

HOUSTON AMERICAN ENERGY CORP
 Form 424B5
 September 27, 2012

The information in this preliminary prospectus supplement is not complete and may be changed. This preliminary prospectus supplement and the accompanying prospectus are not an offer to sell these securities nor are we soliciting offers to buy these securities in any place where the offer or sale is not permitted.

Filed Pursuant to Rule 424(b)(5)
 Registration Statement No. 333-161319

Subject to Completion

Preliminary Prospectus Supplement dated September 27, 2012

PROSPECTUS SUPPLEMENT
 (To Prospectus Dated August 26, 2009)

Houston American Energy Corp.

Shares of
 Common Stock

We are offering and selling up to _____ shares of our common stock, \$0.001 par value.

Our common stock is listed on the NYSE MKT under the symbol "HUSA." The last sale price of our common stock as reported on the NYSE MKT on September _____, 2012 was \$ _____ per share.

You should read both this prospectus supplement and the accompanying prospectus, as well as any documents incorporated by reference in this prospectus supplement and/or the accompanying prospectus, before you make your investment decision.

Investing in our common stock involves risks. You should carefully consider the risk factors described under the caption "Risk Factors" beginning on page S-5 of this prospectus supplement, page 5 of the accompanying prospectus and in the documents incorporated by reference herein before making any decision to invest in our common stock.

We have retained C. K. Cooper & Company, Inc. as our placement agent to use its commercially reasonable efforts to solicit offers to purchase shares in this offering. The placement agent has no obligation to buy any of the shares from us or to arrange for the purchase or sale of any specific number or dollar amount of the shares. See "Plan of Distribution" beginning on page S-19 of this prospectus supplement for more information regarding these arrangements.

	Per Share	Maximum Offering
Public offering price	\$ _____	\$ _____
Placement agent fees (1)	\$ _____	\$ _____
Proceeds, before expenses, to us	\$ _____	\$ _____

(1) We have also agreed to reimburse the placement agent for all reasonable out-of-pocket accountable expenses incurred by it in connection with this offering, including the fees and disbursement of counsel, up to a maximum

of \$100,000.

It is currently anticipated that the shares purchased will be delivered on or about October , 2012.

Neither the Securities and Exchange Commission nor any state securities commission has approved or disapproved of these securities or determined if this prospectus supplement or the accompanying prospectus is truthful or complete. Any representation to the contrary is a criminal offense.

C. K. Cooper & Company

This prospectus supplement is dated , 2012

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ABOUT THIS PROSPECTUS SUPPLEMENT

This document is in two parts. The first part is the prospectus supplement, which describes the specific terms of this offering. The second part, the accompanying prospectus, including the documents incorporated by reference, provides more general information. The accompanying prospectus was filed with our registration statement on Form S-3 (registration file no. 333-161319) with the Securities and Exchange Commission (the “SEC”) as part of a shelf registration process. Under the shelf registration process, we may offer to sell debt securities, common stock, preferred stock and warrants, from time to time in one or more offerings, up to a total dollar amount of \$75,000,000. Generally, when we refer to this prospectus supplement, we are referring to both parts of this document combined. This prospectus supplement provides you with a general description of the offered securities. You should read this prospectus supplement together with additional information described under the heading “Where You Can Find More Information.”

We urge you to carefully read this prospectus supplement, the information incorporated by reference, the accompanying prospectus and any free writing prospectus distributed by us before buying any of the securities being offered under this prospectus supplement. This prospectus supplement may add, update or change information contained in the accompanying prospectus. To the extent that any statement that we make in this prospectus supplement is inconsistent with statements made in the accompanying prospectus or any documents incorporated by reference therein, the statements made in this prospectus supplement will be deemed to modify or supersede those made in the accompanying prospectus and such documents incorporated by reference therein.

You should rely only on the information contained, or incorporated by reference, in this prospectus supplement, contained, or incorporated by reference, in the accompanying prospectus or contained in any free writing prospectus we have distributed in connection with this offering. We have not authorized anyone to provide you with different information. No dealer, salesperson or other person is authorized to give any information or to represent anything not contained in this prospectus supplement and the accompanying prospectus. You should not rely on any unauthorized information or representation. This prospectus supplement is an offer to sell only the securities offered hereby, and only under circumstances and in jurisdictions where it is lawful to do so. You should assume that the information in this prospectus supplement, the accompanying prospectus and any free writing prospectus distributed by us is accurate only as of the date on the front of the applicable document and that any information we have incorporated by reference is accurate only as of the date of the document incorporated by reference, regardless of the time of delivery of this prospectus supplement, the accompanying prospectus, any free writing prospectus or any sale of a security.

We are not making any representation to you regarding the legality of an investment in common stock by you under applicable law. You should consult with your own legal advisors as to the legal, tax, business, financial and related aspects of a purchase of the common stock.

Information contained on or accessible through our website does not constitute part of this prospectus supplement.

Unless otherwise mentioned or unless the context requires otherwise, all references in this prospectus supplement to “Houston American,” “HUSA,” “Company,” “we,” “us,” and “our” or similar references refer to Houston American Energy C and its subsidiaries.

