

HOUSTON AMERICAN ENERGY CORP
Form 10-Q
November 13, 2018

UNITED STATES

SECURITIES AND EXCHANGE COMMISSION

Washington, DC20549

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, 2018

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)

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Delaware
(State or other jurisdiction of incorporation or organization)

76-0675953
(IRS Employer 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, a smaller reporting company or an emerging growth company. See definition of "large accelerated filer," "accelerated filer," "smaller reporting company" and an "emerging growth company" in Rule 12b-2 of the Exchange Act. (Check one):

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

As of November 5, 2018, we had 62,222,777 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>	
<u>Consolidated Balance Sheets as of September 30, 2018 and December 31, 2017 (Unaudited)</u>	3
<u>Consolidated Statements of Operations for the Three and Nine Months Ended September 30, 2018 and 2017 (Unaudited)</u>	4
<u>Consolidated Statements of Cash Flows for the Nine Months Ended September 30, 2018 and 2017 (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>	13
Item 3. <u>Quantitative and Qualitative Disclosures About Market Risk</u>	17
Item 4. <u>Controls and Procedures</u>	18
PART II	
<u>OTHER INFORMATION</u>	
Item 6. <u>Exhibits</u>	18

PART I - FINANCIAL INFORMATION

ITEM 1 Financial Statements

HOUSTON AMERICAN ENERGY CORP.

CONSOLIDATED BALANCE SHEETS

(Unaudited)

	September 30, 2018	December 31, 2017
ASSETS		
CURRENT ASSETS		
Cash	\$785,346	\$392,062
Accounts receivable – oil and gas sales	351,625	347,548
Prepaid expenses and other current assets	27,203	3,750
TOTAL CURRENT ASSETS	1,164,174	743,360
PROPERTY AND EQUIPMENT		
Oil and gas properties, full cost method		
Costs subject to amortization	60,014,246	60,139,526
Costs not being amortized	2,454,650	2,309,341
Office equipment	90,004	90,004
Total	62,558,900	62,538,871
Accumulated depletion, depreciation, amortization, and impairment	(55,992,976)	(55,725,080)
PROPERTY AND EQUIPMENT, NET	6,565,924	6,813,791
Other assets	3,167	3,167
TOTAL ASSETS	\$7,733,265	\$7,560,318
LIABILITIES AND SHAREHOLDERS' EQUITY		
CURRENT LIABILITIES		
Accounts payable	\$49,675	\$127,036
Accrued expenses	2,420	24,621
TOTAL CURRENT LIABILITIES	52,095	151,657
LONG-TERM LIABILITIES		
Reserve for plugging and abandonment costs	37,980	35,658
Deferred rent obligation	45,285	49,245
TOTAL LONG-TERM LIABILITIES	83,265	84,903

TOTAL LIABILITIES	135,360	236,560
COMMITMENTS AND CONTINGENCIES		
SHAREHOLDERS' EQUITY		
Preferred stock, par value \$0.001; 10,000,000 shares authorized		
Series A Convertible Redeemable Preferred Stock, par value \$0.001; 2,000 shares authorized; 1,085 and 1,175 shares issued and outstanding, respectively; liquidation preference of \$1,085,000	1	1
Series B Convertible Redeemable Preferred Stock, par value \$0.001; 1,000 shares authorized; 835 and 895 shares issued and outstanding, respectively; liquidation preference of \$835,000	1	1
Common stock, par value \$0.001; 150,000,000 shares authorized 62,209,073 and 59,260,101 shares issued and outstanding, respectively	62,209	59,260
Additional paid-in capital	73,069,501	72,482,303
Accumulated deficit	(65,533,807)	(65,217,807)
TOTAL SHAREHOLDERS' EQUITY	7,597,905	7,323,758
TOTAL LIABILITIES AND SHAREHOLDERS' EQUITY	\$7,733,265	\$7,560,318

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, 2018 AND 2017

(Unaudited)

