HOUSTON AMERICAN ENERGY CORP
Form 10-K
March 30, 2018

UNITED STATES

SECURITIES AND EXCHANGE COMMISSION

Washington, D.C. 20549

FORM 10-K

(Mark One)

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

For the Fiscal Year Ended December 31, 2017

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

For the transition period from to

Commission File No. 1-32955

HOUSTON AMERICAN ENERGY CORP.

(Exact name of registrant specified in its charter)

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

801 Travis Street, Suite 1425, Houston, Texas 77002

(Address of principal executive offices)(Zip code)

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

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

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

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

None

(Title of Class)

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

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

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 [X] 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 [X] No [ ]

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

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

Large accelerated filer	[ ]	Accelerated filer	[ ]	Non-accelerated filer	[ ]	(Do not check if a smaller reporting company)
Smaller reporting company	[X]	Emerging growth company	[ ]			

If an emerging growth company, indicate by check mark if the registrant has elected not to use the extended transition period for complying with any new or revised financial accounting standards provided pursuant to Section 13(a) of the Exchange Act. [ ]

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

The aggregate market value of the voting and non-voting common equity held by non-affiliates of the registrant on June 30, 2017, based on the closing sales price of the registrant's common stock on that date, was approximately $29.8 million. Shares of common stock held by each current executive officer and director and by each person known by the registrant to own 10% or more of the outstanding common stock have been excluded from this computation in that such persons may be deemed to be affiliates.

The number of shares of the registrant's common stock, $0.001 par value, outstanding as of March 15, 2018 was 59,510,191.

DOCUMENTS INCORPORATED BY REFERENCE

Portions of the Company's Proxy Statement for its 2018 Annual Meeting are incorporated by reference into Part III of this Report.

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FORWARD-LOOKING STATEMENTS

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

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

PART I

Item 1. Business

General

Houston American Energy Corp is an independent oil and gas company focused on the development, exploration, exploitation, acquisition, and production of natural gas and crude oil properties. Our principal properties, and operations, are in the U.S. Permian (Delaware) Basin. Additionally, we have properties in the U.S. Gulf Coast region, particularly Texas and Louisiana, and in the South American country of Colombia.

We focus on early identification of, and opportunistic entrance into, existing and emerging resource plays. We do not operate properties but typically seek to partner with, or invest along-side, larger operators in the development of resources or retain interests, with or without contribution on our part, in prospects identified, packaged and promoted to larger operators. By entering these plays earlier, identifying stranded blocks and partnering with, investing along-side or promoting to, larger operators, we believe we can capture larger resource potential at lower cost and minimize our exposure to drilling risks and costs and ongoing operating costs.

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

Properties

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

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

The following table sets forth information relating to our principal properties as of December 31, 2017:

	Net acreage	Average working interest %		Gross producing wells	Net proved reserves (boe)	2017 Net Production Oil (bbls)	Natural Gas (mcf)
Texas	216	19.5	%	3	844,185	8,075	17,124
Louisiana	74	3.8	%	6	19,180	1,945	13,314
Oklahoma	4	2.8	%	1	1,192	18	559
Total U.S.	294	8.1	%	10	864,557	10,038	30,997
Colombia	49,025	12.5	%	—	—	—	—
Total	49,319	12.5	%	10	864,557	10,038	30,997

- United States Properties:

In the United States, our properties and operations are principally located in the on-shore Permian (Delaware) Basin and Gulf Coast regions of Louisiana and Texas.

Texas Properties

Reeves County. Our principal exploration properties in Texas covers 960 gross acres in Reeves County, Texas, in which we hold an 18.6% average working interest, consisting of (1) the 320 gross acre Johnson Lease, in which we hold a 25% working interest, subject to a proportionate 5% back-in after payout, and (2) the 640 gross acre O'Brien Lease, in which we hold an average 15.489% working interest. Our Reeves County acreage lies within the Delaware sub-basin of the Permian Basin, with resource potential in the Wolfcamp, Bone Spring and Avalon formations. During 2017, we drilled and completed our initial wells on both lease blocks, the Johnson State #1H well and the O'Brien #3H well, both horizontally drilled and hydraulically fractured wells in the Wolfcamp A formation. Our near term operations are focused on implementation of a multi-well program of horizontally drilled and hydraulically fractured wells on our existing Reeves County acreage and other acreage we may acquire in Reeves County. Founders Oil & Gas, LLC serves as operator on all of our current Reeves County acreage.

Other Properties. We hold a 25% mineral interest in 146 gross acres in Live Oak County, Texas, including 1 productive well. We have no present plans to conduct additional drilling operations on such acreage.

Louisiana Properties

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

East Baton Rouge Parish — we hold (i) a 4.557% royalty interest in 2,485 royalty acres, as well as a 3.547% royalty interest in the Crown Paper #01 well, and (ii) a 5% working interest in a 11,000 foot well and 625 net acre lease block.

Plaquemines Parish — we hold a 1.8% working interest in the SL 180771 well and 300 gross acre lease block.

