CONSOLIDATED CLASS ACTION COMPLAINT

Lead Plaintiffs Paul Spitzberg ("Spitzberg") and Stephen Gerber ("Gerber") (collectively "Plaintiffs"), individually and on behalf of all other persons similarly situated, by their undersigned attorneys, for their complaint against defendants, allege the following based upon personal knowledge as to themselves and their own acts, and information and belief as to all other matters, based upon, inter alia, the investigation conducted by and through their attorneys, which included, among other things, investigation by private investigators (including interviews of confidential witnesses), a review of the defendants’ public documents, conference calls and announcements made by defendants, United States Securities and Exchange Commission ("SEC") filings, wire and press releases published by and regarding Houston American Energy Corp., analysts’ reports and advisories about the Company, and information readily obtainable on the Internet. Plaintiffs believe that substantial evidentiary support will exist for the allegations set forth herein after a reasonable opportunity for discovery.
NATURE OF THE ACTION

1. This is a federal securities class action on behalf of a class consisting of all persons other than defendants who purchased Houston American Energy Corp. ("Houston American," “HUSA” or the “Company”) securities between November 9, 2009 and April 18, 2012, both dates inclusive (the “Class Period”), seeking to recover damages caused by defendants’ violations of the federal securities laws and to pursue remedies under §§ 10(b) and 20(a) of the Securities Exchange Act of 1934 (the “Exchange Act”) and Securities Exchange Commission (“SEC”) Rule 10b-5 promulgated thereunder against the Company and certain of its officers and directors (“Defendants”).

2. Houston American explores for and produces oil and natural gas in the United States and South America. Among other areas of interest, HUSA leased three exploration and production blocks in the Llanos Basin, Columbia, (i) the 345,452-acre CPO 4 block, (ii) the La Cuerva block of about 48,000 acres, and (iii) the LLA 62 block of about 40,000 acres. The C7 and C9 formations in the Tamandua #1 well are located in the CPO 4 block.

3. During the Class Period, Defendants made a series of materially false and misleading statements concerning the amount of recoverable oil reserves in the CPO 4 block and the degree and success of HUSA’s oil drilling operations in the CPO 4 block, specifically, in the C7 and C9 formations in the Tamandua #1 well.

4. Defendants’ public statements were materially false and misleading because there was no basis for reporting recoverable oil reserves in CPO 4. Indeed, Defendants knowingly failed to conduct the necessary tests, and as they knew, did not have the information and data needed, to even report “reserves.” Rather, Defendants conducted tests, albeit incomplete testing, to determine “resources.”
5. When financial publications began questioning HUSA’s disclosures beginning in April 2010, the Company denied these accusations and continued to issue false statements throughout the Class Period.

6. Not surprisingly, Defendants’ conduct caught the attention of the Securities Exchange Commission (“SEC”). As early as October 2010 the SEC was conducting an investigation of HUSA regarding potential violations of the federal securities laws about the Company’s purported reserves. HUSA concealed these facts until April 2012.

7. Defendants’ materially misleading statements inflated the price of Houston American stock from its closing price of $3.95 at the beginning of the Class Period on November 9, 2009 to a Class Period high of $20.44 on July 6, 2011.

8. On April 7, 2010, a market focused internet publication entitled “Seeking Alpha” posted an article on its website which challenged the value of Houston American stock and the value of the CPO 4 block. As a result of this posting, HUSA’s stock price plummeted $5.84 per share on very heavy trading volume to close at $14.51 on April 7, 2010.

9. Then on June 28, 2010, Sharesleuth.com, a website majority owned by Mark Cuban, posted an article on its website entitled “Small Texas Company promotes big South American oil venture.” The article questioned the value of the CPO 4 block and the veracity of Defendants’ estimate of 1 to 4 billion barrels of recoverable reserves. On this news the price of Houston American stock fell $1.66 per share to close at $10.88 per share on June 28, 2010. The stock price fell an additional $0.93 the next day to close at $9.95.

10. On March 1, 2012, the Company announced delays in drilling the Tamandua #1 well and claimed that further analysis of the well’s C7 and C9 formations would be announced as
soon as they were available. On this news, the price of Houston American securities plummeted $3.84 per share, or more than 35% of its value, to close at $7.00 per share on March 1, 2012.

11. On April 4, 2012, the Company issued an “operational update” on the status of the C7 and C9 formations, claiming that it was still waiting for the results of certain tests.

12. On April 19, 2012, the Company disclosed that it had ceased “efforts to test and complete the C7 and C9 formations in the Tamandua #1 sidetrack well...due to formation damage while drilling.” At the same time, the Company also disclosed that it was under investigation by the SEC, and that the Company had received three SEC subpoenas in connection with the investigation that had commenced in October 2010. The subpoenas called “for the testimony of the Company's chief executive officer and chief financial officer and the delivery of certain documents.” In fact, the Company had never disclosed the existence of the SEC’s inquiry from the time it presumably began in October 2010. On these revelations, April 19, 2012, the price of Houston American shares declined $1.24, or again more than 35.5% of its value, to close at $2.25.

13. Defendants have since admitted in the Company’s Form 10-Q filings with the SEC for the period ending September 30, 2012, that the SEC investigation is focused on Defendants’ statements to investors concerning the CPO4 block, in particular Defendants’ claims of potential oil resources in that specific region.

14. As a result of Defendants’ wrongful acts and omissions, and the precipitous decline in the market value of the Company's securities, Plaintiffs and other Class members have suffered significant losses and damages.
JURISDICTION AND VENUE

15. The claims asserted herein arise under and pursuant to Sections 10(b) and 20(a) of the Exchange Act (15 U.S.C. §78j(b) and 78t(a)) and Rule 10b-5 promulgated thereunder (17 C.F.R. §240.10b-5).

16. This Court has jurisdiction over the subject matter of this action pursuant to § 27 of the Exchange Act (15 U.S.C. §78aa) and 28 U.S.C. § 1331.

17. Venue is proper in this District pursuant to § 27 of the Exchange Act, 15 U.S.C. § 78aa and 28 U.S.C. § 1391(b), as Houston American’s principal place of business is located within this District and certain of the Individual Defendants reside within this District.

18. In connection with the acts, conduct and other wrongs alleged in this Complaint, defendants, directly or indirectly, used the means and instrumentalities of interstate commerce, including but not limited to, the United States mail, interstate telephone communications and the facilities of the national securities exchange.

PARTIES

19. Plaintiffs, as set forth in the certifications attached to the Declaration of William B. Federman in Support of the Spitzberg/Gerber Group’s Motion for Consolidation, Appointment as Lead Plaintiff, and Approval of Proposed Lead Plaintiffs’ Selection of Co-Lead Counsel filed June 26, 2012 (Doc. #20), purchased Houston American securities at artificially inflated prices during the Class Period and have been damaged thereby.

20. Defendant Houston American is a Delaware corporation, with its principal place of business located at 801 Travis Street, Suite 1425, Houston, TX 77002. During the Class
Period, Houston American’s common stock traded on the NASDAQ Global Market and then the NYSE Amex (“Amex”) under the ticker symbol “HUSA.”

21. Defendant John F. Terwilliger (“Terwilliger”) has been the Company’s Chief Executive Officer (“CEO”), President and Chairman of the Board of Directors (“Board”) since April 2001. According to the Company’s Proxy Statement filed with the SEC on May 25, 2012 Terwilliger owns beneficially 8,724,650 shares, or 27.5% of the Company’s stock. As of the date of the Proxy Statement 8,109,650 of these shares were pledged as security for other securities purchased on margin. On April 24, 2012, Terwilliger sold 479,983 HUSA shares to cover a margin call. According to the Company’s SEC filings, “Terwilliger brings to our board over 30 years of energy industry experience as well as essential insight and guidance from an inside perspective as a result of his key and ongoing role in acquiring and managing our asset portfolio, his central role in managing all aspects of operations of our company and his position as our largest shareholder.”

22. Defendant Jay Jacobs (“Jacobs”) has been the Company’s Chief Financial Officer (“CFO”) since July 2006. From April 2003 until joining the Company, Jacobs served as an Associate and as Vice President—Energy Investment Banking at Sanders Morris Harris, Inc., an investment banking firm, where he specialized in energy sector financing and transactions. Previously, Jacobs was an Energy Finance Analyst at Duke Capital Partners, LLC from June 2001 to April 2003 and a Tax Consultant at Deloitte & Touche, LLP. Jacobs holds a Masters of Professional Accounting and a Bachelor of Business Administration from the University of Texas.

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1 The NYSE Amex has since changed its name to NYSE MKT.
23. Defendant John Boylan ("Boylan") has been a director of the Company since 2005. Boylan has served as a financial consultant to the oil and gas industry since 2007. Previously, Boylan served in various executive capacities in the energy industry, including both the exploration and production and oil services sectors. Boylan is a licensed CPA in the State of Texas. HUSA relied on Boylan to be knowledgeable, advise and otherwise oversee, among other things, HUSA's industry, operations, and operating environment. According to the Company's SEC filings, "Boylan brings to our board 20 years of broad experience in the oil and gas industry, covering operations, accounting and finance, and his resulting understanding of the Company's industry, operating environment, key drivers of operational and financial success and specific accounting and financial characteristics and challenges encountered finance and financial reporting."

24. Defendant O. Lee Tawes III ("Tawes") has been a director of the Company since 2005. HUSA relied on Tawes to be knowledgeable, advise and otherwise oversee, among other things, HUSA's industry, operations, and operating environment. According to the Company's SEC filings, "Tawes brings to our board over 30 years of broad experience in finance and investment banking, and specific experience in oil and gas finance and investment banking, and his resulting understanding of our industry, operating environment, key drivers of financial success and specific capital market characteristics and challenges encountered by our company."

Tawes owns beneficially 9.7% of the Company's common stock. Tawes profited from his knowledge of undisclosed adverse facts about the Company via his insider sales during the Class Period. He sold 80,559 shares at $5.5507 on March 23, 2012, 50,000 shares at $5.6214 on March 26, 2012, 42,700 shares at $5.75 on March 27, 2012, 81,900 shares at $4.3894 on April 5, 2012, 62,500 shares at $4.1536 on April 9, 2012, 87,400 at $3.7538 on April 10, 2012, and
10,120 shares at $3.8742 on April 11, 2012. The total amount of proceeds Defendant Tawes received from these insider sales during the Class Period was approximately $1,959,670. These sales were unusual as Tawes had no prior sales of HUSA securities.

25. Defendant Stephen Hartzell ("Hartzell") has served as a director of the Company since 2005. Hartzell has been an owner operator of Southern Star Exploration, LLC, an independent oil and gas company. From 1986 to 2003, Hartzell served as an independent consulting geologist. From 1978 to 1986, Hartzell served as a petroleum geologist, division geologist and senior geologist with Amoco Production Company, Tesoro Petroleum Corporation, Moore McCormack Energy and American Hunter Exploration. Hartzell received his B.S. and M.S. in Geology. HUSA relied on Hartzell to be knowledgeable, advise and otherwise oversee, among other things, HUSA’s industry, operations, and reserves. According to the Company’s SEC filings, “Hartzell brings to our board over 30 years of broad experience in the oil and gas industry, covering geology, operations management and asset management, and his resulting understanding of our industry, operating environment, key drivers of operational success and specific geological characteristics and challenges encountered in operations.”