	Nine Months Ended		Three Months Ended	
	September 30,		September 30,	
	2018	2017	2018	2017
OIL AND GAS REVENUE	\$ 1,881,683	\$ 215,649	\$ 552,946	\$ 111,741
EXPENSES OF OPERATIONS				
Lease operating expense and severance tax	764,035	95,260	278,460	55,245
General and administrative expense	1,165,854	1,627,433	301,495	622,994
Depreciation and depletion	267,896	86,486	89,924	55,280
Total operating expenses	2,197,785	1,809,179	669,879	733,519
Loss from operations	(316,102)	(1,593,530)	(116,933)	(621,778)
OTHER INCOME (EXPENSE)				
Other income	102	10,184	102	3
Interest expense	—	(171,605)	—	(164,503)
Total other income (expense), net	102	(161,421)	102	(164,500)
Net loss before taxes	(316,000)	(1,754,951)	(116,831)	(786,278)
Income tax expense (benefit)	—	—	—	—
Net loss	(316,000)	(1,754,951)	(116,831)	(786,278)
Dividends to Series A and B preferred stockholders	(181,350)	(80,570)	(56,250)	(63,288)
Net loss attributable to common shareholders	\$(497,350)	\$(1,835,521)	\$(173,081)	\$(849,566)
Basic and diluted loss per common share	\$(0.01)	\$(0.04)	\$(0.00)	\$(0.02)
Based and diluted weighted average number of common shares outstanding	60,079,314	52,306,289	61,220,932	54,330,541

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, 2018 AND 2017

(Unaudited)

	For the Nine Months Ended September 30,	
	2018	2017
CASH FLOWS FROM OPERATING ACTIVITIES		
Net loss	\$(316,000)	\$(1,754,951)
Adjustments to reconcile net loss to net cash used in operations:		
Depreciation and depletion	267,896	86,486
Stock-based compensation	82,947	196,869
Accretion of asset retirement obligation	2,322	2,758
Amortization of debt discount	—	158,734
Changes in operating assets and liabilities:		
Increase in accounts receivable	(4,078)	(24,199)
Increase in prepaid expenses and other current assets	(23,453)	(11,250)
Increase in accounts payable and accrued expenses	335	64,326
Increase/(decrease) in deferred rent obligation	(3,960)	40,100
Net cash provided by (used in) operating activities	6,010	(1,241,127)
CASH FLOWS FROM INVESTING ACTIVITIES		
Payments for the acquisition and development of oil and gas properties	(119,926)	(3,878,984)
Net cash used in investing activities	(119,926)	(3,878,984)
CASH FLOWS FROM FINANCING ACTIVITIES		
Proceeds from the issuance of notes payable, net of debt discount	—	570,000
Payments on notes payable	—	(600,000)
Proceeds from the issuance of Series A Preferred Stock	—	1,200,000
Proceeds from the issuance of Series B Preferred Stock	—	909,600
Proceeds from the issuance of common stock, net of offering costs	688,550	3,049,515
Payment of preferred stock dividends	(181,350)	(80,570)
Net cash provided by financing activities	507,200	5,048,545
Increase (decrease) in cash	393,284	(71,566)
Cash, beginning of period	392,062	481,172
Cash, end of period	\$785,346	\$409,606

SUPPLEMENTAL CASH FLOW INFORMATION

Interest paid	\$—	\$12,871
Taxes paid	\$—	\$—

SUPPLEMENTAL NON-CASH INVESTING AND FINANCING ACTIVITIES

Change in accrued oil and gas development costs	\$99,897	\$423,522
Conversion of convertible preferred stock to common stock	\$617	\$—
Debt discount from issuance of warrants as debt inducement	\$—	\$128,734
Increase in reserve for plugging and abandonment costs	\$—	\$6,000
Cashless exercise of stock options	\$114	\$—
Retirement of treasury shares	\$—	\$174,125

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 Annual Report on Form 10-K for the year ended December 31, 2017.

Consolidation