Vermilion Parish — we hold a 1.974% working interest in a 15,000 foot Discorbis well and 450+ net acre lease block.

Iberville Parish — we hold a 3% working interest in a 13,500 foot Cib Haz well and 618 acre lease block.

Assumption Parish – we hold a 5% working interest before payout and 4% working interest after payout in a 15,200 foot Rob L well and 238 acre lease block.

Jefferson Davis Parish — we hold a 10.938% working interest before payout and a 9.375% working interest after payout in a 7,000 foot Cris H well and 10 acre lease block.

We have no present plans to conduct additional drilling operations on our Louisiana acreage.

- Colombian Properties:

At December 31, 2017, we held interests in multiple prospects in Colombia covering 392,205 gross acres. We identify our Colombian prospects by the concessions operated.

The following table sets forth information relating to our interests in prospects in Colombia at December 31, 2017:

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

At December 31, 2017, we held interests in three concessions operated by Hupecol Operating Co. in Colombia. The Loc Picachos, Macaya and Serrania concessions are located in the Caguan Putumayo Basin of Colombia. The concessions cover an aggregate area of 392,205 acres. Our interest in each of the concessions is subject to an escalating royalty ranging from 8% to 20% depending upon production volumes and pricing and an additional 6% to 10% per concession when 5,000,000 barrels of oil have been produced on a field in a concession.

As of December 31, 2017, no wells had been drilled and no production had taken place on any of the fields in our then existing concessions in Colombia.

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

Commencement of drilling of each of our concessions has been delayed on multiple occasions, and continues to be delayed, due to numerous factors of a political nature, including conflicts between federal and local authorities over environmental and permitting issues and lingering security concerns arising from the long-standing conflict between the federal government and the Revolutionary Armed Forces of Colombia, also known as FARC.

In June 2016, a peace accord was announced between the Colombian government and FARC. The peace accord was ultimately rejected in a popular referendum although both government and FARC representatives have indicated a desire to cease all hostilities and seek to arrive at an acceptable final peace accord. While there is no assurance as to how the peace initiative will, or will not, impact our assets, we continue to evaluate our plans regarding our Colombian assets in light of the peace initiatives and the potential of the same to enhance our prospects of arriving at a favorable resolution to the impasse that has prevented the commencement of drilling operations on our Colombian properties.

Serrania Block

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

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

During 2017, Hupecol continued to experience opposition, at the local level, to their efforts to secure necessary permits to commence drilling operations on the Serrania block. The federal government, which originally granted the concession, granted necessary permits to commence drilling and subsequently rescinded the permits. Given the ongoing opposition, Hupecol has determined to defer further efforts to commence drilling on the block for the foreseeable future and has commenced discussions with the ANH with a view to arriving at a final definitive settlement either permitting drilling or compensating Hupecol for the block.

Los Picachos and Macaya Prospects

Our Los Picachos and Macaya prospects adjoin our Serrania concession. Hupecol has advised us that they have put on hold plans to begin seismic and other work on the Los Picachos and Macaya concessions until a satisfactory resolution of the ongoing permitting disputes. The ANH has granted extensions of required development commitments, including seismic acquisition, until conditions in the area allow operations.

Drilling Activity

During 2017, we drilled two wells. The following table summarizes the number of wells drilled during 2017, 2016, and 2015, excluding any wells drilled under farmout agreements, royalty interest ownership, or any other wells in which we do not have a working interest.

	Year Ended December 31,					
	2017		2016		2015	
	Gross	Net	Gross	Net	Gross	Net
Development wells, completed as:						
Productive	—	—	—	—	—	—
Non-productive	—	—	—	—	—	—
Total development wells	—	—	—	—	—	—
Exploratory wells, completed as:						
Productive	2	0.36	—	—	—	—
Non-productive	—	—	—	—	2	0.11
Total exploratory wells	2	0.36	—	—	2	0.11

Productive wells are wells that are found to be capable of producing hydrocarbons in sufficient quantities such that proceeds from the sale of the production exceed production expenses and taxes.

Both of the wells drilled during 2017 were classified as exploratory wells on our Reeves County, Texas acreage and both were horizontally drilled, hydraulically fractured and successfully completed in the Wolfcamp formation.

As of December 31, 2017, we had no wells in progress or awaiting hook up.

