to misuse accepted industry terminology because they claim others did the same thing. The fact that others may have misused industry terminology—even if true—in no way excuses Respondents' fraud, much less does it obligate the Division's expert to analyze alleged misuse by other companies.

Dated: December 30, 2014

Respectfully submitted,

Melissa Armstrong (202) 551-4724
D. Mark Cave (202) 551-4694
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

CERTIFICATION OF WORD COUNT

I, Melissa Armstrong, Counsel for the Division of Enforcement, certify that the word count of this brief is less than 7,000 words.

Dated: December 30, 2014

Melissa Armstrong

[redacted]

8-K 1 form8k.htm HOUSTON AMERICAN ENERGY CORP 8-K 10-14-2009

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): October 14, 2009

HOUSTON AMERICAN ENERGY CORP.

(Exact name of registrant as specified in Charter)

Delaware	1-32955	[redacted]
(State or other jurisdiction of incorporation or organization)	(Commission File No.)	(IRS Employer Identification No.)

[redacted]

(Address of Principal Executive Offices)(Zip Code)

[redacted]

(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-026

Item 1.01 Entry Into a Material Definitive Agreement

On October 16, 2009, Houston American Energy Corp (the "Company") issued a press release announcing the finalization and effectiveness of a Farmout Agreement and Joint Operating Agreement with SK Energy Co. LTD pursuant to which the Company will pay 12.5% of certain seismic acquisition costs and 25% of certain other past and future costs relating to the CPO 4 Contract for Exploration and Production relating to the approximately 345,452 acre CPO 4 Block in the Llanos Basin of Colombia and for which the Company will receive a 25% interest in the CPO 4 Contract.

The assignment to the Company of its rights under the CPO 4 Contract, and the effectiveness of the Farmout Agreement and Joint Operating Agreement, were subject to approval of such assignment by the National Hydrocarbon Agency (the "ANH") in Colombia. On October 14, 2009, the Company was notified that the ANH had approved the assignment contemplated by the Farmout Agreement and the Joint Operating Agreement. As a result, the Joint Operating Agreement became effective, retroactive to May 31, 2009. The Joint Operating Agreement supersedes and terminates the Farmout Agreement.

Under the terms of the Joint Operating Agreement, SK Energy Co. LTD will act as operator for the project area covered by the CPO 4 Contract, subject to the supervision and direction of an Operating Committee on which each participant, including the Company, shall have a representative with voting rights based on each participant's percentage interest in the CPO 4 Contract. The Joint Operating Agreement shall continue for the term of the CPO 4 Contract and thereafter until all wells have been plugged and abandoned or otherwise disposed of.

The press release is attached to this Current Report on Form 8-K as Exhibit 99.1.

Item 9.01. Financial Statements and Exhibits.

(d) Exhibits

99.1 Press release dated October 16, 2009

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: October 16, 2009

By: /s/ James J. Jacobs
James J. Jacobs,
Chief Financial Officer

EX-99.1 2 ex99_1.htm EXHIBIT 99.1

Exhibit 99.1

HOUSTON AMERICAN ENERGY CORP

801 Travis, Suite 1425, Houston, Texas 77002
(713) 222-6966 Fax. (713) 222-6440

Houston American Energy Corp Announces Completion of New Farmout in Colombia

Houston, Texas – October 16, 2009 - Houston American Energy Corp (Nasdaq: HUSA) today announced that it has finalized a Farmout Agreement and Joint Operating Agreement with SK Energy Co. LTD. ("SK") for the right to earn an undivided twenty five percent (25.0%) of the rights to the CPO 4 Contract for Exploration and Production (the "CPO 4 Contract") which covers the CPO 4 Block located in the Western Llanos Basin in the Republic of Colombia. The CPO 4 Contract was entered into between the National Hydrocarbon Agency ("ANH") in Colombia and SK on December 18, 2008. SK is a leading Korean multinational conglomerate with oil production, development and exploration projects as well as integrated gas development projects around the world.

The CPO 4 Block consists of 345,452 net acres and contains over 100 identified leads or prospects which will be detailed during the first exploration phase of the concession contract with the ANH. The Block is located along the highly productive western margin of the Llanos Basin and is adjacent to Apiay field operated by Ecopetrol, which is estimated to have in excess of 610 million barrels of 25-33 API oil in place. On the CPO 4 Block's other side lays the Corcel Block where well rates of 2,000 to 10,000 barrels of production per day have been announced for recent discoveries. In addition, the CPO 4 Block is located nearby oil and gas pipeline infrastructure. Potentially productive reservoirs include the Mirador, Une, C-7, C-9 and Guadalupe formations.

Under the Farmout Agreement, Houston American has 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 Houston American will receive a 25.0% interest in the CPO 4 Block.

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. Houston American's costs for the entire Phase 1 Work Program are estimated to total approximately $15,000,000 over the next three years.

"We are excited that we are able to participate with SK in the CPO 4 Block and believe that the Contract area provides a significant growth opportunity for Houston American. The CPO 4 block is located in a highly prospective area having multiple play objectives with extremely large reserve potential. Partnering with SK creates a solid partnership bringing geotechnical, operational, commercial, and marketing strengths to the table. This new asset, in addition to our current portfolio, strengthens our upside drilling opportunity base in our main focus area for years to come." said John F. Terwilliger, CEO, Houston American Energy Corp.

About Houston American Energy Corp

Based in Houston, Texas, Houston American Energy Corp is an independent energy company with interests in oil and natural gas wells and prospects. The company's business strategy includes a property mix of producing and non-producing assets with a focus on Texas, Louisiana and Colombia.

Forward-Looking Statements

The information in this release includes certain forward-looking statements that are based on assumptions that in the future may prove not to have been accurate, including estimated costs of, and time to complete, the Phase 1 Work Program and potential production, revenues, reserves, growth or profitability Houston American may realize from the CPO 4 Contract. Those statements, and Houston American Energy Corp, are subject to a number of risks, including production variances from expectations, volatility of product prices, the capital expenditures required to fund its operations, environmental risks, competition, government regulation, and the ability of the company to implement its business strategy. These and other risks are described in the company's documents and reports filed from time to time with the Securities and Exchange Commission, which reports are available from the company and the United States Securities and Exchange Commission.

For additional information, view the company's website at www.houstonamericanenergy.com or contact the Houston American Energy Corp at (713) 222-6966.