26. Defendant Edwin Broun, III ("Broun") served as a director of the Company from 2005 until June 25, 2010. Broun has a B.S. in Petroleum Engineering and an M.S. in Engineering Management. HUSA relied on Broun to be knowledgeable, advise and otherwise oversee, among other things, HUSA’s industry, operations, and reserves. According to the April 27, 2010 Proxy Statement, “Broun brings to our board over 30 years of broad experience in the oil and gas industry, covering engineering, operations management and asset management, and his resulting understanding of our industry, operating environment, key drivers of operational success and specific engineering aspects and challenges encountered in operations.”
27. HUSA has a total of three employees: Defendant Terwilliger, Defendant Jacobs, and Senior Vice President of Exploration, Kenneth A. Jeffers.

28. The Defendants referenced above in ¶21-26 are sometimes referred to herein as the “Individual Defendants.”

CONFIDENTIAL WITNESSES

29. Confidential Witness (“CW”) 1 is a petroleum engineer with Petrotech Engineering Ltd. in Vancouver, BC. CW 1 was hired by HUSA to evaluate oil resources in the Llanos basin in Columbia. CW 1 has 38 years of experience as an engineer and has worked for 14 years as a consultant to the British Columbia Securities Commission on oil and gas issues.

30. From 2004 to 2007, CW 2 was Executive Vice President of Corporate Development and CFO of Shona Energy, a Houston-based oil and natural gas exploration company focusing on South America. Shona particularly explores in Columbia and Peru. Shona was an investor with HUSA and two other companies in the Serrania Block in Columbia, though not in the CPO 4 block.

31. Houston American partnered with SK Innovation Co. and Gulf United Energy (collectively, the “Partners”) to explore the CPO 4 block in Columbia. CW 3 was a geophysicist and senior vice president of the Americas for SK Innovation Co. from January 2011 to June 2012. CW 3 was the management representative from SK Innovation Co. on the Partners’ management committee that made the decisions about the exploration, drilling and production of the wells in the CPO 4 block in Columbia. Specifically, CW 3 was responsible for managing the drilling operation of the CPO 4 block.
32. CW4 is a former global drilling manager with SK Exploration and Production. CW4 commenced his work with SK Exploration and Production in January 2012. CW4 had access to, and reviewed, reports and analyses regarding the progress of the drilling in CPO 4.

33. CW5 was, during the relevant time, global engineering advisor for SK Exploration and Production beginning in January 2012.

SUBSTANTIVE ALLEGATIONS

Background

34. Houston American is an oil and gas exploration and production company. Its oil and gas exploration and production activities are focused on development of concessions in the South American country of Colombia and development of properties in the U.S. onshore Gulf Coast Region, principally Texas and Louisiana. It seeks to identify favorable drilling opportunities and to use advanced seismic techniques in order to define prospects and to form partnerships and joint ventures for the exploration and production of gas in these regions.

35. Colombia’s Llanos basin is where HUSA had three exploration and production blocks: a 345,452-acre block known as the CPO 4 block, the La Cuerva block of about 48,000 acres, and the LLA 62 block of about 40,000 acres.

36. The C7 and C9 formations in the Tamandua #1 well are located in the CPO 4 block.

37. In late 2010, HUSA sold its indirect interests in four concessions in Colombia for net proceeds, before escrow holdbacks, of $29.4 million. The interests sold accounted for 96.9% of the Company’s estimated proved oil and natural gas reserves as of December 31, 2009 and 96.8% of its oil and natural gas revenues in 2010.
38. HUSA used these proceeds to fund its exploration costs associated with the CPO 4 prospect in Colombia.

39. HUSA engaged two partners for its exploration activities in the CPO4 block. SK Innovation Co. had a 50% interest in the CPO 4 block, while HUSA had a 37% interest and Gulf United Gulf Energy had a 13% interest.

40. According to CW 3, the Partners formed a management committee to lead the exploration efforts and make key decisions concerning where to drill, the number of wells to drill and how deep to drill. The management committee met regularly at SK Innovation Co.’s offices in Houston. The following individuals were members of the management committee:

- Defendant John Terwilliger, CEO of HUSA
- Defendant James Jacobs, CFO of HUSA
- CW 3, SVP of the Americas for SK Innovation Co.
- Craig Murphy, Exploration Manager for SK Innovation Co.
- Ernest B. Miller, Executive V.P. of Gulf United Energy
- Jim Ford, Executive V.P. of Gulf United Energy
- Kenneth Jeffers, Sr. Vice President of Exploration for HUSA.

41. CW 3 said there was also a technical committee that met regularly. The members of this committee communicated regularly by phone and email as well. CW 4 said the technical committee of the Partners met on a regular basis in Houston to review progress at the CPO 4 block and to discuss next steps. CW 4 said the Partners also usually touched base on the telephone at 9:30 a.m. each morning “just to update the Partners about the operation.” CW 4 further identified the members of the technical committee as;

- HUSA CEO Defendant Terwilliger
HUSA CFO Defendant Jacobs
HUSA Senior Vice President of Exploration Kenneth Jeffers
Gulf United Energy Executive Vice President Jim Ford
Gulf United Executive Vice President of Exploration James Fluker
Senior Vice President of the Americas at SK Innovation Co. CW 3
SK Exploration and Development and Production Global Drilling Manager CW 4.

**HUSA Falsely Presents to Investors its Recoverable Oil Reserves; Knowingly Disregarding Industry Standards on Recoverable Oil Reserves**

42. The Guidelines for Application of the Petroleum Resources Management System ("PRMS") is a joint effort of the Society of Petroleum Engineers (SPE), the American Association of Petroleum Geologists (AAPG), the World Petroleum Council (WPC) and the Society of Petroleum Evaluation Engineers (SPEE) to provide definitions and guidelines "designed to provide a common reference for the international petroleum industry, including national reporting and regulatory disclosure agencies, and to support petroleum project and portfolio management requirements. They are intended to improve clarity in global communications regarding petroleum resources."

43. Among other things, PRMS, which was published in 2007, establishes definitions for the oil and gas industry.

44. Under PRMS, "reserves" are defined as those quantities of petroleum anticipated to be commercially recoverable by application of development projects to known accumulations from a given date forward under defined conditions. Reserves must further satisfy four criteria: they must be (1) discovered, (2) recoverable, (3) commercial, and (4) remaining (as of the evaluation date) based on the development project(s) applied. Reserves are further categorized in
accordance with the level of certainty associated with the estimates and may be sub-classified based on project maturity and/or characterized by development and production status.

45. Significantly, under PRMS:

To be included in the Reserves class, there must be a high confidence in the commercial productivity of the reservoir as supported by actual production or formation tests. In certain cases, Reservoirs may be assigned on the basis of well logs and/or core analysis that indicate that the subject reservoir is hydrocarbon-bearing and is analogous to reservoirs in the same area that are producing or have demonstrated the ability to produce on formation tests.

46. By contrast, “resources” are a broader category that encompass all quantities of petroleum naturally occurring on or within the Earth’s crust, discovered and undiscovered (recoverable and unrecoverable), as well as quantities already produced. Resources also include all types of petroleum, whether considered “conventional” or “unconventional.”

47. Moreover, under PRMS, companies are not permitted to aggregate estimates of reserves with those of resources:

Petroleum quantities classified as Reserves, Contingent Resources, or Prospective Resources should not be aggregated with each other without due consideration of the significant differences in the criteria associated with their classification. In particular, there may be a significant risk that accumulations containing Contingent Resources and/or Prospective Resources will not achieve commercial production.

48. In September 2010, HUSA engaged CW 1, a petroleum engineer, to evaluate oil resources in the Llanos basin in Columbia. CW 1 was a petroleum engineer with Petrotech Engineering Ltd. in Vancouver, BC. CW 1 has 38 years of experience as an engineer and has worked for 14 years as a consultant to the British Columbia Securities Commission on oil and gas issues.

49. CW 1 reported to Defendant Terwilliger (HUSA’s CEO and Chairman) and Kenneth Jeffers (HUSA’s Senior Vice President of Exploration).
50. At the instruction of Defendant Terwilliger, CW 1 did not evaluate the available reserves in CPO 4. Instead, CW 1 performed only a paper document review of the resources of the Llanos basin and did not conduct any tests of his own in the field. CW 1 relied on existing seismic data, geological maps and other records.

51. HUSA’s President and CEO, Defendant Terwilliger, did not want CW 1 to do a risk assessment of the Llanos basin resources, CW 1 said.

52. Consequently, CW 1 performed a “limited scope examination” in accordance with the standards of the Society of Professional Engineers. CW 1 produced a written report without a risk assessment, even though CW 1 believed “there could be a lot of risks in drilling in an area like that.” According to CW 1, there were “numerous” risks in that particular basin.

53. Moreover, according to an article dated October 19, 2010, published on LaRepublica.com.co, CW 1 prepared a document that states some of HUSA’s estimates of oil reserves were not supported by official data or available evidence.

54. CW 1 only evaluated the resources, not the reserves for the CPO 4 block. Significantly, CW 1 explained that it was not possible to evaluate the oil reserves in the CPO 4 block because no drilling had begun at the time, and therefore there was no history of oil production from which to evaluate its oil reserves. According to CW 1, “there were no reserves” for the CPO 4 block.

55. In fact, when asked whether HUSA had any legitimate reason to call its oil resources in the CPO 4 block “oil reserves,” CW 1 said that HUSA had never “reached the point where they could call the oil resources there ‘reserves.’” Accordingly, the Company had no basis to estimate oil reserves at the time of, or prior to, CW 1’s evaluation in September 2010 because there was no oil production data.
56. The Company, however, had represented in investor presentation materials filed with the SEC on a Form 8-K on November 9, 2009, that the CPO 4 block contained huge amounts of oil reserves, in the range of 1 billion-4 billion barrels, as detailed below at ¶71. This statement was false when made because it lacked any reasonable basis.

HUSA Commences Drilling in the CPO 4 Block

57. The partnership’s management committee for the drilling project in the CPO 4 block had continual disagreements about how to proceed with drilling in the CPO 4 block. CW 3, the geophysicist who worked as the Senior Vice President of the Americas at SK Innovation Co. and who was the management representative for SK Innovation Co. joined the Company in January 2011 when “we were at the stage prior to drilling wells.” The management committee was in the process of deciding where to drill wells in the CPO 4 block, the number of wells and their depth – a decision that was made based on seismic data from similar wells in a surrounding block and in the area where the drilling would occur. According to CW 3, “I had many disagreements with Houston American,” and the Partners had different opinions about “where to drill the wells and the economic justification for drilling the wells.” “SK saw the prospects as less economically prudent than HUSA,” said CW 3. CW 3 explained that the seismic data significantly lowered SK’s expectations for the CPO 4 block. According to CW 3, following review of the seismic data, SK wanted to drill only two wells, but HUSA and Terwilliger, in particular, insisted on drilling three wells in a “desire to show success” for HUSA.