Productive Wells

Productive wells consist of producing wells and wells capable of production, including shut-in wells. A well bore with multiple completions is counted as only one well. As of December 31, 2017, we owned interests in 10 gross wells. As of December 31, 2017, we had ownership interests in productive wells, categorized by geographic area, as follows:

	Oil Wells	Gas Wells
United States		
Gross	6	4
Net	0.84	0.14
Colombia		
Gross	—	—
Net	—	—
Total		
Gross	6	4
Net	0.84	0.14

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Volume, Prices and Production Costs

The following table sets forth certain information regarding the production volumes, average prices received and average production costs associated with our sales of gas and oil, categorized by geographic area, for each of the three years ended December 31, 2017, 2016, and 2015:

	Year Ended December 31,		
	2017	2016	2015
Net Production:			
Gas (Mcf):			
United States	30,997	20,204	32,146
Colombia	—	—	—
Total	30,997	20,204	32,146
Oil (Bbls):			
United States	10,038	2,933	6,068
Colombia	—	—	—
Total	10,038	2,933	6,068
Average sales price:			
Gas ($ per Mcf)			
United States	$3.88	$2.35	$3.23
Colombia	—	—	—
Total	$3.88	$2.35	$3.23
Oil ($ per Bbl)			
United States	$50.81	$40.40	$53.64
Colombia	—	—	—
Total	$50.81	$40.40	$53.64
Average production costs ($ per BOE):			
United States	$14.23	$14.15	$8.60
Colombia	—	—	—
Total	$14.23	$14.15	$8.60

Natural Gas and Oil Reserves

Reserve Estimates

The following tables sets forth, by country and as of December 31, 2017, our estimated net proved oil and natural gas reserves, and the estimated present value (discounted at an annual rate of 10%) of estimated future net revenues before future income taxes ("PV-10") and after future income taxes ("Standardized Measure") of our proved reserves, each prepared in accordance with assumptions prescribed by the Securities and Exchange Commission ("SEC").

The PV-10 value is a widely used measure of value of oil and natural gas assets and represents a pre-tax present value of estimated cash flows discounted at ten percent. PV-10 is considered a non-GAAP financial measure as defined by the SEC. We believe that our PV-10 presentation is relevant and useful to our investors because it presents the discounted future net cash flows attributable to our proved reserves before taking into account the related future income taxes, as such taxes may differ among various companies because of differences in the amounts and timing of deductible basis, net operating loss carry forwards and other factors. We believe investors and creditors use our PV-10 as a basis for comparison of the relative size and value of our proved reserves to the reserve estimates of other companies. PV-10 is not a measure of financial or operating performance under GAAP and is not intended to represent the current market value of our estimated oil and natural gas reserves. PV-10 should not be considered in isolation or as a substitute for the standardized measure of discounted future net cash flows as defined under GAAP.

These calculations were prepared using standard geological and engineering methods generally accepted by the petroleum industry and in accordance with SEC financial accounting and reporting standards.

	Reserves [(1)]		
	Oil	Natural Gas	**Total** [(2)]
	(bbls)	(mcf)	(boe)
Reserve category			
Proved Developed Producing			
United States	149,088	1,666,031	426,760
Colombia	—	—	—
Total Proved Developed Producing Reserves	149,088	1,666,031	426,760
Proved Undeveloped			
United States	242,125	1,174,030	437,797
Colombia	—	—	—
Total Proved Undeveloped Reserves	242,125	1,174,030	437,797
Total Proved Reserves	391,213	2,840,061	864,557

	Proved Developed	Proved Undeveloped	Total Proved
PV-10 [(1)]	$4,982,722	$ 1,866,133	$6,848,855
Standardized measure [(3)]	$4,982,722	$ 1,866,133	$6,848,855

(1) In accordance with applicable financial accounting and reporting standards of the SEC, the estimates of our proved reserves and the PV-10 set forth herein reflect estimated future gross revenue to be generated from the production of proved reserves, net of estimated production and future development costs, using prices and costs under existing economic conditions at December 31, 2017. For purposes of determining prices, we used the unweighted arithmetical average of the prices on the first day of each month within the 12-month period ended December 31, 2017. The average prices utilized for purposes of estimating our proved reserves were $48.14 per barrel of oil and $3.048 per mcf of natural gas for our US properties, adjusted by property for energy content, quality, transportation fees and regional price differentials. The prices should not be interpreted as a prediction of future prices. The amounts shown do not give effect to non-property related expenses, such as corporate general administrative expenses and debt service, future income taxes or to depreciation, depletion and amortization.

(2) Natural gas is converted on the basis of six Mcf of gas per one barrel of oil equivalent.

(3) The Standard Measure differs from PV-10 only in that the Standard Measure reflects estimated future income taxes.

Due to the inherent uncertainties and the limited nature of reservoir data, proved reserves are subject to change as additional information becomes available. The estimates of reserves, future cash flows and present value are based on various assumptions, including those prescribed by the SEC, and are inherently imprecise. Although we believe these estimates are reasonable, actual future production, cash flows, taxes, development expenditures, operating expenses and quantities of recoverable oil and natural gas reserves may vary substantially from these estimates.

Reserve Estimation Process, Controls and Technologies

The reserve estimates, including PV-10 and Standard Measure estimates, set forth above were prepared by Russell K. Hall & Associates, Inc. for our Reeves County, Texas, reserves and by Lonquist & Co., LLC for all other reserves.

These calculations were prepared using standard geological and engineering methods generally accepted by the petroleum industry and in accordance with SEC financial accounting and reporting standards.