EX-99.1 2 ex99_

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

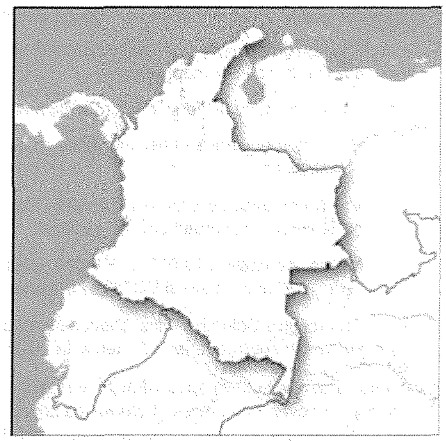
Business Strategy

- 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

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

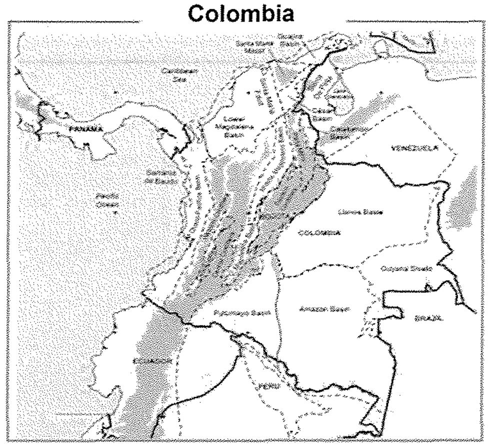
HOUSTON AMERICAN ENERGY CORP

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

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

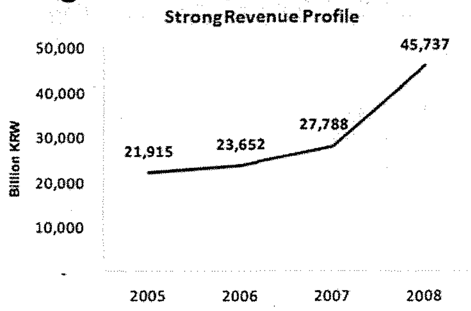
E&P Business

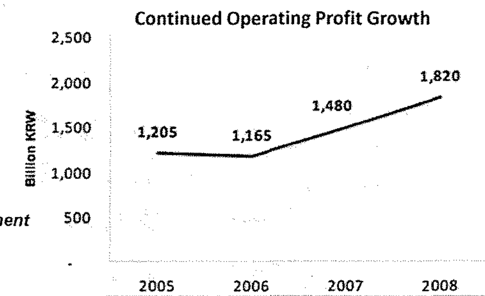
SK Energy Participates in 34 oil and gas blocks and four LNG projects in 17 countries, with proved oil equivalent reserves of 520 million barrels (BOE).

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.