58. Ultimately, the management committee agreed to drill three exploration wells in the CPO 4 block, despite significant conflict among the members.

59. Once the management committee agreed on three wells, it chose to drill the Tamandua first, to be followed by a second test well in the southeast of the CPO 4 block, initially called Negretos, and then a third test well on the eastern side of the block.
60. Drilling began on the Tamandua in July 2011. According to CW 3, there were “problems from the get go. The well bit got stuck repeatedly. The engineers could not figure out why.” The management committee considered stopping the operation, but did not take action.

61. Further, according to CW 3, as the operation continued, the cost went “way over budget – from $30 million to $50 million, and it took way too long, 7 months instead of 2.” Since the drill bit kept getting stuck, the management committee decided unanimously, on two separate occasions, to sidetrack the well, even though that increased the cost.

62. By December 2011, the drilling had reached 16,000 feet, yet the committee had still not found any shows of oil and had hit rock. At that point, CW 3 said, the committee decided to cease drilling efforts in the CPO 4 block. CW 3 said “[i]t was obvious we had to stop. It was decided in a telephone call. We couldn’t go any further.”

63. The Partners decided to conduct a well test to see what was contained in the fluid. The first test conducted by SK Innovation Co., which takes about three weeks, “did not find flowable hydrocarbons in Tamandua,” CW 3 said.

64. Nevertheless, HUSA and Gulf United Energy decided to do a second well test on Tamandua on a “sole risk basis,” meaning they would pay themselves to do it. “SK decided not to participate in the second test. “We didn’t think the probability of finding hydrocarbons justified the cost,” CW 3 said. The second round of tests of the fluids at the bottom of the well in February 2012 or March 2012 “found nothing,” CW 3 said. “Then the well was abandoned and we moved on to the second well, the one in the South, originally called Negretos,” CW 3 said.

65. CW 5, the Global Engineering Advisor for SK Exploration and Production, joined SK in January 2012, about the time SK Exploration Co. was preparing to test the Tamandua well for hydrocarbons, CW 5 confirmed. The Partners conducted C9 formation tests, drilling stem
tests, or DST, which consisted of detonating a series of explosives that would induce the flow of oil and gas toward the well hole and toward the surface, where the hydrocarbons could be examined.

66. CW 5 said the C9 formation tests conducted around February 2012 were very disappointing. According to CW 5, “there was nothing commercially viable there. There was nothing we got to the surface to indicate it was a commercial zone. There was no continuous flow.”

67. When CW 4 (the global drilling manager for SK Exploration and Production), started working for SK in January 2012, the team was drilling a six-inch hole and planned to conduct two tests: one in the C9 formation and the other in the C7 formation. CW 4 also confirmed that the results of the tests in the C9 formation were so disappointing – “there was no oil,” CW 4 said - that SK decided it did not want and decided not to proceed with further tests in the adjoining C7 formation. According to CW 4, the tests of the C9 formation were conducted in February or March 2012. “The C9 formation did not test very well,” CW 4 added. “The results were very poor.” So HUSA and Gulf United Energy decided to proceed on their own in conducting the second round of tests. “The other partners took the sole risk,” CW 4 said.

68. The technical committee reviewed the results of the drilling operation on the CPO 4 block, including the tests to determine whether there were any hydrocarbons at the CPO 4 block. CW 4 related that CW 4 reviewed the geological tests and records and did not find evidence of strong hydrocarbon shows at any time, either during this first testing or during the initial drilling efforts.

69. According to CW 4, HUSA and Gulf United Energy spent an inordinate amount of time and money on the second tests of the C7 formation, which took over two weeks and cost
approximately $5 million. “It was pretty clear it wasn’t going to produce anything,” CW 4 said. “They spent too long on the C7 test. There was no indication of gas or oil.” The second tests were just as disappointing, and revealed no flowable hydrocarbons. At this point the Committee decided to abandon the well.

70. According to CW 5 (the Global Engineering Advisor of SK Exploration and Production), throughout the drilling process SK’s well site supervisor, whose name CW 5 did not recall, sent daily reports to HUSA and Gulf United Energy about progress at the Tamandua site. The daily reports described the drilling and the testing in detail – “everything that happened at the well,” CW 5 said.

**Materiably False and Misleading Statements Issued During the Class Period**

71. On November 9, 2009, the Company filed a Form 8-K signed by Defendant Jacobs with the SEC. The Form 8-K included slides that were prepared by HUSA for an investor presentation that was held on November 9, 2009 concerning the Company’s various oil exploration prospects. The presentation stated, among other things:

CPO 4 Block consists of 345,452 net acres and contains over 100 identified leads or prospects with estimated recoverable reserves of 1 to 4 billion barrels.

(Emphasis supplied).

72. In response to this information, the price of HUSA stock increased over 10%, from $3.95 to $4.35 on November 10, 2009. In the following days, the stock price continued to rise, reaching $4.83 by November 16, 2009 -- a 22% increase.

73. The statement that the CPO 4 block contained “estimated recoverable reserves of 1 to 4 billion barrels” in ¶71 above was materially false or misleading. As described above at ¶¶50-55, HUSA had not conducted the necessary tests to substantiate its assertion that CPO 4
had any reserves at all. According to CW 1, HUSA conducted testing in 2010, at which time, HUSA had merely conducted an analysis of the potential resources available in the CPO 4 block, but had not conducted the tests necessary to properly estimate the amount, if any, of recoverable reserves. Indeed, such tests could not be conducted unless and until HUSA and the management committee had commenced drilling in the CPO 4 block, but such drilling did not commence until much later, in mid-2011. Indeed, according to CW 1, “There were no reserves.” Accordingly, the Defendants had no basis for claiming that that the CPO 4 block contained “100 identified leads or prospects with estimated recoverable reserves of 1 to 4 billion barrels.”

74. On March 26, 2010, the Company filed its annual report for the period ended December 31, 2009 on Form 10-K with the SEC, which was signed by, among others, Defendants Terwilliger, Tawes, Hartzell, Boylan, Jacobs and Broun. The 10-K stated in relevant part:

Pursuant to a Farmout Agreement and Joint Operating Agreement, we hold an interest in the 345,452 acre CPO 4 Block located in the Western Llanos Basin and operated by SK Energy Co. LTD. . . .

* * * *

The Phase 1 Work Program consists of reprocessing approximately 400 kilometers of existing 2-D seismic data, the acquisition, processing and interpretation of a 2-D seismic program containing approximately 620 kilometers of data and the drilling of two exploration wells.

75. On April 7, 2010, Seeking Alpha posted an article entitled “Houston American Energy Corp. Set Up for Collapse” on its website that challenged the value of Houston American stock and the value of the CPO 4 block. The article stated in relevant part:

HUSA’s business plan appears to leech on to larger oil companies then promote and hype their investments. For example, to justify HUSA’s current valuation, one has to believe that a $15 million investment made just a few months ago is now worth over $500 million. In addition, an investor has to believe one of the most sophisticated oil investors (Korea’s largest energy company) is willing to
hand out winning lottery tickets for next to nothing. HUSA has made a spectacular run, but we believe it is coming close to an end. We believe investors are unaware or have overlooked prior indiscretions by HUSA’s management team at a bankrupted company. Given the issues with management and the overhype surrounding the company’s Colombian investments, we believe investors face greater than 65% downside from current levels.

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HUSA has a history of a hyped stock (that ultimately does not deliver). In late 2006 the stock rocketed 160% over hype regarding its investment in the Cabiona prospect in Colombia. The company issued multiple press releases in the fall of 2006 regarding the progress on their Cabiona drilling project. In early 2007, management confessed that the drilling failed and the well had to be "plugged", sending the shares down 60%. In mid 2008, the stock rallied nearly 250% over three months over hype of the sale of its Caracara assets in Colombia. That sale generated the aforementioned gain of $7.6 million. The shares fell greater than 80% the following six months after the gain was announced.

The previous spikes in the stock pale in comparison to HUSA’s most recent ascent. In July 2009 the stock was trading below $2.00 per share. In early December 2009, the company issued equity in a registered direct offering through the investment bank Global Hunter at $4.68 per share (2.89 mm shares or $12.8 million in net proceeds). Since that deal, the shares have quadrupled. The hype machine is currently in full force: momentum newsletters, small cap research shops, and chat boards (even pumpers on a chat board for a Chinese software company have helped drive the stock to irrational levels).

**Sum-of-Parts**

The shares have been such a huge outperformer due to excitement surrounding their October 2009 investment in CPO-4 in Colombia. To better understand the valuation of HUSA, we point to the sum-of-parts valuation from Global Hunter. While we believe Global Hunter is a respectable firm and do not believe that they are part of this pump and dump scheme, we take their research with a healthy dose of skepticism given their investment banking relationship with the company. Global Hunter provided the following sum-of-parts valuation to justify their recent $14 price target (the report has been published here).

- $1.91 per share for 7 JV Colombian locations w/ Hupecol; ~12.5% interest
- $1.93 per share for JV w/ Shona w/ Serrania; ~12.5% interest
- $11.71 per share for CPO-4 Block

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**CPO-4 Hype**

Clearly the largest piece of the sum-of-parts valuation of HUSA is their 25% interest in CPO-4. As way of background, in 2008 South Korea’s largest energy
company, SK Energy, participated in an auction of 17 blocks covering 6.6 million acres in Colombia. SK Energy won the rights to the CPO-4 block (345,452 acres) with a very aggressive bid of 31% royalty to National Hydrocarbon Agency and a $2.3 million bonus payment (.pdf). SK Energy was very bullish about the prospects for CPO-4, as their bid was one of the most aggressive of any block.

Just a few months ago, HUSA announced a farmout agreement where it agreed to pay 25% of all past and future costs related to CPO-4 in exchange for 25% interest in the block (we believe this is actually a “farm in” agreement). HUSA management expects to spend $15 million over the next three years on CPO-4. Adjusting for the 31% royalty to the National Hydrocarbon Agency and the 8% royalty to the Colombia government, HUSA’s interest represents roughly 15% of CPO-4. In exchange for roughly a $10 million present value investment, we believe investors are now valuing this 15% stake at greater than $500 million just a few months later.

Is SK Energy dumb or was it in financial difficulty? We argue neither. SK Energy is a leading energy company in South Korea. In 2009, it had revenues of $32 billion and assets of over $19 billion, and had a tremendous amount of financial flexibility with its leverage below 3.5 times debt to EBITDA. SK Energy operates in dozens of foreign countries and recently highlighted their most desirable 2010 exploration opportunities in Vietnam, Brazil, and Peru (notice Colombia is not mentioned Earnings Results-Final(1).pdf).

In addition, the HUSA CPO-4 deal was announced after a number of positive high profile data points were announced in Colombia. This includes the $800 million acquisition of Emerald Energy by Sinochem in August 2009 and large success by Petrominerales Ltd. (PMGL.PK) Corcel-A2 in September 2009.