Our year-end reserve reports are prepared by reserve engineering firms based upon a review of property interests being appraised, production from such properties, current costs of operation and development, current prices for production, agreements relating to current and future operations and sale of production, geosciences and engineering data, and other information provided to them by our management team. Russell K. Hall & Associates also prepares reserve estimates for Founders Oil & Gas, the operator of our Reeves County properties. Lonquist & Co. also prepares reserve estimates for the various Hupecol entities. Upon analysis and evaluation of data provided, the reserve engineering firms issue a preliminary appraisal report of our reserves. The preliminary appraisal report and changes in our reserves are reviewed by our President for reasonableness of the results obtained. Once any questions have been addressed, the reserve engineering firms issue final appraisal reports, reflecting their conclusions.

Russell K. Hall & Associates is an independent Midland, Texas based professional engineering firm providing reserve evaluation services to the oil and gas industry. Their report was prepared under the direction of Russell K. Hall, founder and President of Russell K. Hall & Associates. Mr. Hall holds a BS in Mechanical Engineering from the University of Oklahoma, is a registered professional engineer and a member of the Society of Petroleum Engineers, the Society of Independent Professional Earth Scientists and the West Texas Geological Society. Mr. Hall has more than 30 years of experience in reserve evaluation for the oil and gas industry and the oil and gas finance industry. Russell K. Hall & Associates, and its employees, have no interest in our company or our properties and were objective in determining our reserves.

Lonquist & Co. is an independent professional engineering firm specializing in the technical and financial evaluation of oil and gas assets. Lonquist & Co's report was conducted under the direction of Don E. Charbula, P.E., Vice President of Lonquist & Co. Mr. Charbula holds a BS in Petroleum Engineering from The University of Texas at Austin and is a registered professional engineer with more than 30 years of experience in production engineering, reservoir engineering, acquisitions and divestments, field operations and management. Lonquist & Co., and its employees, have no interest in our Company and were objective in determining our reserves.

The SEC's rules with respect to technologies that a company can use to establish reserves allows use of techniques that have been proved effective by actual production from projects in the same reservoir or an analogous reservoir or by other evidence using reliable technology that establishes reasonable certainty. Reliable technology is a grouping of one or more technologies (including computational methods) that have been field tested and have been demonstrated to provide reasonably certain results with consistency and repeatability in the formation being evaluated or in an analogous formation.

Our reserve engineering firms used a combination of production and pressure performance, simulation studies, offset analogies, seismic data and interpretation, geophysical logs and core data to calculate our reserves estimates.

Proved Undeveloped Reserves

The following table summarizes activity within our proved undeveloped reserve category for the year ended December 31, 2017:

	For the Year Ended December 31, 2017
Proved undeveloped reserves (MBoe):	
Beginning of year	—
Extensions and discoveries	437,797
End of year	437,797

At December 31, 2017, all proved undeveloped reserves were attributable to our 2017 drilling operations on our Reeves County, Texas acreage. We expect to develop all of our proved undeveloped reserves as of December 31, 2017 within five years of their initial booking.

Developed and Undeveloped Acreage

The following table sets forth the gross and net developed and undeveloped acreage (including both leases and concessions), categorized by geographical area, which we held as of December 31, 2017:

	Developed		Undeveloped	
	Gross	Net	Gross	Net
United States	2,899	294	320	63
Colombia	—	—	392,205	49,025
Total	2,899	294	392,525	49,088

Developed acreage is comprised of leased acres that are within an area spaced by or assignable to a productive well. Undeveloped acreage is comprised of leased acres with defined remaining terms and not within an area spaced by or assignable to a productive well.

As is customary in the oil and natural gas industry, we can generally retain our interest in undeveloped acreage by drilling activity that establishes commercial production sufficient to maintain the leases or by paying delay rentals during the remaining primary term of leases. The oil and natural gas leases in which we have an interest are for varying primary terms and, if production under a lease continues from our developed lease acreage beyond the primary term, we are entitled to hold the lease for as long as oil or natural gas is produced.

Many of the leases and concessions comprising the undeveloped acreage set forth in the table above will expire at the end of their respective primary terms unless production from the acreage has been established prior to such date, in which event the lease or concession will remain in effect until the cessation of production. The following table sets forth, as of December 31, 2017, the expiration periods of the gross and net acres that are subject to leases or concessions summarized in the above table of undeveloped acreage.

	Undeveloped Acres Expiring	
Twelve Months Ending:	Gross	Net
December 31, 2018	—	—
December 31, 2019	320	63
December 31, 2020	—	—
December 31, 2021	—	—
December 31, 2022 and later	—	—

Total	320	63

Title to Properties

Title to properties is subject to royalty, overriding royalty, carried working, net profits, working and other similar interests and contractual arrangements customary in the gas and oil industry, liens for current taxes not yet due and other encumbrances. As is customary in the industry in the case of undeveloped properties, little investigation of record title is made at the time of acquisition (other than preliminary review of local records).

Investigation, including a title opinion of local counsel, generally is made before commencement of drilling operations.