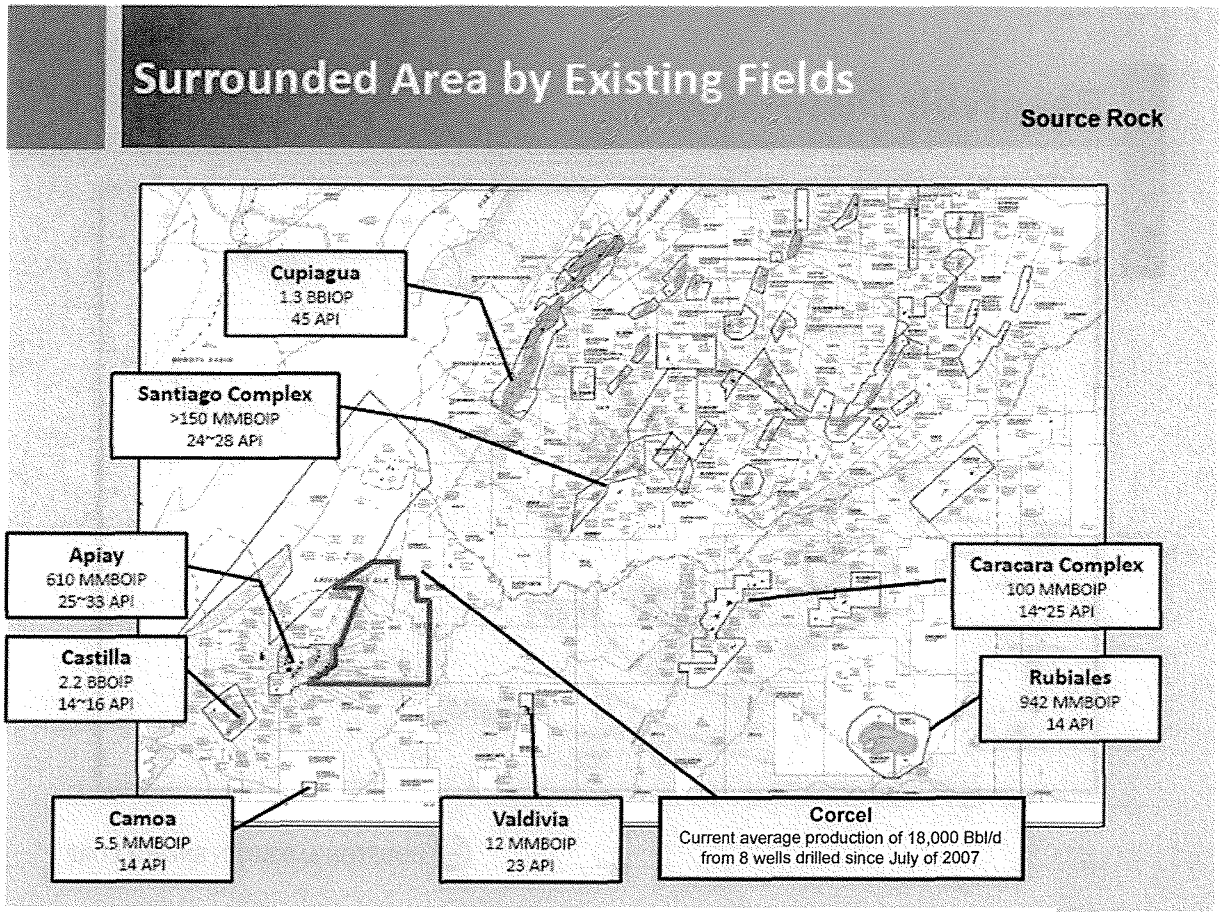




Source: SK Energy Presentation
1 USD = 1189 KRW

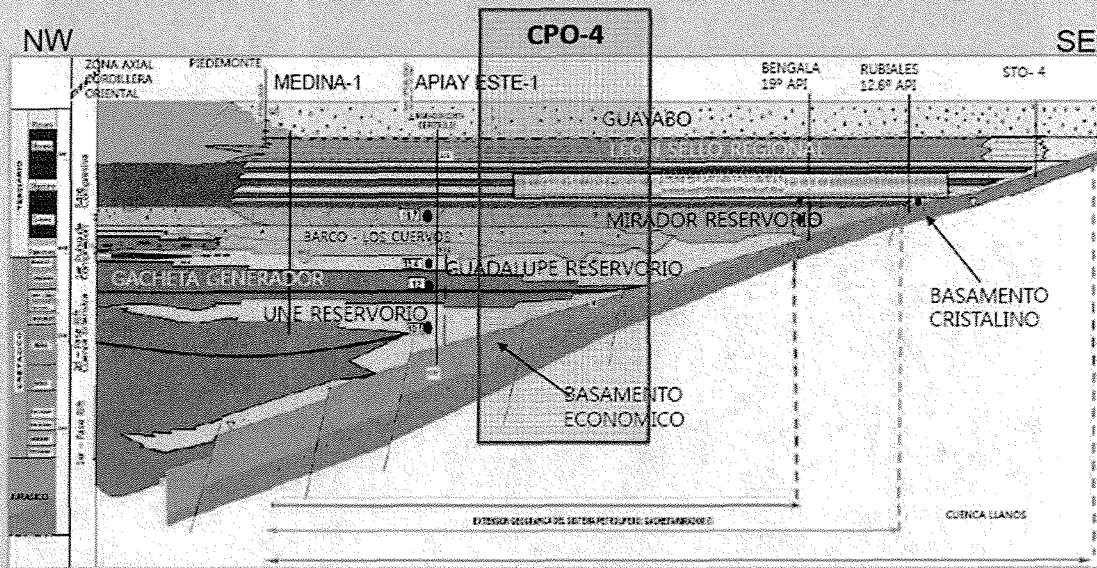
SK Energy - Farmout Agreement and JOA - CPO 4

- 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

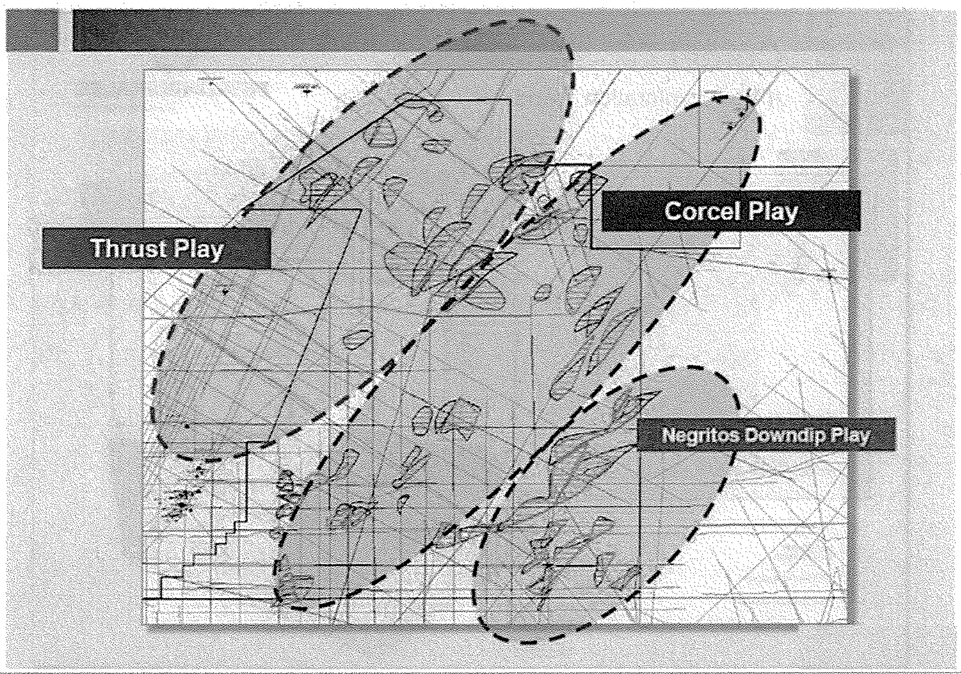

Surrounded Area by Existing Fields
Source Rock
Cupiagua
1.3 BBIOP
45 API
Santiago Complex
>150 MMBOIP
24~28 API
Apiay
610 MMBOIP
25~33 API
Castilla
2.2 BBOIP
14~16 API
Caracara Complex
100 MMBOIP
14~25 API
Rubiales
942 MMBOIP
14 API
Camoa
5.5 MMBOIP
14 API
Valdivia
12 MMBOIP
23 API
Corcel
Current average production of 18,000 Bbl/d
from 8 wells drilled since July of 2007