Even stranger, according to Gulf United Energy’s 10-Q issued in January 2010, Gulf United “entered into a tentative letter of intent with SK Energy Co., Ltd to acquire a 25% interest in Block CPO-4 in the Llanos Basin of Colombia. This agreement is subject to completion of a definitive agreement which is currently being negotiated.” Gulf United entered into the letter of intent AFTER HUSA finalized its agreement with SK Energy. Gulf United Energy is another small cap E&P company with limited management team and a current market cap of $33 million.

So despite knowledge of success at Corcel-A2 and the lofty takeout valuation of Sinochem, very recently one of the most sophisticated oil investors in the world was looking to dump 50% of its interest in CPO-4. At the very least, this should be a massive red flag. At the very best, we believe there is a huge disconnect between the valuations of Petrominerales Ltd, who has proven success in Colombia, and the highly speculative investment in HUSA. We believe Shareholders Unite’s post does a good job of flushing this disparity out.
Management Indiscretions

The quality of a management team is extremely important for any small cap company. But when your management bench is only two people, assessment of management is vital. We found prior indiscretions of HUSA’s founder and CEO, John F. Terwilliger, highly concerning. Terwilliger was the founder and CEO of Moose Oil and Gas Company, which filed for Chapter 7 bankruptcy in April 2002. As Moose Oil was heading towards insolvency, it was alleged that Terwilliger used Moose Oil resources and funds to start HUSA. According to a court appointed official, in “March of 2001, John F. Terwilliger began using the funds of Moose Oil and Gas Company to create a new corporate entity that became known as Houston American Energy Corporation.” According to the 2004 case of Alan Gerger, Trustee vs. John F. Terwilliger (case number 04-03187),

Moose Oil and Gas Company raised approximately $500,000.00 in contributions to the corporation that were deposited into the corporation’s bank accounts and, within a short period of time, appear to have been used not for the purposes represented.

In addition, Terwilliger transferred assets that the court official found were “made with actual intent to hinder, delay or defraud investors.” The acts “were committed intentionally, willfully, and/or maliciously, John F. Terwilliger committed acts constituting a breach of his fiduciary duty.”

In the settlement agreement in October 2005 (case # 02-33891), the trustee had evidence that showed that John F. Terwilliger and Marlin Date Research [100% owned by Terwilliger] engaged in a scheme to hinder, delay or defraud creditors of Moose, that John F. Terwilliger intentionally breached his fiduciary duties. In light of these findings, we found a number of items that should be serious red flags to any investor. For example, management has a poor track record of estimating or possibly inflating proved reserves. According the 2008 10k,

During the years ended December 31, 2007 and 2008, revisions to prior estimates resulted in significant negative revisions to our proved reserves. Negative revisions during fiscal year 2007 amounted to 57.7% of prior year-end proved natural gas reserves and 40.2% of prior year-end proved oil reserves. Product sales and negative revisions during fiscal year 2008 amounted to 86.2% of prior year-end proved gas reserves and 83.4% of prior year-end proved oil reserves.

Even more disturbing is the disclosure regarding related party transactions. Over the past two years, (page F-11 10k), Terwilliger and Director Orrie L Tawes received royalty payments of $256,018 and $253,467, respectively. This is highly concerning given the CEOs prior history of apparent self dealing. Also concerning, according to court documents (Case 04-031887 Document 1), prior to
Moose’s bankruptcy, “all of the oil and gas properties and/or interests of Moose Oil and Gas Company being transferred to O. Lee Tawes and Marlin [owned 100% by Terwilliger].” Is it possible that Terwilliger is still benefiting from the potential “fraud” (the Trustee’s words) at Moose Energy, but now at the expense of HUSA’s shareholders? We have no opinion on this, but would feel more comfortable if not for the modest audit fees charge by their auditor GBH CPAs. We can only hope that the $78,335 audit fee is sufficient to provide proper oversight at HUSA.

In conclusion, we believe HUSA could be set up for a massive collapse. We believe investors face greater than 65% downside from current levels. *Even a stock price that is 65% lower suggests a greater than ten times return on their investment in CPO-4 in a few months—which may understake the downside given SK Energy’s recent actions.* With only 669,000 shares short (around 2% of shares outstanding), we believe the shares represent an undiscovered opportunity for the short community and a lottery ticket than may ultimately be worth nothing more than the paper on which it was printed.

(Emphasis supplied).

76. As a result of this posting, HUSA’s stock price plummeted $5.84 per share on extremely heavy trading volume to close at $14.51 on April 7, 2010.

77. On April 7, 2010, as a result of the significant decline in the price of HUSA’s stock, the Company issued a response to the article “Set Up for Collapse,” which denied the allegations made in the article The press release stated in pertinent part as follows:

Houston American Energy Corp. (Nasdaq: HUSA), in response to today’s sharp jump in trading volume and decline in price, advised that the jump in trading volume appeared to be attributable to an internet posting questioning the valuation of the company’s holdings and inferring that the company is “Set Up for Collapse”.

Mr. John Terwilliger, President and Chairman of Houston American, stated, “we have reviewed the internet postings in question and believe they mischaracterize our company, our management team and the very nature of our operations.”

“Any inference that our company is set up for collapse is unwarranted and outrageous. We have no debt and operate with a lean overhead structure. This is consistent with our goal to identify attractive opportunities to profit alongside larger operators without having to carry the overhead of such operators. In addition, it should be noted that Houston American Energy is not a party to any litigation, nor is it aware of any threatened litigation.”
“Regarding the allegations with respect to the integrity of management, such allegations are scurrilous at best. Regarding royalties received by myself and Lee Tawes, those royalties were established early in the company’s life (2005) when no compensation was paid to officers and directors and we have consistently disclosed the royalties that have been paid. Moreover, I would note that since inception of the company neither I nor any member of our management or board has sold a single share of stock in our company. Allegations of some form of potential wrong doing based on the receipt from third parties of fully disclosed royalties and unsubstantiated allegations relating to Moose Oil appear only to act as cover for the author’s malicious efforts to smear our company.”

“As regards valuation of our asset plays, we do not fix the value of those assets. However, we do stand behind the performance and track record of our partners in Colombia. Houston American along with its consortium partners sold their initial prospect in Colombia for roughly $1 billion and has an established record of finding and developing reserves in Colombia.”

78. On June 25, 2010, the Company announced the resignation of Defendant Broun as a director of the Company, citing “personal and health reasons.”

79. On June 28, 2010, Sharesleuth.com posted an article entitled “Small Texas company promotes big South American oil venture.” The article was highly critical of HUSA’s management, and questioned the value of the CPO 4 block and the veracity of Defendants’ estimate of 1 to 4 billion barrels of recoverable reserves:

Both of the oil companies that John F. Terwilliger ran before he became founder, chairman and chief executive of Houston American Energy Corp. (Nasdaq: HUSA) wound up in bankruptcy.

An oilfield services company headed by one of Houston American’s directors, John P. Boylan, also went under, in part because he took hundreds of thousands of dollars in loans from the business without the knowledge or consent of his partners.

A third member of Houston American’s five-person board, Edwin C. Broun III, was described in court documents last year as suffering from alcohol-related brain damage that could affect his ability to “process information and make sound decisions.” The filing, submitted in his defense, characterized him as a recluse who slept all day, drank all night and hadn’t opened his mail in two years.

A fourth Houston American director, Orrie Lee Tawes, is a longtime friend and financier of Terwilliger’s, and was involved with Terwilliger’s most recent bankrupt company, Moose Oil and Gas Co. As head of investment banking for
Northeast Securities Inc., Tawes also helped raise $34 million for Xethanol Corp., a dubious biofuels company that was the subject of a previous Sharesleuth investigation.

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*Houston American said in an investor presentation and subsequent Securities and Exchange Commission filing that the prospect was estimated to hold anywhere from 1 billion to 4 billion barrels of "recoverable reserves."

The latter figure exceeds the official proved and probable reserves for all of Colombia, and stands as one of the most audacious claims by any of the energy companies operating in that country.

*Houston American did not cite a consultant’s report or any other independent study as the source of its estimate. Nor did the company offer any qualifiers, such as the percentage of those reserves it has a reasonable certainty of producing.

*Houston American also said that the new Colombian prospect, known as CPO 4, was next to another field that is estimated to have 610 million barrels of recoverable oil.

*But Ecopetrol, the state-controlled company that operates the field, called Apiay, told Sharesleuth that it had no knowledge of Houston American’s figure. It added that it does not break down its reserves by individual site. (For more information on how oil companies typically report reserves, go here and here. The SEC also has rules for how publicly held companies calculate and value their reserves).

(Emphasis in bold and italics).

80. The article further noted that “[a]lthough Houston American executives have been talking up the CPO 4 prospect, their counterparts at SK Energy have said little about the site’s potential. In a financial presentation in April, the South Korea-based company did not even list the 345,452-acre tract among its main exploration and development projects for 2010.”

81. The June 28th Sharesleuth article also focused on the questionable business histories of Defendants Terwilliger, Boylan, Broun and Tawes:

**MOOSE OIL**

Terwilliger started Houston American in April 2001. At that time, he also headed Moose Oil, a small, privately held company that operated primarily in Texas and Oklahoma.
Moose filed for protection from creditors the following year, leading to charges by its bankruptcy trustee that Terwilliger and Tawes improperly shifted assets out of the company and used its cash to set up Houston American.

Moose listed roughly $238,000 in assets and $2.6 million in liabilities in the financial schedules it submitted with its bankruptcy petition.

According to court filings, Terwilliger used hundreds of thousands of dollars from Moose's bank accounts — starting in February or March of 2001 — to pay legal fees, accounting fees and other costs incurred in creating Houston American.

The complaint by Moose's bankruptcy trustee noted that agreements that were said have taken effect in April 2001 transferred certain oil and gas interests to Houston American for less than $250,000. The trustee alleged that Moose was insolvent, or nearly insolvent, at the time of the transfers, which would mean that the deals could be voided under federal bankruptcy law.

The complaint also said that, between October and December 2000, Terwilliger and Tawes provided roughly $649,000 in cash to Moose, and that those contributions were classified as loans.

In June 2001, Moose issued promissory notes for those debts to another of Terwilliger's companies, Marlin Data Research Inc., and to Tawes. According to court filings, the notes were secured by most, if not all, of Moose's remaining oil and gas holdings.

By December of that year, Moose had defaulted on the notes, and in early February 2002, the company turned over multiple oil and gas interests to Marlin Data Research and Tawes.

Moose filed for bankruptcy on April 9, 2002, the same day as a scheduled court hearing on a suit filed by property owners who claimed that the company had failed to pay them more than $300,000 in royalties.

The bankruptcy trustee presiding over Moose's estate accused Terwilliger of breaching his fiduciary duty, engaging in self dealing and transferring assets "with actual intent to hinder, delay or defraud creditors."

Terwilliger settled the case with an agreement that called for him and Marlin Data Research to pay $100,000 to Moose's estate and for Marlin to return certain royalty assignments. A judge dismissed the trustee’s case against Tawes, ruling that he wasn’t a company insider and could not be held responsible for any diversion of assets.