Marketing

At December 31, 2017, we had no contractual agreements to sell our gas and oil production and all production was sold on spot markets.

Employees

As of December 31, 2017, we had 3 full-time employees and no part time employees. The employees are not covered by a collective bargaining agreement, and we do not anticipate that any of our future employees will be covered by such agreements.

Competition

We encounter intense competition from other oil and gas companies in all areas of our operations, including the acquisition of producing properties and undeveloped acreage. Our competitors include major integrated oil and gas companies, numerous independent oil and gas companies and individuals. Many of our competitors are large, well-established companies with substantially larger operating staffs and greater capital resources and have been engaged in the oil and gas business for a much longer time than our Company. These companies may be able to pay more for productive oil and gas properties, exploratory prospects and to define, evaluate, bid for and purchase a greater number of properties and prospects than our financial or human resources permit. Our ability to acquire additional properties and to discover reserves in the future will be dependent upon our ability to evaluate and select suitable properties and to consummate transactions in this highly competitive environment.

Regulatory Matters

Regulation of Oil and Gas Production, Sales and Transportation

The oil and gas industry is subject to regulation by numerous national, state and local governmental agencies and departments. Compliance with these regulations is often difficult and costly and noncompliance could result in substantial penalties and risks. Most jurisdictions in which we operate also have statutes, rules, regulations or guidelines governing the conservation of natural resources, including the unitization or pooling of oil and gas properties, minimum well spacing, plugging and abandonment of wells and the establishment of maximum rates of production from oil and gas wells. Some jurisdictions also require the filing of drilling and operating permits, bonds and reports. The failure to comply with these statutes, rules and regulations could result in the imposition of fines and penalties and the suspension or cessation of operations in affected areas.

Environmental Regulation

Various federal, state and local laws and regulations relating to the protection of the environment, including the discharge of materials into the environment, may affect our exploration, development and production operations and the costs of those operations. These laws and regulations, among other things, govern the amounts and types of substances that may be released into the environment, the issuance of permits to conduct exploration, drilling and production operations, the discharge and disposition of generated waste materials and waste management, the reclamation and abandonment of wells, sites and facilities, financial assurance and the remediation of contaminated sites. These laws and regulations may impose substantial liabilities for noncompliance and for any contamination resulting from our operations and may require the suspension or cessation of operations in affected areas.

The environmental laws and regulations applicable to our U.S. operations include, among others, the following United States federal laws and regulations:

- Clean Air Act, and its amendments, which govern air emissions;
- Clean Water Act, which governs discharges into waters of the United States;
- Comprehensive Environmental Response, Compensation and Liability Act, which imposes liability where hazardous releases have occurred or are threatened to occur (commonly known as "Superfund");
- Resource Conservation and Recovery Act, which governs the management of solid waste;
- Oil Pollution Act of 1990, which imposes liabilities resulting from discharges of oil into navigable waters of the United States;
- Emergency Planning and Community Right-to-Know Act, which requires reporting of toxic chemical inventories;
- Safe Drinking Water Act, which governs the underground injection and disposal of wastewater; and
- U.S. Department of Interior regulations, which impose liability for pollution cleanup and damages.

Colombia has similar laws and regulations designed to protect the environment.

We routinely obtain permits for our facilities and operations in accordance with these applicable laws and regulations on an ongoing basis. There are no known issues that have a significant adverse effect on the permitting process or permit compliance status of any of our facilities or operations.

The ultimate financial impact of these environmental laws and regulations is neither clearly known nor easily determined as new standards are enacted and new interpretations of existing standards are rendered. Environmental laws and regulations are expected to have an increasing impact on our operations. In addition, any non-compliance with such laws could subject us to material administrative, civil or criminal penalties, or other liabilities. Potential permitting costs are variable and directly associated with the type of facility and its geographic location. Costs, for example, may be incurred for air emission permits, spill contingency requirements, and discharge or injection permits. These costs are considered a normal, recurring cost of our ongoing operations and not an extraordinary cost of compliance with government regulations.

Although we do not operate the properties in which we hold interests, noncompliance with applicable environmental laws and regulations by the operators of our oil and gas properties could expose us, and our properties, to potential costs and liabilities associated with such environmental laws. While we exercise no oversight with respect to any of our operators, we believe that each of our operators is committed to environmental protection and compliance. However, since environmental costs and liabilities are inherent in our operations and in the operations of companies engaged in similar businesses and since regulatory requirements frequently change and may become more stringent, there can be no assurance that material costs and liabilities will not be incurred in the future. Such costs may result in increased costs of operations and acquisitions and decreased production.

Hydraulic Fracturing Regulation

Hydraulic fracturing, or “fracking”, is a common practice used to stimulate production of oil and natural gas from tight formations, including shales. Fracking involves the injection of fluids—usually consisting mostly of water but typically including small amounts of chemical additives—as well as sand into a well under high pressure in order to create fractures in the rock that allow oil or gas to flow more freely to the wellbore.