Multi Reservoir

Reservoir Rock

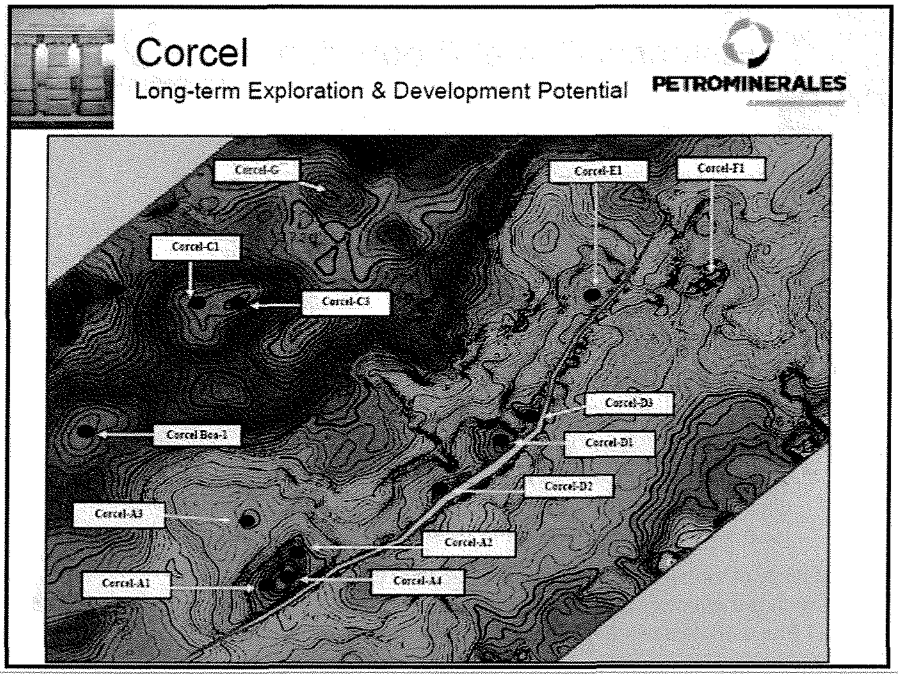


Multiple Reservoir Plays



HOUSTON AMERICAN ENERGY CORP

Corcel Overview *(continued)*



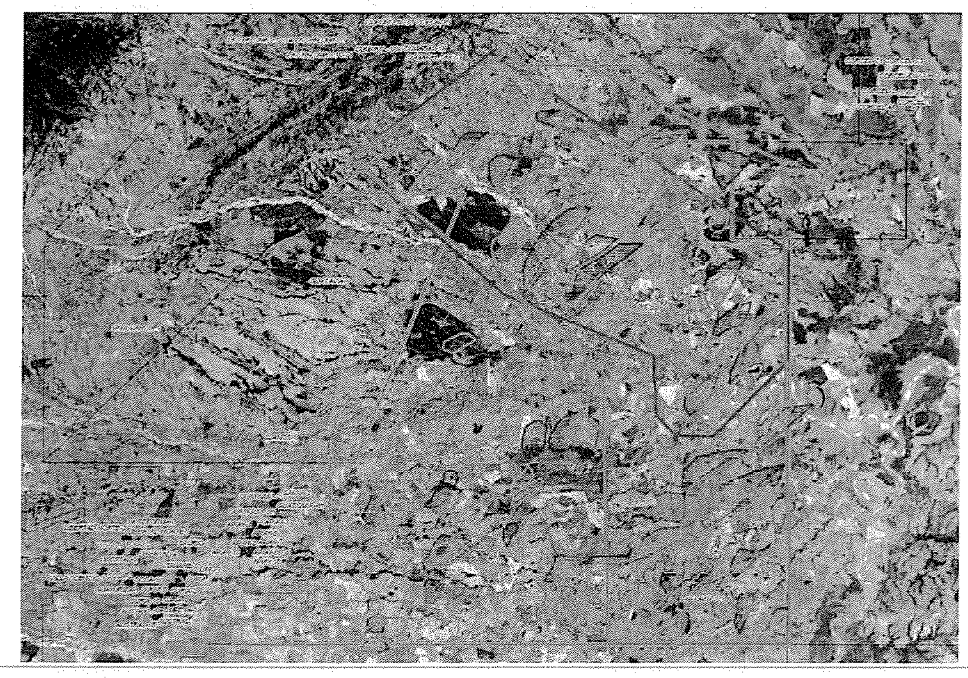
Source: Petrominerales.com

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

Land Satellite Image with Structures and 3D Areas

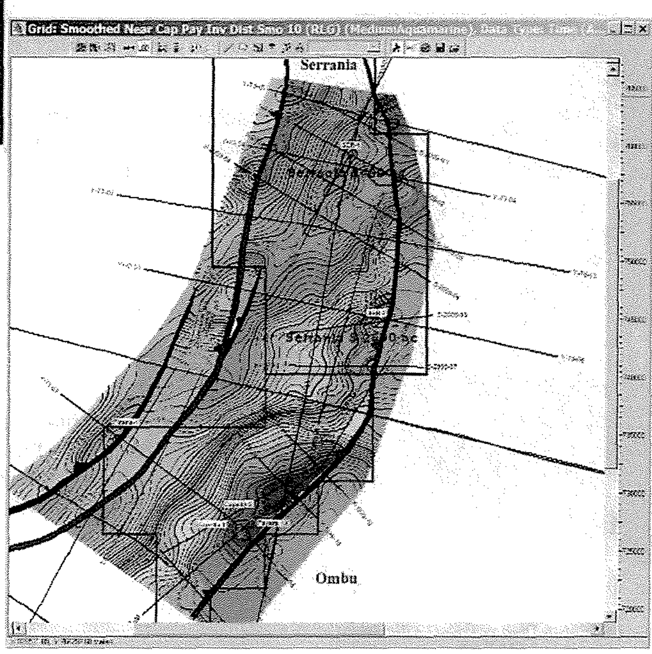


HOUSTON AMERICAN ENERGY CORP

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

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

Hupecol Operated Assets

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

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.

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.

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.

HOUSTON AMERICAN ENERGY CORP.

801 Travis Suite 1425, Houston, Texas 77002
(713) 222-6966 Fax. (713) 222-6440

1/8/10

TO: Phil McPherson

FROM: John F. Terwilliger

Phil:

This is some internal SK work on the reserves. In this example they used 150 BO per acre foot recoveries and everyone in the Llanos uses 500 BO per acre foot. If you adjust to accepted recoveries, this example is 500 divided by 150 or 3.33 x 974,000 or 3,243,420 BO recoverable. It is only from the attached 22 leads. It allocates recovery over the sands deemed present and potential thickness of these sands based on their model.

Perhaps this helps.

Best,

John

PENGAD 800-631-6989
EXHIBIT
98
3-15-12 RN

PLAINTIFF'S EXHIBIT
PX-081

Total Potential

As mentioned SK is using 150 barrels per acre foot, which in our opinion should be closer to 400 to 500 barrels per acre foot

Lead	Acres C7	Acres Mirador	Acres Une	Unit R.R.	Net Pay (C9+M+U)	Recoverable Reserve (MMBO)	Remark
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	398	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

PMP00005797

GLOBAL HUNTER SECURITIES

Global Hunter Securities, LLC
Institutional Sales & Trading: (949) 274-8050
Research: (949) 274-8052
660 Newport Center Dr. Suite 950
Newport Beach, CA 92660
www.ghsecurities.com

January 19, 2010
Company Update
Energy: Exploration & Production

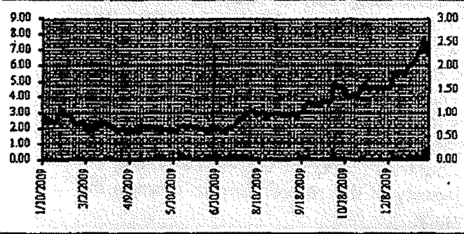
Analyst: Phil McPherson
pmcpherson@ghsecurities.com
Direct: (949) 274-8056

Houston American Energy
(Nasdaq: HUSA)

Important Disclosure: Global Hunter Securities, LLC acted as lead placement agent in a registered direct offering for Houston American Energy completed on December 4, 2009. See additional disclosures at the end of this report.

