

HOUSTON AMERICAN ENERGY CORP
Form 10-Q
November 09, 2016

UNITED STATES

SECURITIES AND EXCHANGE COMMISSION

Washington, DC 20549

FORM 10-Q

(Mark One)

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

For the quarterly period ended September 30, 2016

OR

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

For the transition period from _____ to _____.

Commission File Number 1-32955

HOUSTON AMERICAN ENERGY CORP.

(Exact name of registrant as specified in its charter)

Edgar Filing: HOUSTON AMERICAN ENERGY CORP - Form 10-Q

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

801 Travis Street, Suite 1425, Houston, Texas 77002

(Address of principal executive offices)(Zip Code)

(713) 222-6966

(Registrant's telephone number, including area code)

(Former name, former address and former fiscal year, if changed since last report)

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

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

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

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

Edgar Filing: HOUSTON AMERICAN ENERGY CORP - Form 10-Q

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

As of November 9, 2016, we had 51,277,388 shares of \$0.001 par value Common Stock outstanding.

HOUSTON AMERICAN ENERGY CORP.

FORM 10-Q

INDEX

	Page No.
PART I. <u>FINANCIAL INFORMATION</u>	
Item 1. <u>Financial Statements (Unaudited)</u>	3
<u>Consolidated Balance Sheets as of September 30, 2016 and December 31, 2015 (Unaudited)</u>	3
<u>Consolidated Statements of Operations for the Three and Nine Months Ended September 30, 2016 and 2015 (Unaudited)</u>	4
<u>Consolidated Statements of Cash Flows for the Nine Months Ended September 30, 2016 and 2015 (Unaudited)</u>	5
<u>Notes to Consolidated Financial Statements (Unaudited)</u>	6
Item 2. <u>Management's Discussion and Analysis of Financial Condition and Results of Operations</u>	10
Item 3. <u>Quantitative and Qualitative Disclosures About Market Risk</u>	15
Item 4. <u>Controls and Procedures</u>	15
PART II. <u>OTHER INFORMATION</u>	
Item 2. <u>Unregistered Sales of Equity Securities and Use of Proceeds</u>	15
Item 6. <u>Exhibits</u>	16

PART I - FINANCIAL INFORMATION

ITEM 1. Financial Statements

HOUSTON AMERICAN ENERGY CORP.

CONSOLIDATED BALANCE SHEETS

(Unaudited)

	September 30, 2016	December 31, 2015
ASSETS		
CURRENT ASSETS		
Cash	\$872,130	\$2,123,520
Escrow receivable	262,016	262,016
Prepaid expenses and other current assets	15,000	38,257
TOTAL CURRENT ASSETS	1,149,146	2,423,793
PROPERTY AND EQUIPMENT		
Oil and gas properties, full cost method		
Costs subject to amortization	54,864,850	54,840,599
Costs not being amortized	2,947,029	2,879,063
Office equipment	90,004	90,004
Total	57,901,883	57,809,666
Accumulated depletion, depreciation, amortization, and impairment	(54,751,056)	(54,676,723)
PROPERTY AND EQUIPMENT, NET	3,150,827	3,132,943
Other assets	3,167	3,167
TOTAL ASSETS	\$4,303,140	\$5,559,903
LIABILITIES AND SHAREHOLDERS' EQUITY		
CURRENT LIABILITIES		
Accounts payable	\$7,115	\$23,195
Accrued expenses	12,385	16,315
TOTAL CURRENT LIABILITIES	19,500	39,510

LONG-TERM LIABILITIES

Reserve for plugging and abandonment costs	25,676	25,262
TOTAL LIABILITIES	45,176	64,772

COMMITMENTS AND CONTINGENCIES

SHAREHOLDERS' EQUITY

Preferred stock, par value \$0.001; 10,000,000 shares authorized, 0 shares issued and outstanding	—	—
Common stock, par value \$0.001; 150,000,000 shares authorized 52,169,945 shares issued	52,170	52,170
Additional paid-in capital	66,118,687	66,019,681
Treasury shares, at cost; 892,557 and 190,000 shares, respectively	(174,125)	(38,152)
Accumulated deficit	(61,738,768)	(60,538,568)
TOTAL SHAREHOLDERS' EQUITY	4,257,964	5,495,131
TOTAL LIABILITIES AND SHAREHOLDERS' EQUITY	\$4,303,140	\$5,559,903

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

HOUSTON AMERICAN ENERGY CORP.

