

HOUSTON AMERICAN ENERGY CORP  
Form 10-K  
March 16, 2017

**UNITED STATES**

**SECURITIES AND EXCHANGE COMMISSION**

**Washington, D.C. 20549**

**FORM 10-K**

**(Mark One)**

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

**For the Fiscal Year Ended December 31, 2016**

**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**



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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, or a smaller reporting company. See definition of "accelerated filer," "large accelerated filer," and "smaller reporting company" in Rule 12b-2 of the Exchange Act. (Check one)

Large accelerated filer [ ] Accelerated filer [ ] Non-accelerated filer [ ] Smaller reporting company [X]

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, 2016, based on the closing sales price of the registrant's common stock on that date, was approximately \$9.0 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 13, 2017 was 51,277,388.

**DOCUMENTS INCORPORATED BY REFERENCE**

Portions of the Company's Proxy Statement for its 2017 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 in the U.S. Permian Basin and Gulf Coast regions, particularly Texas and Louisiana, and in the South American country of Colombia.

We focus on early identification of, and entrance into, existing and emerging resource plays, particularly in the U.S. Permian Basin and Gulf Coast and in Colombia. We do not operate properties but typically seek to partner with, or invest in, 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 and partnering with, investing in 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, 2016:

	Net acreage	Average working interest %	Gross producing wells	Net proved reserves (boe)	2016 Net Production Oil (bbls)	Natural Gas (mcf)
Oklahoma	4.0	2.4 %	1	636.7	4.48	676
Louisiana	74.9	4.9 %	7	10,363.3	2,854.71	19,272
Texas	122.5	1.4 %	1	4,350.0	73.33	256
Total U.S.	201.4	2.6 %	9	15,350.0	2,932.52	20,204
Colombia	49,025.0	12.5 %	—	—	—	—
Total	49,226.4	12.5 %	9	15,350.0	2,932.52	20,204

In February 2017, we acquired a 25% working interest in two blocks in the Texas Permian Basin covering approximately 717 gross (179 net) acres.

**- United States Properties:**

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

*Texas Properties*

With our 2017 acquisition of Reeves County acreage, we anticipate that our near term focus will be the exploration and development of that acreage and assembly of additional acreage positions in the Texas Permian Basin. The acreage is prospective for horizontal development of the upper and lower Wolfcamp and Bone Spring formations. The operator of the acreage, Founders Oil & Gas, has indicated that an initial well is expected to be drilled commencing on or about the first week of May 2017 targeting the Wolfcamp A shale formation.

Our principal exploration properties in Texas consist of the following:

Matagorda County — we hold a 2.71% working interest in the 779 acre Harrison Prospect.



Reeves County – we hold a 25% working interest, subject to a proportionate 5% back-in after payout, in two lease blocks covering approximately 717 gross acres.

*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 1.5% 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 10.9% working interest before payout and a 9.375% working interest after payout in a 7,000 foot Cris H well.

**- Colombian Properties:**

At December 31, 2016, 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, 2016:

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, 2016, 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, 2016, 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 are reevaluating 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 2016, 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 2016, we drilled no wells. The following table summarizes the number of wells drilled during 2016, 2015, and 2014, 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,					
	2016		2015		2014	
	Gross	Net	Gross	Net	Gross	Net
Development wells, completed as:						
Productive	—	—	—	—	1	0.1094
Non-productive	—	—	—	—	—	—
Total development wells	—	—	—	—	1	0.1094
Exploratory wells, completed as:						
Productive	—	—	—	—	7 <sup>(1)</sup>	0.6244
Non-productive	—	—	2	0.11375	5	1.2095
Total exploratory wells	—	—	2	0.11375	12	1.8339

<sup>(1)</sup> Includes one well successfully completed and subsequently shut-in and one well successfully completed and temporarily abandoned.

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.

As of December 31, 2016, 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, 2016, we owned interests in nine gross wells. As of December 31, 2016, we had ownership interests in productive wells, categorized by geographic area, as follows:

	Oil Wells	Gas Wells
United States		
Gross	7	2
Net	0.31	0.16
Colombia		
Gross	—	—
Net	—	—
Total		
Gross	7	2
Net	0.31	0.16

**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, 2016:

	Year Ended December 31,		
	2016	2015	2014
Net Production:			
Gas (Mcf):			
United States	20,204	32,146	12,717
Colombia	—	—	—
Total	20,204	32,146	12,717