Rating:	**Buy**
Price Target:	**$14.00**
Price Target Metrics: DNAV - Discounted Net Asset Value	
Closing Price:	**$6.70**
Diluted Shares:	31.0MM
Float:	19MM
Short Interest:	105k
Average Daily Volume:	75k
52-week Range:	$1.58 - $8.01
Market Cap:	**$208MM**
Cash & Investments(E):	$17MM
Debt	$0MM
Enterprise Value:	$191MM
Net Cash/Sh:	$0.55
Proved Reserves (MBOE)	217

PRICE CHART



ESTIMATES - US $ (MMs except multiples & EPS)

		2009 Prior	2009 New
Revenues			
Q1	Mar	$0.4	$0.4 A
Q2	Jun	$1.1	$1.1 A
Q3	Sep	$2.3	$2.4 A
Q4	Dec	$3.3	$3.3 E
FY		$7.1	$7.3 E
EV/Sales			26.3x
EPS			
Q1	Mar	($0.05)	($0.05) A
Q2	Jun	$0.00	$0.00 A
Q3	Sep	$0.01	$0.02 A
Q4	Dec	$0.02	$0.01 E
FY		($0.02)	($0.03) E
P/E			Neg
CFPS			
Q1	Mar	($0.03)	($0.03) A
Q2	Jun	$0.00	$0.00 A
Q3	Sep	$0.05	$0.05 A
Q4	Dec	$0.07	$0.05 E
FY		$0.11	$0.08 E
P/E			84.78x
EBITDA			
Q1	Mar	($1.0)	($1.0) A
Q2	Jun	($0.6)	($0.6) A
Q3	Sep	$1.4	$1.0 A
Q4	Dec	$2.3	$1.9 E
FY		$2.8	$2.0 E
EV/EBITDA			94.1x

Event: Investor's warming up to Colombia

Summary: Houston American Energy's (HUSA) stock has started 2010 strong. We believe investors are just beginning to understand the impact of recent property acquisitions that are in close proximity to high impact exploration success by other operators. With more than $17MM in cash on the balance sheet and zero debt, HUSA's 2010 CAPEX budget is fully funded with two exploration wells targeted for late 1Q10 and two additional exploration wells targeted for late 4Q10. We are therefore raising our price target from $7.00 to $14.00 while reiterating our Buy rating.

Highlights

Foreign direct investment up in 2009. Despite a global recession foreign direct investment in Colombia was $4.9 billion in 2009, up from $4.6 billion 2008. This stability comes as a result of the current government's effort to reign in terrorism that had plagued the country in past decades. In 2009, only 131 kidnappings occurred in Colombia, down from a 3,572 in 2000. In 2010, both pipeline capacity and refining capacity are set for major expansion to keep pace with recent exploration success.

Base production of 1,000 bopd. HUSA is currently producing 1,000 bopd net. This is an important milestone for a small cap E&P company. This base of production provides ample free cash flow combined with nearly $17MM in cash on the balance sheet to self fund the company's next 18 months of CAPEX.

Ombu-leevable. Last year Emerald Energy was bought by Sinochem for $802MM following its discovery of the Capella heavy oil field on the Ombu exploration block. HUSA's Serrania block shares its southern border with the Capella field. HUSA and its partners will drill the first of two exploration wells in late 1Q10, targeting the North Capella structure which could contain **1 billion barrels of oil in place.**

Who needs friends with neighbors like these? Petrominerales has announced another significant discovery, the Guatiquia, a well that had initial production of 11,500 bopd. This is in addition to the Corcel discovery which currently has 10 wells producing in excess of 20,000 bopd. HUSA's CPO-4 block lies two miles west and adjacent to these discoveries. SK Energy and HUSA are in the process of shooting 250 square kilometers of high resolution 3D seismic at CPO-4, with the first of two exploration wells to begin at the end of 2010 or the beginning of 2011. SK Energy has identified **22 prospects with unrisked oil exposure of 1 billion barrels.**

Maintain Buy rating while raising price target to $14.00. HUSA's stock has outperformed to start the year as investors begin to grasp the amount of potential oil this small company has access to over the next 12 months. With the company's current production tracking ahead of our estimates and the first of two exploration wells to begin within the next 90 days, we believe any pull back from this recent move presents an ideal entry point for new and existing investors. We are therefore reiterating our Buy rating while raising our price target from $7.00 to $14.00 as we fully implement the impact that the Serrania and CPO-4 blocks could have if exploration efforts are successful into our Discounted Net Asset Value (DNAV)

***Company Description:** Houston American Energy is a Houston Based E&P company with operations focused in the Llanos Basin of Columbia and Northeast Louisiana. The company was founded in 2001 and has three employees.*

PENGAD 800-631-6989
EXHIBIT
31
HO-11507

SEE ANALYST CERTIFICATION AND OTHER IMPORTANT DISCLOSURES AT THE END OF THIS REPORT

PLAINTIFF'S EXHIBIT
PX-086

GRE00117874

Houston American's (HUSA) current production of approximately 1,000 barrels per day, comes from seven blocks in the Llanos basin. These blocks are operated by a consortium lead by Hupecol LLC. Hupecol is a private exploration company based out of Dallas, Texas which has been operating in Colombia for more than a decade. Currently the consortium has put these assets up for sale, hiring Scotia Waterous to market them. Timing on the asset sale has been pushed back several times, first due to higher oil prices and now due to robust success on recent wells. The group recently drilled two wells, one of which had initial production rate in excess of 3,000 barrels per day with the second having initial production rates close to 1,000 barrels per day. Originally the assets where put up for sale due to the location of the seven leases. In some cases these leases are several hundred miles apart from one another. Thus, trying to expand infrastructure to assist in full development is viewed as costly. Historically, Hupecol has been an exploration company. Once the initial phase of exploration has yielded success they would rather sell the assets to a larger E&P company to develop. Such was the case in 2008 when they sold the Cara Cara concession to Cepsa for $920MM. HUSA had a 1.2% interest in the Cara Cara sale and netted $10.5MM after taxes.