CONSOLIDATED STATEMENTS OF OPERATIONS

FOR THE THREE AND NINE MONTHS ENDED SEPTEMBER 30, 2016 AND 2015

(Unaudited)

	Nine Months Ended September 30,		Three Months Ended September 30,	
	2016	2015	2016	2015
OIL AND GAS REVENUE	\$ 121,885	\$ 340,541	\$ 39,738	\$ 124,448
EXPENSES OF OPERATIONS				
Lease operating expense and severance tax	60,416	112,300	23,054	52,652
General and administrative expense	1,194,223	1,122,987	362,807	390,411
Impairment of oil and gas properties	—	677,051	—	—
Depreciation and depletion	74,333	427,792	25,069	149,717
Total operating expenses	1,328,972	2,340,130	410,930	592,780
Loss from operations	(1,207,087)	(1,999,589)	(371,192)	(468,332)
OTHER INCOME				
Interest income, net	6,887	15,574	849	5,129
Total other income	6,887	15,574	849	5,129
Net loss before taxes	(1,200,200)	(1,984,015)	(370,343)	(463,203)
Income tax expense	—	18,423	—	363
Net loss	\$(1,200,200)	\$(2,002,438)	\$(370,343)	\$(463,566)
Basic and diluted loss per common share	\$(0.02)	\$(0.04)	\$(0.01)	\$(0.01)
Based and diluted weighted average common shares outstanding	51,537,510	52,169,945	51,467,438	52,169,945

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

HOUSTON AMERICAN ENERGY CORP.

CONSOLIDATED STATEMENTS OF CASH FLOWS

FOR THE NINE MONTHS ENDED SEPTEMBER 30, 2016 AND 2015

(Unaudited)

	For the Nine Months Ended September 30,	
	2016	2015
CASH FLOWS FROM OPERATING ACTIVITIES		
Net loss	\$(1,200,200)	\$(2,002,438)
Adjustments to reconcile net loss to net cash used in operations:		
Depreciation and depletion	74,333	427,792
Accretion of asset retirement obligation	414	1,191
Impairment of oil and gas properties	—	677,051
Stock-based compensation	99,006	68,434
Changes in operating assets and liabilities:		
Decrease in insurance receivable	—	8,566,889
Decrease (increase) in prepaid expenses and other current assets	23,257	1,704
Decrease in accounts payable, contingent liabilities and accrued expenses	(20,010)	(558,438)
Decrease in settlement payable	—	(7,000,000)
Decrease in accrued legal costs	—	(1,676,889)
Net cash used in operating activities	(1,023,200)	(1,494,704)
CASH FLOWS FROM INVESTING ACTIVITIES		
Cash paid for oil and gas development costs	(92,217)	(141,146)
Proceeds from sale of mineral interest	—	56,705
Proceeds from escrow receivables	—	59,412
Net cash used in investing activities	(92,217)	(25,029)
CASH FLOWS FROM FINANCING ACTIVITIES		
Payments for the acquisition of treasury shares	(135,973)	—
Net cash used in financing activities	(135,973)	—
Decrease in cash	(1,251,390)	(1,519,733)
Cash, beginning of period	2,123,520	4,052,212
Cash, end of period	\$872,130	\$2,532,479

SUPPLEMENTAL CASH FLOW INFORMATION

Interest paid	\$—	\$—
Income taxes paid	\$—	\$18,423

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

HOUSTON AMERICAN ENERGY CORP.

Notes to Consolidated Financial Statements

(Unaudited)

NOTE 1 – BASIS OF PRESENTATION AND SIGNIFICANT ACCOUNTING POLICIES

The accompanying unaudited consolidated financial statements of Houston American Energy Corp., a Delaware corporation (the “Company”), have been prepared in accordance with accounting principles generally accepted in the United States of America for interim financial information and with the instructions to Form 10-Q. They do not include all of the information and footnotes required by accounting principles generally accepted in the United States of America for a complete financial presentation. In the opinion of management, all adjustments, consisting only of normal recurring adjustments, considered necessary for a fair presentation, have been included in the accompanying unaudited consolidated financial statements. Operating results for the periods presented are not necessarily indicative of the results that may be expected for the full year.