Except as applies to federal lands, fracking generally is exempt from regulation under many federal environmental rules and is generally regulated at the state level.

For example, in Texas, the Texas Railroad Commission administers regulations related to oil and gas operations, including regulations pertaining to protection of water resources in connection with those operations. The Texas Legislature adopted new legislation requiring oil and gas operators to publicly disclose the chemicals used in the hydraulic fracturing process, effective as of September 1, 2011. The Texas Railroad Commission has adopted rules and regulations implementing this legislation that apply to all wells for which the Railroad Commission issues an initial drilling permit after February 1, 2012. This law requires that the well operator disclose the list of chemical ingredients subject to the requirements of the federal Occupational Safety and Health Act (OSHA) for disclosure on an internet website and also file the list of chemicals with the Texas Railroad Commission with the well completion report. The total volume of water used to hydraulically fracture a well must also be disclosed to the public and filed with the Texas Railroad Commission.

There has been increasing public controversy regarding fracking with regard to the use of fracking fluids, impacts on drinking water supplies, use of water and the potential for impacts to surface water, groundwater and the environment generally. A number of lawsuits and enforcement actions have been initiated across the country implicating hydraulic fracturing practices. If new laws or regulations that significantly restrict hydraulic fracturing are adopted, such laws could make it more difficult or costly to perform fracturing to stimulate production from tight formations as well as make it easier for third parties opposing the hydraulic fracturing process to initiate legal proceedings based on allegations that specific chemicals used in the fracturing process could adversely affect groundwater. In addition, if hydraulic fracturing is further regulated at the federal or state level, fracturing activities could become subject to additional permitting and financial assurance requirements, more stringent construction specifications, increased monitoring, reporting and recordkeeping obligations, plugging and abandonment requirements and also to attendant permitting delays and potential increases in costs. Such legislative changes could cause operators to incur substantial compliance costs, and compliance or the consequences of any failure to comply could have a material adverse effect on well operations and economics.

We do not operate wells but contract well operations to third party operators. Operators of our wells may perform fracking operations, or contract third parties to perform such operations, on wells in which we participate. Many newer wells would not be economical without the use of fracking to stimulate production from the well. At this time, it is not possible to estimate the impact on our business of newly enacted or potential federal or state legislation governing hydraulic fracturing.

Climate Change Legislation and Greenhouse Gas Regulation

Federal, state and local laws and regulations are increasingly being enacted to address concerns about the effects the emission of "greenhouse gases" may have on the environment and climate worldwide. These effects are widely referred to as "climate change." Since its December 2009 endangerment finding regarding the emission of greenhouse gases, the EPA has begun regulating sources of greenhouse gas emissions under the federal Clean Air Act. Among several regulations requiring reporting or permitting for greenhouse gas sources, the EPA finalized its "tailoring rule" in May 2010 that determines which stationary sources of greenhouse gases are required to obtain permits to construct, modify or operate on account of, and to implement the best available control technology for, their greenhouse gases. In November 2010, the EPA also finalized its greenhouse gas reporting requirements, beginning in March 2012, for certain oil and gas production facilities.

Moreover, in recent past the U.S. Congress has considered establishing a cap-and-trade program to reduce U.S. emissions of greenhouse gases. Under past proposals, the EPA would issue or sell a capped and steadily declining number of tradable emissions allowances to certain major sources of greenhouse gas emissions so that such sources could continue to emit greenhouse gases into the atmosphere. These allowances would be expected to escalate significantly in cost over time. The net effect of such legislation, if ever adopted, would be to impose increasing costs on the combustion of carbon-based fuels such as crude oil, refined petroleum products, and natural gas. In addition, while the prospect for such cap-and-trade legislation by the U.S. Congress remains uncertain, several states have adopted, or are in the process of adopting, similar cap-and-trade programs.

As a crude oil and natural gas company, the debate on climate change is relevant to our operations because the equipment we use to explore for, develop and produce crude oil and natural gas emits greenhouse gases. Additionally, the combustion of carbon-based fuels, such as the crude oil and natural gas we sell, emits carbon dioxide and other greenhouse gases. Thus, any current or future federal, state or local climate change initiatives could adversely affect demand for the crude oil and natural gas we produce by stimulating demand for alternative forms of energy that do not rely on the combustion of fossil fuels, and therefore could have a material adverse effect on our business. Although our compliance with any greenhouse gas regulations may result in increased compliance and operating costs, we do not expect the compliance costs for currently applicable regulations to be material. Moreover, while it is not possible at this time to estimate the compliance costs or operational impacts for any new legislative or regulatory developments in this area, we do not anticipate being impacted to any greater degree than other similarly situated competitors.

Web Site Access to Reports

Our Web site address is *www.houstonamerican.com.* We make available, free of charge on or through our Web site, our annual report on Form 10-K, quarterly reports on Form 10-Q and current reports on Form 8-K, and all amendments to these reports as soon as reasonably practicable after such material is electronically filed with, or furnished to, the United States Securities and Exchange Commission. Information contained on our website is not incorporated by reference into this report and you should not consider information contained on our website as part of this report.