While we believe the sale of these assets could net HUSA $25MM - $50MM, the timing of a sale seems to grow more uncertain and perhaps if oil prices continue to climb becomes less likely. Still this production provides a nice foundation for the company to grow from. Utilizing a $70.00 oil price deck, HUSA should generate approximately $5MM per quarter in revenue in 2010 and have free cash flow of approximately $3MM per quarter. This cash flow coupled with a recent equity raise (3.9MM shares at $4.68 per share) gives the company approximately $17MM in cash on the balance sheet, which fully funds its 2010 CAPEX budget of $15MM. We estimate the company's 18 month CAPEX to be approximately $20MM. Obviously success or failure on its two new exploration blocks could change this CAPEX amount but should not outstrip current cash and estimated cash flow.

In 1Q10, HUSA and its partners will drill the first of two exploration wells at the Serrania block. HUSA has a 12.5% working interest in the Serrania block that encompasses 110,000 acres, with Shoana and Hupecol owning the remaining interest. This block sits directly north of the Ombu block. In July of 2008 the Capella No. 1 well was drilled to total depth of 3,802' and discovered 10 degree API oil. Two intervals where encountered in the Eocene aged Mirador formation. The upper Mirador flow tested at **85** barrels of oil per day (bopd), the lower Mirador flowed at **155 bopd**. The operator at the time was Emerald Energy a London based E&P Company. The company then drilled five additional wells to delineate the extension of the discovery. The Capella No. 2 was drilled one mile southwest of the No. 1 to 3,550' and encountered two intervals and tested at a combined rate of **345 bopd**. The Capella No. 3 was a deviated well adjacent to the No. 1 and tested **135 bopd** from the lower Mirador but the upper Mirador was not tested. The Capella No. 4 was drilled 1.2 miles southwest of the No. 1 but was not tested due to a poor cementing job. The Capella No. 5 was drilled 2.2 miles north east from the No. 1 and tested **108 bopd**. The Cappella No. 6 was drilled 2.75 miles southwest of the No. 1 well and encountered 80 feet of upper Mirador and 175 feet of lower Mirador. This well flow tested a combined **295 bopd** and was by-far the best of the six wells drilled.

Emerald began an extended production test of the six wells in February 2009. Production started at 400 bopd and increased to 700 bopd by March before being suspended due to marketing limitations. At this point oil was being trucked out and sold directly to local industrial users. However, it is expected that eventually this oil will be delivered to existing pipelines following blending with higher grade oils and or upgrading of the heavy oil. In June of 2009 Sinochem one of the four state owned Chinese oil companies made an unsolicited offer to buy Emerald Energy for 532MM Euro's or approximately $802MM.

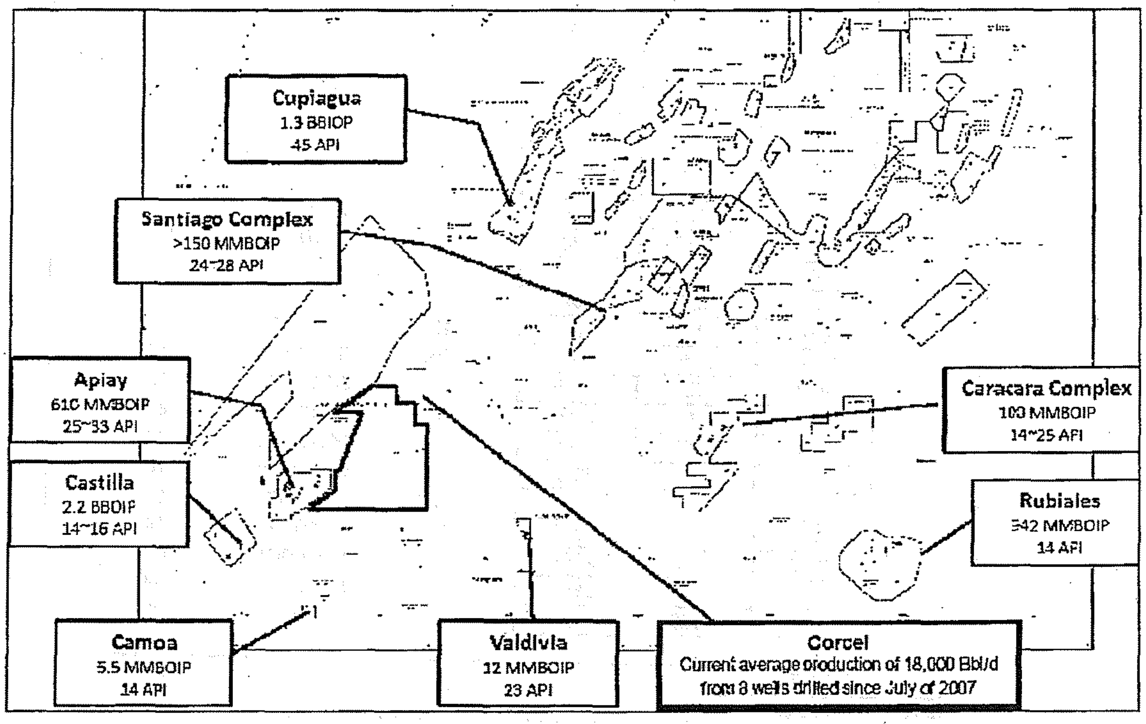
Before the asset sale, Emerald had contracted Netherland Sewell & Associates (NSA), one of the top quartile reservoir engineers in the United States to provide a third party assessment of the Capella heavy oil discovery. NSA only had six well bores from which to extrapolate data, of which one well bore had not been cemented properly, therefore had zero production data. These six well bores also only encompassed 3,500 of the 22,000 acres that the seismic data estimates is the boundaries of the Capella field. NSA assigned original oil in place (OOIP) figure of 245MM barrels on the 3,500 acres and 1.1 billion barrels in place on the entire 22,000 acre structure. Oil in place is only the first variable when assessing reserves. The next stage is the percentage recoverable in the field. Given the limited production data, coupled with the fact that this is heavy oil, NSA only assigned an 11% recovery factor. However, this is based upon only primary reserve recovery without the assistance of artificial lifts or the steaming of the formation. As a comparison in the United States it is not uncommon to recover 15% in primary recovery and then 20% in secondary recovery methods. Additionally, there are other heavy oil operators in the Llanos Basin of Colombia touting technology that can recover 50%+ of the OOIP in heavy oil fields. **The point being that given the limited number of wells and data, NSA still assigned over 1 billion barrels of OOIP for the Capella discovery.**

GRE00117876

The second new exploration concession that HUSA recently acquired is the CPO-4 block. HUSA was assigned a 25% direct working interest in this block by SK Energy in December of 2009. SK Energy is the energy division of the SK Group, South Korea's largest diversified industrial company. SK Energy was awarded 100% working interest in the CPO-4 block in the 2009 Colombian licensing round. To win the block SK Energy made an aggressive bid on two counts. First they committed to a $50MM work program and second they offered Colombia a 33% royalty on the block. Standard royalty rate in Colombia is a sliding scale that starts at 8% for fields producing less than 5,000 bopd and escalates to 23% for fields producing in excess of 25,000 bopd. From this aggressive bid one would infer that SK Energy is extremely excited and confident in regards to the amount of oil present on the block.