The trustee also sought the return of more than $310,000 in payments that Moose made in the year before its bankruptcy filing to the law firm that set up Houston American, to American Express Corp., and to a handful of other parties. He argued that Moose was insolvent, or nearly insolvent, at the time the payments were made, and that most of the expenses were unrelated to its business.
One of the companies on that list was S.P. Hartzell Inc., headed by petroleum geologist Stephen P. Hartzell. He currently is a member of Houston American’s board, and SEC filings show that he also was one of its early shareholders.

Court records show that the trustee settled with the law firm, American Express and several other defendants, recovering about half of the total amount sought from them.

BOYLAN

John Boylan, an accountant with a master of business administration degree, has been a Houston American director since 2006. He heads the board’s audit and compensation committees.

Boylan previously was the chief executive of an oilfield services company called Birdwell Partners L.P., and for a time managed one of its units, Five Star Transportation L.P.

Five Star Transportation shut down in 2003 after falling behind on its bills and finding itself unable to keep up payments on a line of credit with a balance of roughly $1.25 million.

According to court filings, Boylan was ousted by Birdwell’s other partners that year, after one of them discovered that between $350,000 and $400,000 was missing from the checking accounts of Five Star and a related business, American Pipe Inspection.

The court filings show that Boylan’s partners forced him to resign, but decided not to seek criminal charges against him. Boylan never repaid the money, and Five Star defaulted on its line of credit.

When that lender went after the members of Birdwell Partners who had personally guaranteed the debt, Boylan declared bankruptcy. The lender fought his efforts to have the debt discharged, claiming among other things that he sought the line of credit with the intention of diverting some of the money.

According to court filings, another member of Birdwell Partners named Rick Lawrence testified that Boylan not only advanced himself money from Five Star, but also sent out $189,000 in checks in August 2003 without any money in the bank, and failed to remit $280,000 in employment and other taxes to the Internal Revenue Service.

Boylan said in his own filing that the loans were an accepted practice at the company as an alternative to profit distributions. He said that others at Birdwell were aware of them, and that the allegations of impropriety were part of a plan by Lawrence to force him out as chief executive.

However, an investigator for the court-appointed receiver in the case said his inquiry showed that Lawrence’s account of the events was accurate.
Boylan listed $516,000 in debts to Five Star Transportation in his bankruptcy filing. They were described as shareholder loans.

After being removed from his position at Birdwell, Boylan worked as a manager or consultant for three different oil companies, all of which have filed for bankruptcy.

Houston American’s SEC filings say that Boylan was a manager at Atasca Resources, another Houston-based oil and gas company, from 2003 through 2007. It filed for bankruptcy last year.

Boylan’s resume on LinkedIn.com says he was a financial consultant for Saratoga Resources Inc. from December 2007 to February 2009. That company filed for bankruptcy on March 31, 2009. It successfully reorganized, however, and emerged from court protection last month.

Boyland’s resume says he has been a financial consultant for Pisces Energy LLC since December 2008. Pisces filed for protection from creditors in September.

BROUN

Edwin Broun, better known as Ted, is part of a family that has been in the oil business in Texas for at least two generations. He worked for a number of major energy companies before striking out on his own.

Broun and a partner formed Sierra Mineral Development L.C. in 1994 to find and develop oil and gas properties. The company sold three of its natural gas fields in South Texas for $123 million in 2001 and dissolved a few years later.

SEC filings show that Broun has been a Houston American shareholder since 2001, and became a director in 2005.

In December 2008, Broun was charged with a misdemeanor criminal offense. The charges were unrelated to Houston American and were eventually dismissed, so we are not going to recount the details here.

But the description of Broun in a filing submitted in his defense included information that could be considered pertinent for Houston American investors.

The filing said that Broun suffered from cognitive difficulties – possibly alcohol dementia – as a result of years of heavy drinking. It said that, because of that drinking, he sometimes did not know what day of the week it was, or even whether it was day or night. It also said that he was estranged from family and friends, seldom left the house and relied on others to make appointments for him.

Houston American’s board met 10 times last year, according to a recent SEC filing. Broun was the only one of the company’s five directors who failed to attend at least 75 percent of those meetings.
TAWES

Orrie Tawes, who goes by his middle name, Lee, spent much of his career at Oppenheimer & Co. in New York, rising to director of equity research. Terwilliger also worked at Oppenheimer before launching his first energy company, Cambridge Oil Co., in the 1980s.

Tawes has been executive vice president and director of investment banking for Northeast Securities since 2004.

In addition to finding capital for Houston American, Tawes helped raise money for Xethanol Corp., a New York-based company that claimed it had technology to convert wood chips, grass clippings and other biomass to ethanol.

Xethanol’s stock rose sevenfold, to a high of $16.18 a share, in the first four months of 2006. Sharesleuth published its investigation of the company in August of that year, calling into question its claims that its technology was commercially viable.

Within a year, Xethanol’s shares were back where they started, at around $2. The company eventually abandoned its original strategy and switched to other pursuits, but ran short of money and filed for bankruptcy last November.

SEC filings show that nearly two dozen of the investors who bought shares in Xethanol’s private placement in 2006 also participated in Houston American’s $2.12 convertible note placement in May 2005.

Tawes joined Houston American’s board of directors after that financing, along with Broun and Hartzell.

The notes were convertible to stock at $1 a share, the approximate market price at the time of the placement. Within four months, Houston American’s stock was above $3, aided by announcements of well investments in Louisiana and Texas.

Houston American raised an additional $16.6 million the following year, in a share placement handled by Sanders Morris Harris Inc., a Houston-based investment firm. Houston American’s current chief financial officer, James J. Jacobs, was an investment banker at Sanders Morris and worked on that placement.

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Sharesleuth will continue to follow Houston American and its promoters and report on what we find.

82. On this news, the price of Houston American stock fell $1.66 per share to close at $10.88 per share on June 28, 2010. The stock price fell an additional $0.93 the next day to close at $9.95.
83. In spite of the news calling into question the Company’s true financial condition, HUSA continued to falsely reassure investors. Thus, similarly to the Company’s reassuring April 7, 2010 press release, in a press release issued on August 16, 2010, in connection with the Company’s earnings announcement for the second quarter of 2010, Defendant Terwilliger stated:

With our higher interest in CPO 4 and other recent prospects acquired in Colombia, we continue to focus on growing our reserves and production as our newer prospects are drilled over the next year.

84. On November 15, 2010, HUSA issued a press release which reported its financial results for the quarter and nine months ended September 30, 2010. The release stated with respect to the CPO 4 Block and the Company’s other prospects in Colombia:

Mr. John F. Terwilliger, President and Chairman of Houston American Energy stated, "Houston American Energy enjoyed another strong quarter, highlighted by our continuing success in Colombia where we have participated in drilling seven successful wells, year to date, out of eight wells drilled. Our oil production for the 2010 third quarter increased by 69% from the 2009 third quarter and for the nine months ended September 30, 2010 our oil production was up 224% from the same period in 2009. We have also benefited from a more favorable price environment for oil with average sales price of oil realized increasing 34% for the quarter and 35% for the nine month period. As a result, our revenues were up 122% for the quarter and 332% for the nine month period.

"We continue to focus on identifying early stage resource plays where we can participate in large resource potential at lower cost, typified by our Colombian operations. Our belief in the resource potential in Colombia, and in particular our Serrania and CPO 4 prospects, continues to grow. Our belief in that potential has translated into our hiring of an in-house Senior VP of Exploration to focus on development of our Colombian holdings and the decision during the third quarter to increase our stake in the CPO 4 prospect from 25% to 37.5%. We continue to invest in Serrania and CPO 4 and expect drilling of our first wells on Serrania to occur in the near future with drilling on CPO 4 expected to commence in early 2011.

"On other fronts, we are on track to complete the previously announced sale of our indirect interests in certain Hupecol prospects and anticipate completion of that sale before year end with anticipated proceeds to Houston American expected to be approximately $35.0 million gross, before closing cost and adjustments related to the sale. Domestically, we recently entered into an agreement to sell our working interest in acreage in Karnes County, Texas where we expect to realize
cash proceeds of approximately $1.65 million on a $250,000 initial investment. Together with our cash on hand, proceeds from our sale of Hupecol assets and sale of our Karnes County, Texas working interest leave us well positioned to fund all of our foreseeable development costs on Serrania and CPO 4.

"Our acquisition, development and selected divestiture of Hupecol prospects and acquisition and divestiture of the Karnes County, Texas working interest are illustrative of our opportunistic approach to growing our asset base at relatively favorable cost and with relatively less risk. Through this approach, we have steadily increased our stakes, and potential reserve finds, in resource plays in Colombia with our interests in Serrania and CPO 4 being 12.5% and 37.5%, respectively, compared to our initial interests in Colombian assets that ranged from 1.6% to 12.5%.

(Emphasis supplied).

85. On or about December 1, 2010, HUSA participated in a webcast, represented by Defendant Terwilliger. Terwilliger stated, in pertinent part, that CPO 4 and Serrania “create an opportunity of absolutely extraordinary growth.”

86. The above statements, as they related to the “estimated recoverable reserves of 1 to 4 billion barrels,” see ¶71, and the Defendants’ “belief” that the “resource potential” for the CPO 4 “continues to grow” had no reasonable basis in fact. As of the dates of such statements, no oil had been discovered in the CPO 4 block. Thus, it was false and/or misleading to claim any oil “reserves” existed in the CPO 4 block, much less billions of barrels of reserves, as the term “reserves” is defined in the PRMS. It was simply impossible for HUSA and the Individual Defendants, experienced oil men, to determine that billions of barrels of oil in the CPO 4 block were “commercially recoverable” as was required prior to Defendants claiming such oil as reserves. In fact, as described above at ¶50-55, HUSA had not conducted the necessary tests to substantiate its assertion that CPO 4 had any reserves at all. According to CW 1, at the time of his evaluation in September 2010, HUSA had merely conducted an analysis of the potential resources available in the CPO 4 block, but had not conducted the tests necessary to properly
estimate the amount of estimated recoverable reserves. Indeed, such tests could not be conducted unless and until HUSA and the management committee had commenced drilling in the CPO 4 block, but such drilling did not commence until much later, in mid-2011. Accordingly, the Defendants had no reasonable basis to claim that the CPO 4 block contained “100 identified leads or prospects with estimated recoverable reserves of 1 to 4 billion barrels.” See ¶71. For the same reasons, the Defendants had no reasonable basis to claim that the CPO 4 block “create[d] an opportunity of absolutely extraordinary growth,” in ¶83 above, making this statement materially false and/or misleading.

87. On March 15, 2011, the Company filed an annual report for the period ended December 31, 2010 on Form 10-K with the SEC (“2011 Form 10-K”), which was signed by Defendants Terwilliger, Jacobs, Tawes, Hartzell and Boylan. The 2011 Form 10-K stated: “We may from time to time be a party to lawsuits incidental to our business. As of March 1, 2011, we were not aware of any current, pending, or threatened litigation or proceedings that could have a material adverse effect on our results of operations, cash flows or financial condition.”