Item 1A. Risk Factors

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

Our ability to operate profitably and our financial condition are highly dependent on energy prices. A substantial or extended decline in oil and natural gas prices may adversely affect our business, financial condition or results of operations and our ability to meet our capital expenditure obligations and financial commitments.

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

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

Global economic growth drives demand for energy from all sources, including fossil fuels. Should the U.S. and global economies experience weakness, demand for energy may decline. Similarly, should growth in global energy production outstrip demand, excess supplies may arise. Declines in demand and excess supplies may result in accompanying declines in commodity prices and deterioration of our financial position along with our ability to operate profitably and our ability to obtain financing to support operations. With respect to our business, beginning in the second half of 2014 and continuing through 2016, declines in demand thought to be associated with slowing economic growth in certain markets coupled with new oil and gas supplies coming on line in recent years has resulted in oil and gas supply exceeding global demand which has, in turn, resulted in a steep decline in prices of oil and natural gas. As a result, our average realized prices for oil and natural gas declined 44% and 33%, respectively, from 2014 to 2015 and 28% and 24%, respectively, from 2015 to 2016. While oil and natural gas prices rebounded somewhat during 2017, energy prices remain well below 2014 levels and there can be no assurance that a reoccurrence of price weakness will not arise in the future.

The decline in prices during the 2015-2016 period reduced, and any declines that may occur in the future can be expected to reduce, our revenues and profitability as well as the value of our reserves. Such declines adversely affect well and reserve economics and may reduce the amount of oil and natural gas that we can produce economically, resulting in deferral or cancellation of planned drilling and related activities until such time, if ever, as economic conditions improve sufficiently to support such operations. Any extended decline in oil or natural gas prices may materially and adversely affect our future business, financial condition, results of operations, liquidity or ability to finance planned capital expenditures.

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

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

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

Cost overruns, curtailments, delays and cancellations of operations as a result of the above factors and other factors common in our industry may materially adversely affect our operating results and financial position and our ability to maintain our interests in prospects.

We have experienced recurring operating losses.

Since our 2010 sale of certain operating assets in Colombia, we have had limited operating revenues and have incurred recurring losses from operations. While we saw an increase in operating revenues late in 2017 with the commencement of production from our initial wells in Reeves County, unless we are able to continue to grow production through drilling, acquisition or otherwise, we may continue to experience limited operated revenues and recurring losses from operations.

Our oil and gas holdings and operations are concentrated and we are dependent upon the results of drilling and production operations on a small number of prospects and wells; in particular, our Reeves County holdings and wells. If those properties and wells perform below expectations, we may experience production, revenues and profitability below expectations.

At December 31, 2017, we owned interests in 294 net acres and 0.98 net wells in the United States and our drilling plans for the foreseeable future are focused exclusively on our Reeves County, Texas acreage where we drilled two initial wells which came on production in late 2017. Although only on production for a limited time in 2017, our Reeves County wells accounted for 67% of our total production volumes during 2017. Our production, revenues and profitability for the foreseeable future are expected to be highly dependent upon the results of existing and future wells we may drill in Reeves County. In order grow our revenues and improve profitability, we must continue to drill productive wells. If existing wells, or future wells we may drill, in Reeves County perform below expectations, we may experience flat or declining production and revenues and may be unable to attain profitability.

We may be unable to make attractive acquisitions and any acquisitions may be subject to substantial risks that could adversely affects our business.

Acquisitions of additional mineral acreage at favorable prices is part of our strategy to increase and diversify our holdings and grow our production and revenues. We expect to focus our acquisition efforts in Reeves County and surrounding areas with an emphasis on acquiring smaller "stranded" acreage positions at favorable prices. Competition for mineral acreage in Reeves County and the greater Permian Basin is intense. Other operators, particularly large operators, have historically paid substantially higher prices for Reeves County acreage than we have paid. There can be no assurance that we will be able to successfully acquire additional acreage in Reeves County or elsewhere at favorable prices or at all. Even if we are successful in acquiring additional acreage on favorable terms, it is possible that such acreage (i) will be more speculative than higher priced acreage, (ii) may face challenges or limitations in drilling and operations such as lack of, or limited access to, critical infrastructure, due to the "stranded" nature of such acreage, or (iii) may prove uneconomical.

Our ability to acquire additional mineral acreage and to drill and develop our existing Reeves County acreage as well as other acreage that may be acquired is subject to availability of financing on satisfactory terms.

We do not presently have sufficient financial resources to conduct additional drilling operations on our Reeves County acreage or to consummate any meaningful acquisition. During 2017, we raised approximately $6.2 million through the sale of common stock and convertible preferred stock to fund acquisition of our existing Reeves County acreage, drill and complete our two initial wells on that acreage and pay costs of certain critical infrastructure to support operations on that acreage. Our share of well costs on our initial two wells, which varies depending on our working interest in the tracts comprising our Reeves County acreage, averaged approximately $1.6 million per well. While we continually learn from our prior operations and look to continually bring down costs, for each additional well on which we plan to participate, we will be required to secure financing to support our share of such costs.