The CPO-4 block is over 350,000 acres in size. It sits in close proximity to some of Colombia's largest oil fields. The following is a map of those fields and CPO-4 outlined in red.

Exhibit 2
CPO-4 Block (25% Working Interest) & Surrounding Fields

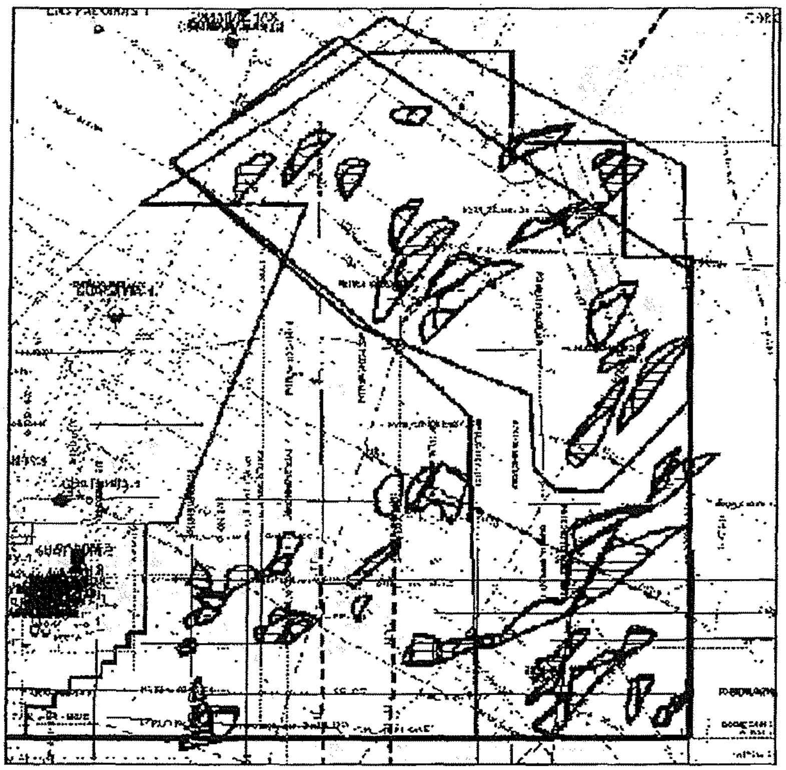


Source: Company data, Global Hunter Securities, LLC

The following graph shows the proposed boundary of the high resolution 3D seismic survey. The purple outlines are prospects with potential C7 sands, the green outlines are prospects with potential Mirador sands and the red circles are prospects with potential Une sands. Several prospects have the potential to contain all three sands. The first two wells will most likely be drilled at the end of 2010 or early 2011. Part of SK Energy's work commitment to the Colombian government calls for two exploration wells drilled to the basement of the basin. The basement is the technical term for a basin's limit on hydrocarbon bearing sands. These wells will be approximately 14,000 feet deep and costs approximately $10MM each.

Exhibit 4

CPO-4 Block (25% Working Interest) – 250 Square Kilometer 3D Seismic Shoot in Blue Outline



Source: Company data, Global Hunter Securities, LLC

GRE00117880

Exhibit 6
Discounted Net Asset Value (DNAV)

Houston American Energy (HUSA) Discounted Net Asset Value (DNAV)						January-10
Reserves	Oil (BBL)	Gas (MCF)	PV-10 Value	Discount Factor	Discounted Value	Discounted Per Share Value
Proved Developed	213	19	3,151	0%	$ 3,151	$ 0.10
Proved Undeveloped	-	-	-	0%	$ -	$ -
Total Proved Reserves	213	19	3,151	0%	$ 3,151	$ 0.10
Other Assets			482,438	0%	482,438	$ 15.56
Net Working Capital					17,000	$ 0.55
Debt					-	$ -
Total Discounted Net Asset Value						**$ 16.21**
Outstanding Shares			**31,000**			

Other Assets	Net Locations	EUR-MBOE	Per BOE	Value	Discount	DNAV	Per Share
2009 Reserve Additions	1	1,500	$ 15.00	22,500	0%	22,500	$ 0.73
Las Garzas Field - 75 Locations	9.375	1,000	$ 15.00	140,625	90%	14,063	$ 0.45
Leona Field - 25 Locations	3.125	2,000	$ 15.00	93,750	90%	9,375	$ 0.30
Dorotea Field - 20 Locations	3.75	2,000	$ 15.00	112,500	90%	11,250	$ 0.36
Cabion Field - 12 Locations	1.5	1,000	$ 15.00	22,500	90%	2,250	$ 0.07
Serrania Block - Ombu Extension	1	20,000	$ 10.00	200,000	75%	50,000	$ 1.61
Serrania Block - North Anticline	1	10,000	$ 10.00	100,000	90%	10,000	$ 0.32
CPO-4 Block	22	11,000	$ 15.00	3,630,000	90%	363,000	$ 11.71
Total Other Assets & Liabilities				4,321,875		482,438	$ 15.56

Commodity Price Deck	Oil	Gas
Year-End 2008	$ 44.60	$ 5.62
Current	$ 79.00	$ 5.75
Year-End 2009 GHS (E)	$ 65.00	$ 5.00