88. The above statements as they relate to legal proceedings were false and misleading because, as the Company later admitted on April 19, 2012, at the time Defendants made this statement they knew that they were subject to an SEC investigation concerning the core business of the Company. Specifically, and as was known by Defendants, the SEC had begun investigating HUSA much earlier, in October 2010, and the investigation had progressed to a formal SEC investigation as of March 1, 2011.

Materially False and Misleading Statements Concerning the Success of the Drilling and Exploration Efforts in the CPO 4 Block

89. As detailed above, the Management Committee commenced drilling operations on the first test well prospect in CPO 4 in July 2011.
90. On October 5, 2011, the Company filed a Form 8-K signed by Defendant Jacobs with the SEC representing the following in relevant part regarding the progress of the drilling operations:

The well, known as Tamandua #1, was spudded on July 12, 2011 and was proposed to a target depth of 16,300’. The well was drilled to 6,830’ and casing was set for the first section of the well. Upon drilling the Lower Carbonera section of the well, the well encountered a significant kick from the uppermost pay sand expected in the well (the C-7) between the interval of approximately 12,200’ to 12,500’. This strong inflow of hydrocarbons forced the well to be shut-in and stabilized. The well then resumed drilling, but we believe the inflow of hydrocarbons compromised the mud system.

Upon re-entering the hole following a bit change from approximately 13,626’ (C-8 formation) the drill pipe got stuck and twisted off below casing, leaving approximately 1,800’ of drill pipe in the hole. After numerous trips to recover the lost drill pipe, a decision was made by the operator to sidetrack the well.

Drilling is currently underway in the new side tracked hole, as the original hole only reached the first of the objective target sands.

To alleviate the problems encountered in the first hole, the operator has modified the well program. These modifications include changes to the mud system, drilling bits and various other changes in the way in which the well will be drilled.

While the Tamandua #1 is taking longer to drill than anticipated, we believe that a significant amount of geological risk has been reduced in the well and we are very encouraged from the strong shows of hydrocarbons (gas and oil) in the first objective sand, the C-7. In addition, production from fields around this area in the Llanos Basin is generally associated with stacked pay sequences so we are encouraged about the prospects of our lower sands due to the first objective sand (the C-7) bearing hydrocarbons. However, despite the information derived from the initial Tamandua #1 wellbore, there is no assurance that we will locate hydrocarbons in sufficient quantities to be commercially viable.

(Emphasis supplied).

91. On October 6, 2011, the Company filed a Form 8-K, signed by Defendant Jacobs, which contained investor presentation materials. In the Form 8-K, the Company represented the following in relevant part:

The well was spudded on July 12, 2011 with a proposed target depth of 16,300’.
The well was drilled to 6,830’ and casing was set for the first section of the well. Upon drilling the Lower Carbonera section of the well, the well encountered a significant kick from the uppermost pay sand expected in the well (the C-7) between the interval of approximately 12,200’ to 12,500’.

Upon re-entering the hole following a bit change from approximately 13,626’ the drill pipe got stuck and twisted off below casing. Operator made a decision to sidetrack the well.

Drilling is underway in the side tracked hole with new modified well program.

We believe a significant amount of geologic risk has been reduced in the well and are encouraged about the prospects of our lower sands due to the tendency of stacked pay sequences in this area in the Llanos Basin.

92. On October 13, 2011, the Company participated in a Canncord Genuity Global Energy Conference. Defendant Terwilliger represented HUSA at this conference. At the conference, Terwilliger stated, with respect to the progress of the CPO 4 drilling operations:

But the C7, which is the uppermost potential pay sand in the [Carbonara] series. We had a tremendous kick which we announced and a very significant show of hydrocarbons gas with some oil. And that’s very interesting because it’s geographically you always want your uppermost sand to have hydrocarbons in it. That suggests that for migration you know that you have a good change now if you have structures below you that there was migration through those structures. That’s very, very positive.

(Emphasis supplied).

93. On November 8, 2011, the Company filed a quarterly report for the period ended September 30, 2011 on Form 10-Q with the SEC, which was signed by Defendants Terwilliger and Jacobs. The Form 10-Q represented the following in relevant part:

The well, known as Tamandua #1, was spudded on July 12, 2011 with a target depth of 16,300 feet. The well was drilled to 6,830 feet and casing was set for the first section of the well. Upon drilling the Lower Carbonera section of the well, the well encountered indications of oil and a significant amount of associated gas from the uppermost pay sand expected in the well (the C-7) between the interval of approximately 12,200 feet to 12,500 feet. This strong inflow of hydrocarbons is believed to have compromised the mud system and forced the well to be shut-in and stabilized.
Upon re-entering the hole following a bit change from approximately 13,626 feet (C-8 formation) the drill pipe got stuck and twisted off below casing, leaving approximately 1,800’ of drill pipe in the hole. After numerous trips to recover the lost drill pipe, a decision was made by the operator to sidetrack the well.

As of November 1, 2011, drilling was ongoing in the new side tracked hole, as the original hole only reached the first of the objective target sands.

To alleviate the problems encountered in the first hole, the operator modified the well program. The modifications include changes to the mud system, drilling bits and various other changes in the way in which the well is being drilled.

While the Tamandua #1 is taking longer to drill than anticipated, **the strong shows of hydrocarbons (gas and oil) in the first objective sand**, the C-7, are believed to increase the likelihood of hydrocarbons in the lower sands given the prevalence of stacked pay sequences in the surrounding fields in the Llanos Basin. As a result, we believe that the geological risk of the well has been reduced. However, despite the information derived from the initial Tamandua #1 wellbore, there is no assurance that we will locate hydrocarbons in sufficient quantities to be commercially viable.

We anticipate completion of drilling operations on the Tamandua #1 well before year-end 2011 with well testing and, as appropriate, completion of the well to follow. Drilling of a second test well on the CPO 4 prospect is expected to commence shortly after completion of drilling the Tamandua #1 well.

(Emphasis added).

94. On December 20, 2011, the Company filed a Form 8-K with the SEC, representing the following in relevant part:

As of December 19, 2011, the Tamandua #1 sidetrack well has been drilled to 13,989 feet which is believed to be within 50 feet of the top of the Mirador Formation, the first of the well’s four primary objective sands. While drilling the secondary objectives in the sidetrack, the C-7 and C-9 formations, we **experienced strong hydrocarbon shows and an inflow of gas**. As indicated by the Logging While Drilling ("LWD") data, the well encountered approximately 200 feet of net resistive sands in the C-7 formation and approximately 140 feet of net resistive sands in the C-9 formation (resistive sands do not necessarily mean pay). While the results of the well so far are showing the presence of hydrocarbons in the C7 and C9 sands, it is not easy to verify the quality and quantity of hydrocarbons in the formations due to the lack of porosity data (porosity data was not obtained due to well conditions). For the last several weeks we have been trying to condition the hole to run a 7 inch liner from the casing point at 11,642 feet to the bottom of the hole at 13,989 feet. During this time we
continually increased the mud weight from approximately 12 pounds to 15+ pounds in an attempt to eliminate the presence of hydrocarbons in the mud and to control the wellbore. The presence of stronger than expected pressure and hydrocarbon flows into the wellbore have necessitated replacing the surface equipment with more substantial blow out preventers and manifolds that can safely withstand the much stronger than originally anticipated pressures. Once the new equipment is in place, the 7 inch liner will be run from the casing point at 11,642 feet to the bottom of the hole at 13,989 feet.

After the liner has been run, the next step will be to drill the well down to the projected total depth of about 16,300 feet. It should be noted that while we are very encouraged by the response of the C-7 and C-9 sands found in this well, the primary objectives still lie ahead of us between 13,989 feet and 16,300 feet. These include the Mirador, Barco, Guadalupe and Une which are significant producers in the Llanos Basin. Despite the information derived from the Tamandua #1 and Tamandua #1 sidetrack, there is no assurance that we will locate hydrocarbons in sufficient quantities to be commercially viable.

(Emphasis added).

95. The foregoing statements in ¶¶88-92, emphasized in bold and italics, were materially false and misleading when made. Specifically, by the above statements, HUSA consistently represented to investors that the drilling had produced “strong hydrocarbon shows,” as well as oil shows. These representations led investors to believe that defendants had encountered evidence consistent with the presence of actual oil in the well. However, as several witnesses have described, the drilling in fact never produced any evidence of “strong” or “significant” hydrocarbons, nor did it produce any oil shows. According to CW 3, neither oil nor flowable hydrocarbons were found in the Tamandua #1 well. In addition, CW 4, stated that based on his experience and his review of reports and analyses of the CPO 4 block, the Company had never made any findings of “strong shows of hydrocarbons.” In sum, according to CW 3 and CW 4, there was “no oil” in the CPO 4 block in Tamandua.

96. According to CW 4, the drilling manager of SK Exploration and Production, the well had not shown any significant amount of hydrocarbons at any time.
97. As described above, the Committee ceased its drilling efforts in December 2011 because at that point they had hit rock and could not drill further. At that point, they decided to conduct tests of the well, which were conducted in February and March. As already described, the first tests were extremely discouraging, because they still did not yield any evidence of flowable hydrocarbons or that it was a commercial zone. ¶§63, 66, supra. Notwithstanding this fact, Defendants continued to falsely represent that they had encountered oil shows and other indications of hydrocarbons.

98. Specifically, on March 1, 2012, the Company provided an update in a press release in a Form 8-K signed by Defendant Terwilliger on the Tamandua #1 well. The press release and 8-K stated the following, in relevant part:

As reported in Houston American Energy Corp’s (NYSE Amex: HUSA) Quarterly Report on Form 10-Q for the quarter ended September 30, 2011 and in Form 8-K on December 19, 2011, drilling operations on the Company’s first well on the CPO-4 block in Colombia, the Tamandua #1, with a projected target depth of 16,300 feet, commenced in July 2011 and was subsequently sidetracked to address drilling issues associated with high pressure and inflows of hydrocarbons and fluids into the well bore. As of December 19, 2011, the sidetrack well had been drilled to 13,989 feet and efforts were ongoing to control the well bore while continuing drilling to the target depth.

Subsequently, and as of March 1, 2012, the Tamandua #1 sidetrack well had a 7 inch liner run to 13,913 feet and was drilled to total depth (“TD”) at 15,562 feet. Upon drilling the well to TD, the well encountered Paleozoics which was a clear indication that the TD had been reached.

While the well exhibited oil shows while drilling, and other indications of hydrocarbons such as log analysis that indicate possible productive sands, hole conditions have prohibited sufficient testing on the bottom hole sections. There have been many attempts to evaluate the well resulting in tool failures and stuck pipe, and current conditions are such that the operator has made the decision not to try to reenter the bottom hole sections. As a result of these developments, the decision has been made that without the ability to effectively test the lower zones, the most prudent course of action is to plug back the well and to further evaluate the C-7 and C-9 Formations. As previously reported and indicated by the Logging While Drilling data, the well encountered approximately 200 feet of net resistive
sands in the C-7 formation and approximately 140 feet of net resistive sands in the
C-9 formation (resistive sands do not necessarily mean pay).