We may continue to seek to access the capital markets to support planned drilling operations or acquisitions through sales of common stock, preferred stock or other securities or may seek debt financing to support such capital requirements. We do not presently have any commitments to provide equity or debt financing to support any future drilling operations or acquisitions and there can be no assurance that such financing will be available if and when needed on acceptable terms or at all. If we are unable to fund our share of drilling and completion costs of future wells on our Reeves County acreage, we may experience flat and declining production and revenues and decreased profitability and may be subject to penalties with respect to our interest in our Reeves County acreage.

Our Reeves County operations involve use of horizontal drilling and completion techniques, which involve risks and uncertainties in their application.

Our operations in Reeves County involve utilizing some of the latest drilling and completion techniques as developed by our service providers. Risks that we face while drilling horizontal wells include, but are not limited to, the following:

- landing the wellbore in the desired drilling zone;
- staying in the desired drilling zone while drilling horizontally through the formation;
- running casing the entire length of the wellbore; and
- being able to run tools and other equipment consistently through the horizontal wellbore.

Risks that we face while completing wells include, but are not limited to, the following:

- the ability to fracture stimulate the planned number of stages;
- the ability to run tools the entire length of the wellbore during completion operations; and
- The ability to successfully clean out the wellbore after completion of the final fracture stimulation stage.

Drilling in emerging areas is more uncertain than drilling in areas that are more developed and have a longer history of established drilling operations. New discoveries and emerging formations have limited or no production history and, consequently, we are more limited in assessing future drilling results in these areas. If our drilling results are worse than anticipated, the return on investment for a particular project may not be as attractive as anticipated and we may recognize noncash impairment charges to reduce the carrying value of our unproved properties in those areas.

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

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

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

Decisions made by our operators may be different than those we would make reflecting priorities different than our priorities and may materially adversely affect our operating results and financial position.

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

Shortages or the high cost of drilling rigs, equipment, supplies or personnel could delay or adversely affect our development and exploration operations. If the price of oil and natural gas increases, the demand for production equipment and personnel will likely also increase, potentially resulting, at least in the near-term, in shortages of equipment and personnel. In addition, larger producers may be more likely to secure access to such equipment by virtue of offering drilling companies more lucrative terms. In particular, high levels of horizontal drilling and hydraulic fracturing operations in the Permian Basin have created increased demand, and higher costs, for associated drilling and completion services, water supply, handling and disposal and access to production handling and transportation infrastructure, each of which have resulted in higher than anticipated prices with respect to our initial

Reeves County wells. If we are unable to acquire access to such resources, or can obtain access only at higher prices, not only would this potentially delay our ability to convert our reserves into cash flow, but could also significantly increase the cost of producing those reserves, thereby negatively impacting anticipated net income.

We may not be able to obtain access on commercially reasonable terms or otherwise to pipelines and storage facilities, gathering systems and other transportation, processing, fractionation and refining facilities to market our oil and gas production; we rely on a limited number of purchasers of our products.

The marketing of oil and gas production depends in large part on the availability, proximity and capacity of pipelines and storage facilities, gathering systems and other transportation, processing, fractionation and refining facilities, as well as the existence of adequate markets. If there were insufficient capacity available on these systems, if these systems were unavailable to us, or if access to these systems were to become commercially unreasonable, the price offered for our production could be significantly depressed, or we could be forced to shut in some production or delay or discontinue drilling plans and commercial production following a discovery of hydrocarbons while we construct our own facility or await the availability of third party facilities. We rely on facilities developed and owned by third parties in order to store, process, transport, fractionate and sell our oil and gas production. Our plans to develop and sell our oil and gas reserves could be materially and adversely affected by the inability or unwillingness of third parties to provide sufficient transportation, storage or processing and fractionation facilities to us, especially in areas of planned expansion where such facilities do not currently exist.

For example, as a result of the absence of gathering systems to handle production from our initial Reeves County wells, production was deferred or associated gas flared pending construction of gathering systems and associated infrastructure serving the relevant leases. The amount of oil and gas that can be produced is subject to limitations in certain circumstances, such as pipeline interruptions due to scheduled and unscheduled maintenance, excessive pressure, physical damage to the gathering, transportation, refining or processing facilities, or lack of capacity on such facilities. Curtailments arising from these and similar circumstances may last from a few days to several months, resulting in lost or curtailed production and revenues.

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

To the extent that we enter into transportation contracts with pipelines that are subject to FERC regulation, we are subject to FERC requirements related to use of such capacity. Any failure on our part to comply with FERC's regulations and policies or with an interstate pipeline's tariff could result in the imposition of civil and criminal penalties.

A limited number of companies purchase a majority of our production. The loss of a significant purchaser could have a material adverse effect on our ability to sell production.

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