Source: Company data, Global Hunter Securities, LLC

GRE00117882

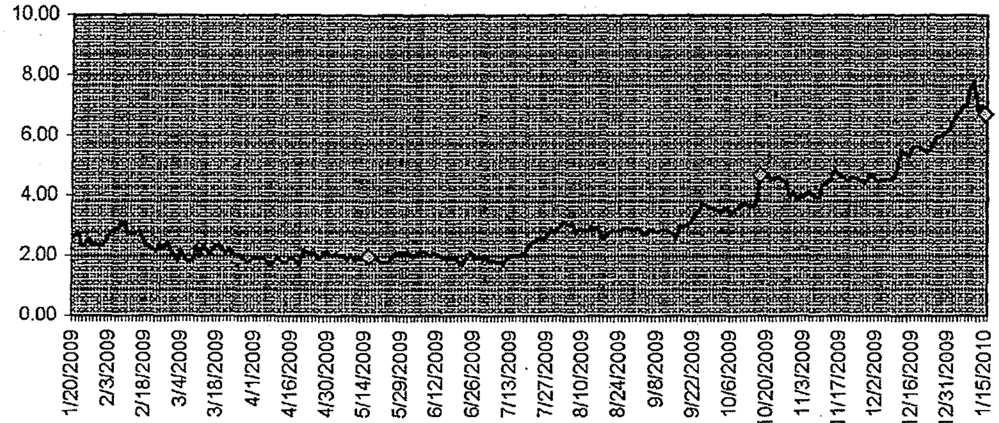
Houston American Energy (HUSA) Financial Model
Global Hunter Securities, LLC
Research Department: 949-274-8052

Fiscal period	FY '06(A)	FY '07(A)	FY '08(A)	Q1 '09(A)	Q2 '09(A)	Q3 '09(A)	Q4 '09(E)	FY '09(E)	Q1 '10(E)	Q2 '10(E)	Q3 '10(E)	Q4 '10(E)	FY '10(E)
[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]
Production Model													
Total Oil Production (thousands)	50	71	122	13	19	35	50	117	75	80	85	90	330
Avg. Price per Bbl	55.55	65.61	90.60	33.32	58.47	68.43	65.00	56.31	65.00	65.00	65.00	65.00	65.00
Oil Sales	2,763	4,672	10,823	447	1,082	2,404	3,250	7,182	4,875	5,200	5,525	5,850	21,450
Total Natural Gas Production (000's)	78	44	34	-	4	-	4	8	5	5	5	5	20
Avg. Price per Mcf	6.75	6.90	9.48	4.70	4.50	4.50	5.00	4.68	5.00	5.00	5.00	5.00	5.00
Natural Gas Sales	527	305	320	22	18	-	20	60	25	25	25	25	100
Total Oil & Gas Sales	3,290	4,977	11,143	468	1,100	2,404	3,270	7,242	4,900	5,225	5,550	5,875	21,550
Total Oil & Gas Production (BOE)	63	79	128	13	19	35	51	118	76	81	86	91	333
Oil & Gas Production (BOE/PD)	174	218	355	149	213	390	563	329	843	898	954	1,009	926
% Increase from prior period	0.0%	25.2%	62.7%					-7.4%					181.6%
Avg. Price per BOE	52.43	63.34	87.16	34.94	57.38	68.43	64.54	61.18	64.62	64.64	64.66	64.68	64.65
Cost Model													
Lease Operating Expense (LOE) per BOE	16.21	23.43	26.33	67.94	37.18	29.07	23.00	32.19	20.00	20.00	20.00	20.00	20.00
DD&A per BOE	19.62	14.00	45.50	18.98	14.99	17.67	18.00	17.53	18.00	18.00	18.00	18.00	18.00
G&A per BOE	19.62	19.96	24.65	53.79	35.08	16.51	10.86	21.32	7.25	6.80	6.41	6.06	6.60
Interest Expense per BOE	-	-	-	-	-	-	-	-	-	-	-	-	-
Total Cost	55.44	57.38	96.47	140.72	87.25	63.25	51.86	71.03	45.25	44.80	44.41	44.06	44.60
Net per BOE	(3.01)	5.95	(9.31)	(105.78)	(29.88)	5.18	12.68	(9.85)	19.36	19.84	20.25	20.62	20.05
Profit Margin	-5.7%	9.4%	-10.7%	-302.8%	-52.1%	7.6%	19.7%	-16.1%	30.0%	30.7%	31.3%	31.9%	31.0%
Balance Sheet Items													
Cash and Investments	14,409	418	11,583	6,455	4,886	4,709							
Accounts receivable	325	9,650	316	7	376	1,251							
Oil and Gas properties - Full Cost Method	6,796	12,715	5,263	4,283	5,455	20,809							
Accounts payable	399	260	1,363	592	229	34							
Debt (short-term and long-term)	-	-	-	-	1	1							
Stockholders' equity	19,415	20,243	21,049	19,257	19,525	20,082							

GRE00117884

Houston American Energy (HUSA) Disclosures (Continued)

Historical Recommendations



Initiated coverage on 06/20/08 with a Buy rating and price target of $15.00.

	Date	Rating	Price Target	Closing Price	
1.	6/20/2008	Buy	$15.00	$8.72	
2.	10/22/2008	Buy	$8.00	$3.94	
3.	5/18/2009	Buy	$3.50	$1.85	* Intraday
4.	10/19/2009	Buy	$7.00	$4.70	
5.	1/19/2010	Buy	$14.00	$6.70	

Explanation of Ratings

Buy: We expect the stock to outperform the average total return of the stocks in the analyst's industry (or industry team's) coverage universe over the next six to twelve months.
Neutral: We expect the stock to perform in line with the average total return of the stocks in the analyst's industry (or industry team's) coverage universe over the next six to twelve months.
Sell: We expect the stock to underperform the average total return of the stocks in the analyst's industry (or industry team's) coverage universe over the next six to twelve months.

Ratings Distribution

	Research Coverage		Investment Banking Clients*		
Rating	Count	% of Total	Count	% of Total	% of Rating Category
Buy	53	65.4%	1	100.0%	1.9%
Neutral	25	30.9%	0		
Sell	3	3.7%	0		
Total	81	100.0%	1	100.0%	1.2%

*Investment banking clients are companies from whom GHS or an affiliate received compensation from investment banking services provided in the last 12 months.

Note: Ratings Distribution as of December 31, 2009

Disclaimer & Other Disclosures

This material has been prepared by Global Hunter Securities, LLC ("Global Hunter") a registered broker-dealer, employing appropriate expertise, and in the belief that it is fair and not misleading. Information, opinions or recommendations contained in the reports and updates are submitted solely for advisory and information purposes. The information upon which this material is based was obtained from sources believed to be reliable, but has not been independently verified. Therefore except for any obligations under law, we do not guarantee its accuracy. Additional and supporting information is available upon request. This is not an offer or solicitation of an offer to buy or sell any security or investment. Any opinion or estimates constitute our best judgment as of this date, and is subject to change without notice. Global Hunter and our affiliates and their respective directors, officers and employees may buy or sell securities mentioned herein as agent or principal for their own account. Not all products and services are available outside of the US or in all US states.