These unaudited consolidated financial statements should be read in conjunction with the Company’s audited consolidated financial statements and footnotes, which are included as part of the Company’s Form 10-K for the year ended December 31, 2015.

Going Concern

The accompanying consolidated financial statements have been prepared assuming that the Company will continue as a going concern, which contemplates the realization of assets and the satisfaction of liabilities in the normal course of business for the twelve-month period following the date of these consolidated financial statements. The Company has incurred continuing losses, negative operating cash flow and declining cash balances since 2011, including negative operating cash flow of \$1,023,200 for the nine months ended September 30, 2016. These conditions, together with continued low oil and natural gas prices and financial commitments the Company has made relative to its Colombian properties, raise substantial doubt as to the Company’s ability to continue as a going concern. These financial statements do not include any adjustments that might be necessary if the Company is unable to continue as a going concern.

To address these concerns, the Company may seek additional financing or may consider divestiture of certain assets. There can be no assurance that the Company will be successful in its efforts.

Consolidation

The accompanying consolidated financial statements include all accounts of the Company and its subsidiaries (HAEC Louisiana E&P, Inc., HAEC Oklahoma E&P, Inc. and HAEC Caddo Lake E&P, Inc.). All significant inter-company balances and transactions have been eliminated in consolidation.

Accounting Principles and Use of Estimates

The consolidated financial statements have been prepared in conformity with accounting principles generally accepted in the United States of America. In preparing financial statements, management makes informed judgments and estimates that affect the reported amounts of assets and liabilities as of the date of the financial statements and affect the reported amounts of revenues and expenses during the reporting period. On an ongoing basis, management reviews its estimates, including those related to such potential matters as litigation, environmental liabilities, income taxes and the related valuation allowance, determination of proved reserves of oil and gas and asset retirement obligations. Changes in facts and circumstances may result in revised estimates and actual results may differ from these estimates.

Concentration of Credit Risk

Financial instruments that potentially subject the Company to a concentration of credit risk include cash, cash equivalents and any marketable securities. The Company had cash deposits of \$494,077 in excess of the FDIC's current insured limit on interest bearing accounts of \$250,000 as of September 30, 2016. The Company has not experienced any losses on its deposits of cash and cash equivalents.

Loss per Share

Basic loss per share is computed by dividing net loss available to common shareholders by the weighted average common shares outstanding for the period. Diluted earnings per share reflects the potential dilution that could occur if securities or other contracts to issue common shares were exercised or converted into common shares that then shared in the earnings of the Company. The Company's only outstanding potentially dilutive securities are options and warrants. Using the treasury stock method, outstanding 'in-the-money' options would have increased our diluted weighted average shares outstanding by approximately 55,600 shares for the three and nine months ended September 30, 2016 and by approximately 55,600 shares for the three and nine months ended September 30, 2015; however, due to losses during these periods, these options were excluded from the diluted earnings per share calculation because their effect would have been anti-dilutive.

Subsequent Events

The Company has evaluated all transactions from September 30, 2016 through the financial statement issuance date for subsequent event disclosure consideration.

Recent Accounting Pronouncements

No accounting standards or interpretations issued recently are expected to have a material impact on our consolidated financial position, operations or cash flows.

NOTE 2 – ESCROW RECEIVABLE

At September 30, 2016 and December 31, 2015, the Company's consolidated balance sheets reflected the following current escrow receivables relating to various oil and gas properties previously held by the Company:

	September 30, 2016	December 31, 2015
HDC LLC & HL LLC 15% Escrow	\$ 251,125	251,125
HDC LLC & HL LLC 5% Contingency	10,891	10,891

TOTAL	\$ 262,016	\$ 262,016
-------	------------	------------

NOTE 3 – OIL AND GAS PROPERTIES

During the nine months ended September 30, 2016, the Company invested \$92,217 for the development of oil and gas properties, consisting of (1) preparation and evaluation costs in Colombia of \$67,966, and (2) costs on U.S. properties of \$24,251. Of the amount invested, the Company capitalized \$24,251 to oil and gas properties subject to amortization, and \$67,966 to oil and gas