(Emphasis supplied).

99. The above statements in ¶¶88-92, 96, emphasized in bold and italics, were false
and misleading when made. According to CW 4 (global drilling manager for SK Exploration
and Production in charge of drilling the wells in the CPO 4 block) it was no later than March
2012 when the Partners completed hydrocarbon testing in Tamandau. CW 4 said that the
hydrocarbon test revealed that the C9 formation had “no oil.” CW 4 explained that the results of
the tests in the C9 formation were so disappointing that SK decided it did not want to proceed
with testing it had planned in the adjoining C7 formation and instead moved on to other projects.
HUSA and Gulf United proceeded on their own in conducting the second test. CW 3 also
described that the test conducted in February or March 2012, “did not find any flowable
hydrocarbons in Tamandua,” causing SK to abandon the Tamandua #1 well. CW 3 further
explained that the second test “found nothing.” CW 5 similarly said that “there was nothing
commercially viable [in C9]” and further explained that “there was nothing we got to the surface
to indicate it was a commercial zone. There was no continuous flow.” See also ¶¶101-102, infra.

100. CW 2 (former VP of Corporate Development and CFO of Shona Energy)
explained that he learned about the issues HUSA encountered in the CPO 4 block through his
contacts in the industry. CW 2 recalled that it took HUSA about six to eight weeks after it
encountered problems to publicly announce that HUSA had stopped its efforts to drill the
Tamandua well. According to CW 2, it “took forever” for HUSA to admit that the well could
not be developed commercially.

101. On March 7, 2012, the Company filed an annual report for the period ended
December 31, 2011 on Form 10-K (“2011 Form 10-K”) with the SEC, which was signed by,
among others, Defendants Terwilliger, Jacobs, Tawes, Hartzell and Boylan, and reported the Company’s annual financial results and financial position. The 2011 Form 10-K also represented the following concerning CPO 4 development, in relevant part:

**CPO 4 Development**

During 2011, our capital expenditures relating to development of our CPO 4 prospect totaled $13,010,000 and related principally to drilling preparation and seismic processing and commencement of our first test well.

Drilling operations on the Company’s first well on the CPO-4 block in Colombia, the Tamandua #1, with a projected target depth of 16,300 feet, commenced in July 2011 and was subsequently sidetracked to address drilling issues associated with high pressure and inflows of hydrocarbons and fluids into the well bore. As of December 31, 2011, the sidetrack well had been drilled to 13,989 feet and efforts were ongoing to control the well bore while continuing drilling to the target depth.

Subsequently, and as of March 1, 2012, the Tamandua #1 sidetrack well had a 7 inch liner run to 13,913 feet and was drilled to total depth (“TD”) at 15,562 feet. Upon drilling the well to TD, the well encountered Paleozoics which was a clear indication that the TD had been reached.

*While the well exhibited oil shows while drilling, and other indications of hydrocarbons such as log analysis that indicate possible productive sands*, hole conditions have prohibited sufficient testing on the bottom hole sections. There have been many attempts to evaluate the well resulting in tool failures and stuck pipe, and current conditions are such that the operator has made the decision not to try to reenter the bottom hole sections. As a result of these developments, the decision has been made that without the ability to effectively test the lower zones, the most prudent course of action is to plug back the well and to further evaluate the C-7 and C-9 Formations. As indicated by the Logging While Drilling data, the well encountered approximately 200 feet of net resistive sands in the C-7 formation and approximately 140 feet of net resistive sands in the C-9 formation (resistive sands do not necessarily mean pay).

After attempting to complete the well, the rig is expected to be moved to one of two locations that are currently permitted and ready to receive the rig. In addition, the operator has five additional locations that are in various stages of permitting, location and construction.

We anticipate completion of the Tamandua #1 well during the first quarter of 2012 with well testing and, as appropriate, completion of the well to follow. Drilling of a second test well on the CPO 4 prospect is expected to commence shortly after completion of the Tamandua #1 well.
102. The aforementioned statements in ¶99 stated that the well had exhibited “oil shows,” other indications of hydrocarbons, and suggested a strong presence of hydrocarbons were materially false or misleading when made.

103. Specifically, according to confidential witnesses 3, 4, and 5, the Tamandua well had not, in fact, exhibited any oil shows whatsoever, nor had it produced any significant amounts of hydrocarbons at any point. In fact, the committee had stopped drilling in late 2011, and testing that followed merely confirmed what defendants already knew, *i.e.*, that there was no oil in the well nor was there any significant evidence of hydrocarbons. See ¶¶64, 66-67, 69.

104. Accordingly, as CW 3 described the situation, it was not “factual” or accurate to represent that the well had exhibited “oil.” Moreover, CW 3 believed that there was little basis for reporting there were “strong shows of hydrocarbons,” because “the hydrocarbons were not strong.” CW 4 said, “I never got the impression from my review of the geological tests and records that there were significant hydrocarbons discovered along the way.”

105. The 2011 Form 10-K further stated that: “We may from time to time be a party to lawsuits incidental to our business. As of March 1, 2012, we were not aware of any current, pending, or threatened litigation or proceedings that could have a material adverse effect on our results of operations, cash flows or financial condition.”

106. The above statements as they relate to legal proceedings were false and misleading because, as the Company later admitted on April 19, 2012, the SEC had issued a nonpublic formal order of private investigation on March 1, 2011, which followed a nonpublic informal inquiry commenced by the SEC in October 2010. In addition, pursuant to the investigation, in February and April of 2012, the Company received three subpoenas issued by
the SEC. These subpoenas called for the testimony of the Company’s chief executive officer and chief financial officer and the delivery of certain documents.

107. On March 16, 2012, the Company issued a press release, providing “an update on the status of the Tamandua #1 well and addressed the Company’s status in light of various unfounded rumors.” The press release stated the following, in relevant part:

Regarding the Tamandua #1 sidetrack well, the Company anticipates that it will be able to announce the test results of the C-9 and C-7 formations in a matter of days as soon as the information is available.

Regarding rumors currently circulating on message boards, John Terwilliger, Chairman and CEO of the Company, stated “There is a great deal of speculation and misinformation currently posted on message boards regarding our company. Specifically, I would note that we believe that we have more than adequate cash on hand to fund our portion of anticipated costs of testing and completion of the Tamandua #1 sidetrack well and carrying on with our business plan. Further, statements that we are on the verge of bankruptcy are wholly unfounded. We have no debt on our books and have, what we believe to be, a valuable portfolio of prospects. We remain optimistic about our CPO 4 prospect and other prospects in our portfolio.”

108. On April 4, 2012, the Company announced in a press release “an operational update on the Company’s CPO 4 block and status of the Tamandua #1 well.” The press release stated the following, in relevant part:

The Company is currently eagerly awaiting the final results of the testing of the Tamandua #1 well and will announce the results as soon as they are available. During preliminary testing of the Tamandua #1 well, it has been determined that the C-9 and C-7 formations experienced formation damage as a result of the mud program used to control the well while drilling. This formation damage has resulted in a testing period longer than what was originally anticipated. Although there have been delays with the testing, the Company remains optimistic that these conditions will be overcome and that it will be able to establish a successful test on the Tamandua #1 well.

After testing of the Tamandua #1 well is complete, the drilling rig on location will be moved to the next prospect on CPO 4. All necessary preparations have been completed for the drilling rig to move to the next prospect and begin drilling. These preparations include completion of the surface location and all logistics related to the drilling of the well, including all permitting. It should also
be noted, that the next prospect located on CPO 4 will be shallower than the Tamandua #1 well, and is anticipated to be drilled in less than 60 days once the drilling rig is on location.

109. On this news, the price of Houston American’s stock fell $0.11 to close at $4.67 on April 4, 2012. The stock price continued to fall, closing at $4.21 on April 5, 2012, $4.06 on April 9, 2012 and $3.67 on April 10, 2012, the next three trading days.

110. On April 19, 2012, the Company issued a press release announcing the termination of testing and completion efforts on Tamandua #1 well, plans for next well on CPO 4 Block in Columbia. The Company further announced that it was subject to an SEC investigation. The press release stated the following in relevant part:

Houston American Energy Corp (NYSE Amex: HUSA) today announced that a determination has been made to cease efforts to test and complete the C7 and C9 formations in the Tamandua #1 sidetrack well. Despite favorable Logging-While-Drilling logs, cased-hole logs and mudlog shows, it was determined that continued investment in testing and completion is inadvisable at this time possibly due to formation damage while drilling. The Company is encouraged, however, by the information gained from this well for the other prospects on the block. The Tamandua #1 wellbore will be preserved in a way to allow for further evaluation, if at such time in the future it is determined that it is warranted.

The Company also announced that efforts are commencing to move the drilling rig from the Tamandua #1 well site to the location of the next prospect on the CPO 4 block. This next well is expected to spud in the May/June time frame. The Company expects that the data gained during the drilling, evaluation and testing of the Tamandua #1 well will be used to significantly help with future operations on the CPO 4 block.

The Company also confirmed that the Securities and Exchange Commission ("SEC") is conducting a non-public formal investigation into the Company. The Company’s confirmation of such investigation follows receipt of information by the Company that third parties had become aware of the investigation.

Pursuant to the investigation, in February and April of 2012, the Company received three subpoenas issued by the SEC. The subpoenas called for the testimony of the Company’s chief executive officer and chief financial officer and the delivery of certain documents. The subpoenas were issued pursuant to a nonpublic formal order of private investigation issued by the SEC on March 1, 2011, which followed a nonpublic informal inquiry commenced by the SEC in
October 2010. The Company received a copy of the nonpublic formal order of private investigation on February 10, 2012 in connection with the February 2012 subpoena issued by the SEC. Although the Company cannot be certain of the scope of the investigation, the SEC is trying to determine whether there have been any violations of the federal securities laws. The investigation does not represent a conclusion by the staff that there have been any violations of the federal securities laws nor whether the staff would conclude that any enforcement action is appropriate. At this time, the Company has not been made aware of a finding by the SEC of any securities violations. Also, as stated in the subpoenas issued by the SEC, the investigation does not mean that the SEC has a negative opinion of any person, entity or security. The Company has cooperated fully, and is committed to continuing to cooperate fully, with the SEC in this matter. It is not possible at this time to predict the timing or outcome of the SEC investigation, including whether or when any proceedings might be initiated, when these matters may be resolved or what, if any, penalties or other remedies may be imposed, and whether any such penalties or remedies would have a material adverse effect on the Company’s consolidated financial position, results of operations, or cash flows.

111. On this debilitating news, Houston American’s stock price plummeted $1.24 per share, or 35.5%, to close at $2.25 per share on April 19, 2012.

112. The Company has since admitted that the SEC investigation is focused on possible misrepresentations the Company had made regarding the CPO-4 prospect. Specifically, in its Form 10-Q filed with the SEC for the period ending September 30, 2012, the Company disclosed that:

The SEC is investigating whether there have been any violations of the federal securities laws and appears to have narrowed the focus of their investigation to matters relating to disclosures in the late 2009 and early 2010 time period regarding resource potential for the CPO-4 prospect.

PLAINTIFFS’ CLASS ACTION ALLEGATIONS

113. Plaintiffs bring this action as a class action pursuant to Federal Rule of Civil Procedure 23(a) and (b)(3) on behalf of a Class, consisting of all those who purchased or otherwise acquired Houston American securities during the Class Period (the “Class”), and were damaged thereby. Excluded from the Class are defendants herein, the officers and directors of
the Company at all relevant times, members of their immediate families and their legal representatives, heirs, successors or assigns and any entity in which defendants have or had a controlling interest.

114. The members of the Class are so numerous that joinder of all members is impracticable. Throughout the Class Period, Houston American securities were actively traded on the NASDAQ Global Market and then the NYSE AMEX. While the exact number of Class members is unknown to Plaintiffs at this time and can be ascertained only through appropriate discovery, Plaintiffs believe that there are hundreds or thousands of members in the proposed Class. Record owners and other members of the Class may be identified from records maintained by Houston American or its transfer agent and may be notified of the pendency of this action by mail, using the form of notice similar to that customarily used in securities class actions.

115. Plaintiffs’ claims are typical of the claims of the members of the Class as all members of the Class are similarly affected by defendants’ wrongful conduct in violation of federal law that is complained of herein.

116. Plaintiffs will fairly and adequately protect the interests of the members of the Class and have retained counsel competent and experienced in class and securities litigation. Plaintiffs have no interests antagonistic to or in conflict with those of the Class.

117. Common questions of law and fact exist as to all members of the Class and predominate over any questions solely affecting individual members of the Class. Among the questions of law and fact common to the Class are:

- whether the federal securities laws were violated by defendants’ acts as alleged herein;
• whether statements made by defendants to the investing public during the Class Period misrepresented material facts about the business, operations and management of Houston American;

• whether the Individual Defendants caused Houston American to issue false and misleading financial statements during the Class Period;

• whether defendants acted knowingly or recklessly in issuing false and misleading financial statements;

• whether the prices of Houston American securities during the Class Period were artificially inflated because of the defendants' conduct complained of herein; and

• whether the members of the Class have sustained damages and, if so, what is the proper measure of damages.

118. A class action is superior to all other available methods for the fair and efficient adjudication of this controversy since joinder of all members is impracticable. Furthermore, as the damages suffered by individual Class members may be relatively small, the expense and burden of individual litigation make it impossible for members of the Class to individually redress the wrongs done to them. There will be no difficulty in the management of this action as a class action.

119. Plaintiffs will rely, in part, upon the presumption of reliance established by the fraud-on-the-market doctrine in that:

• defendants made public misrepresentations or failed to disclose material facts during the Class Period;

• the omissions and misrepresentations were material;

• Houston American securities are traded in an efficient market;

• the Company's shares were liquid and traded with moderate to heavy volume during the Class Period;

• the Company traded on the NASDAQ Global Market and then the NYSE AMEX and was covered by multiple analysts;
• unexpected material news about HUSA was rapidly reflected and incorporated into HUSA’s stock price during the Class Period;

• as a result of the foregoing, HUSA’s common stock promptly digested current information about HUSA from all publicly available sources and reflected such information in HUSA’s stock price;

• the misrepresentations and omissions alleged would tend to induce a reasonable investor to misjudge the value of the Company’s securities; and

• Plaintiffs and members of the Class purchased and/or sold Houston American securities between the time the defendants failed to disclose or misrepresented material facts and the time the true facts were disclosed, without knowledge of the omitted or misrepresented facts.

120. Based upon the foregoing, Plaintiffs and the members of the Class are entitled to a presumption of reliance upon the integrity of the market.

COUNT I

(Against Defendants Houston American, Terwilliger and Jacobs For Violations of Section 10(b) And Rule 10b-5 Promulgated Thereunder)

121. Plaintiffs repeat and reallege each and every allegation contained above as if fully set forth herein.

122. This Count is asserted against defendants and is based upon Section 10(b) of the Exchange Act, 15 U.S.C. § 78j(b), and Rule 10b-5 promulgated thereunder by the SEC.

123. During the Class Period, defendants engaged in a plan, scheme, conspiracy and course of conduct, pursuant to which they knowingly or recklessly engaged in acts, transactions, practices and courses of business which operated as a fraud and deceit upon Plaintiffs and the other members of the Class; made various untrue statements of material facts and omitted to state material facts necessary in order to make statements made, in light of the circumstances under which they were made, not misleading; and employed devices, schemes and artifices to defraud in connection with the purchase and sale of securities. Such scheme was intended to, and, throughout the Class Period, did: (i) deceive the investing public, including Plaintiffs and other
Class members, as alleged herein; (ii) artificially inflate and maintain the market price of Houston American securities; and (iii) cause Plaintiffs and other members of the Class to purchase Houston American securities and options at artificially inflated prices. In furtherance of this unlawful scheme, plan and course of conduct, defendants, and each of them, took the actions set forth herein.

124. Pursuant to the above plan, scheme, conspiracy and course of conduct, each of the defendants participated directly or indirectly in the preparation and/or issuance of the quarterly and annual reports, SEC filings, press releases and other statements and documents described above, including statements made to securities analysts and the media that were designed to influence the market for Houston American securities. Such reports, filings, releases and statements were materially false and misleading in that they failed to disclose material adverse information and misrepresented the truth about Houston American’s finances and business prospects.

125. By virtue of their positions at Houston American, defendants had actual knowledge of the materially false and misleading statements and material omissions alleged herein and intended thereby to deceive Plaintiffs and the other members of the Class, or, in the alternative, defendants acted with reckless disregard for the truth in that they failed or refused to ascertain and disclose such facts as would reveal the materially false and misleading nature of the statements made, although such facts were readily available to defendants. Said acts and omissions of defendants were committed willfully or with reckless disregard for the truth. In addition, each defendant knew or recklessly disregarded that material facts were being misrepresented or omitted as described above.
126. Information showing that defendants acted knowingly or with reckless disregard for the truth is peculiarly within defendants’ knowledge and control. As the senior managers and/or directors of Houston American, the Individual Defendants had knowledge of the details of Houston American’s internal affairs.

127. The Individual Defendants are liable both directly and indirectly for the wrongs complained of herein. Because of their positions of control and authority, the Individual Defendants were able to and did, directly or indirectly, control the content of the statements of Houston American. As officers and/or directors of a publicly-held company, the Individual Defendants had a duty to disseminate timely, accurate, and truthful information with respect to Houston American’s businesses, operations, future financial condition and future prospects. As a result of the dissemination of the aforementioned false and misleading reports, releases and public statements, the market price of Houston American securities was artificially inflated throughout the Class Period. In ignorance of the adverse facts concerning Houston American’s business and financial condition which were concealed by defendants, Plaintiffs and the other members of the Class purchased Houston American securities at artificially inflated prices and relied upon the price of the securities, the integrity of the market for the securities and/or upon statements disseminated by defendants, and were damaged thereby.

128. During the Class Period, Houston American securities were traded on an active and efficient market. Plaintiffs and the other members of the Class, relying on the materially false and misleading statements described herein, which the defendants made, issued or caused to be disseminated, or relying upon the integrity of the market, purchased shares of Houston American securities at prices artificially inflated by defendants’ wrongful conduct. Had Plaintiffs and the other members of the Class known the truth, they would not have purchased
said securities, or would not have purchased them at the inflated prices that were paid. At the
time of the purchases by Plaintiffs and the Class, the true value of Houston American securities
was substantially lower than the prices paid by Plaintiffs and the other members of the Class.
The market price of Houston American securities declined sharply upon public disclosure of the
facts alleged herein to the injury of Plaintiffs and Class members.

129. By reason of the conduct alleged herein, defendants knowingly or recklessly,
directly or indirectly, have violated Section 10(b) of the Exchange Act and Rule 10b-5
promulgated thereunder.

130. As a direct and proximate result of defendants’ wrongful conduct, Plaintiffs and
the other members of the Class suffered damages in connection with their respective purchases
and sales of the Company’s securities during the Class Period, upon the disclosure that the
Company had been disseminating misrepresented financial statements to the investing public.

**COUNT II**

(Violations of Section 20(a) of the
Exchange Act Against The Individual Defendants)

131. Plaintiffs repeat and reallege each and every allegation contained in the foregoing
paragraphs as if fully set forth herein.

132. During the Class Period, the Individual Defendants participated in the operation
and management of Houston American, and conducted and participated, directly and indirectly,
in the conduct of Houston American’s business affairs. Because of their senior positions, they
knew the adverse non-public information about Houston American’s misstatements and
omissions of material fact.

133. As officers and/or directors of a publicly owned company, the Individual
Defendants had a duty to disseminate accurate and truthful information with respect to Houston
American’s business, operations, financial condition and results of operations, and to correct promptly any public statements issued by Houston American which had become materially false or misleading.

134. Because of their positions of control and authority as senior officers, the Individual Defendants were able to, and did, control the contents of the various reports, press releases and public filings which Houston American disseminated in the marketplace during the Class Period concerning Houston American’s business, operations and results of operations. Throughout the Class Period, the Individual Defendants exercised their power and authority to cause Houston American to engage in the wrongful acts complained of herein. The Individual Defendants therefore, were “controlling persons” of Houston American within the meaning of Section 20(a) of the Exchange Act. In this capacity, they participated in the unlawful conduct alleged which artificially inflated the market price of Houston American securities.

135. Each of the Individual Defendants, therefore, acted as a controlling person of Houston American. By reason of their senior management positions and/or being directors of Houston American, each of the Individual Defendants had the power to direct the actions of, and exercised the same to cause, Houston American to engage in the unlawful acts and conduct complained of herein. Each of the Individual Defendants exercised control over the general operations of Houston American and possessed the power to control the specific activities which comprise the primary violations about which Plaintiffs and the other members of the Class complain.

136. By reason of the above conduct, the Individual Defendants are liable pursuant to Section 20(a) of the Exchange Act for the violations committed by Houston American.
**PRAYER FOR RELIEF**

WHEREFORE, Plaintiffs demand judgment against defendants as follows:

A. Determining that the instant action may be maintained as a class action under Rule 23 of the Federal Rules of Civil Procedure, and certifying Plaintiffs as the Class representatives;

B. Requiring defendants to pay damages sustained by Plaintiffs and the Class by reason of the acts and transactions alleged herein;

C. Awarding Plaintiffs and the other members of the Class prejudgment and post-judgment interest, as well as their reasonable attorneys’ fees, expert fees and other costs; and

D. Awarding such other and further relief as this Court may deem just and proper.

**DEMAND FOR TRIAL BY JURY**

Plaintiffs hereby demand a trial by jury.

Dated: November 15, 2012

Respectfully submitted,

/s/ William B. Federman
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Co-Lead Counsel for Plaintiffs

CERTIFICATE OF SERVICE

This is to certify that on November 15, 2012, I have filed the above and foregoing on the
Court’s CM/ECF electronic filing system, and that by virtue of this filing, all attorneys of record
will be served electronically with true and exact copies of this filing.

/s/William B. Federman
William B. Federman