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PROSPECTUS SUPPLEMENT SUMMARY

This summary highlights certain information about us, this offering and information appearing elsewhere in this prospectus supplement, in the accompanying prospectus and in the documents we incorporate by reference. This summary is not complete and does not contain all of the information that you should consider before investing in our securities. To fully understand this offering and its consequences to you, you should carefully read this entire prospectus supplement, the accompanying prospectus and any free writing prospectus distributed by us, including the information contained under the heading "Risk Factors" in this prospectus supplement beginning on page S-5, and the financial statements and other information incorporated by reference in this prospectus supplement and the accompanying prospectus including "Risk Factors" and "Forward-Looking Statements" in our Annual Report on Form 10-K for the year ended December 31, 2011 and our reports subsequently filed pursuant to the Securities Exchange Act of 1934, as amended, or the Exchange Act, for more information about important risks you should consider before making an investment decision.

Houston American Energy Corp.

Our Business

Houston American Energy Corp. is a non-operator independent oil and gas exploration and production company. Our oil and gas exploration and production activities are focused on the exploration and 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. We seek to utilize the contacts and experience of our executive officers, principally John F. Terwilliger and James Jacobs, to identify favorable drilling opportunities, to use advanced seismic techniques to define prospects and to form partnerships and joint ventures to spread the cost and risks to us of drilling and development.

Recent Developments

Our initial test well on our CPO 4 prospect in Colombia, the Tamandua #1 well, commenced drilling in June 2011. In April 2012, our operator ceased testing and completion efforts on the well as a result of formation damage that occurred during drilling. As a result of the determination to cease efforts to complete the Tamandua #1 well, we determined to include the costs related to the Tamandua #1 well in the full cost pool for inclusion in the ceiling test and as a result we recorded an impairment charge of \$26,527,300 for the period ended June 30, 2012. This impairment charge resulted in the write off of costs there were not being amortized and were attributable to the drilling of the Tamandua #1 well. In addition we wrote off seismic exploration and evaluation costs, general and administrative costs and environmental and governmental costs that were attributable to the CPO 4 block through June 30, 2012.

In April 2012, we confirmed that the SEC is conducting a non-public formal investigation into our company. Pursuant to the investigation, we received subpoenas issued by the SEC. The subpoenas called for the testimony of our principal officers 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. We received a copy of the nonpublic formal order of private investigation on February 10, 2012 in connection with a subpoena issued by the SEC in February 2012. 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. We have presented information supporting our disclosure relative to resource potential on the CPO 4 prospect. We are scheduled to meet with the SEC in October 2012 to discuss this

information. 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, we have 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. We have cooperated fully, and are 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 our consolidated financial position, results of operations, or cash flows.

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On April 27, 2012, a purported class action lawsuit was filed in the U.S. District Court for the Southern District of Texas against Houston American Energy Corp. and certain of our executive officers: Steve Silverman v. Houston American Energy Corp. et al., Case No. 4:12-CV-1332. The complaint generally alleges that, between March 29, 2010 and April 18, 2012, all of the defendants violated Sections 10(b) of the Exchange Act, and SEC Rule 10b-5 and the individual defendants violated Section 20(a) of the Exchange Act in making materially false and misleading statements including certain statements related to the status and viability of the Tamandua #1 well. Additional class action suits have since been filed against us, and may in the future be filed against us, as a result of, or based on, the same factual allegations set forth in the Silverman case. The Complaint in the Silverman case seeks unspecified damages, interest, attorneys' fees, and other costs. We believe all of the claims in the Silverman case are without merit and intend to vigorously defend ourselves against these claims. It is not possible at this time to predict the timing or outcome of the Silverman case or any other class action lawsuits that have or may be filed.

In March 2012, we sold our interest in HupecolCuerva LLC and our indirect interest in the LaCuerva and LLA 62 prospects for approximately \$1.2 million, before transaction costs and subject to certain escrow holdbacks. After the sale, and as of the date hereof, we have no material production in Colombia.

On May 3, 2012, we entered into definitive agreements with certain institutional investors to sell, and on May 8, 2012 we sold, 6,200,000 units, with each unit consisting of one of our common shares and one warrant to purchase one common share, for gross proceeds of approximately \$13.14 million, before deducting placement agent fees and estimated offering expenses, in a "registered direct" offering. The investors purchased the units at a purchase price of \$2.12 per unit. The warrants, which represent the right to acquire an aggregate of up to 6,200,000 common shares, are exercisable at any time on or after November 9, 2012 and prior to November 9, 2015 at an exercise price of \$2.68 per share, which was 120% of the closing price of our common shares on the NYSE Amex on May 2, 2012.

In May 2012, Richard Howe resigned as a director of our company due to health reasons and, in July 2012, Keith Grimes was appointed as a director.

In July 2012, we determined to plug and abandon the Cachirre #1 well, our second test well on the CPO 4 prospect in Colombia. As a result of such determination, we included the costs related to the Cachirre #1 well in the full cost pool for inclusion in the ceiling test at June 30, 2012 and recorded an impairment charge of \$10,101,619 during the quarter and six months ended June 30, 2012. This resulted in the write off costs not being amortized that were attributable to the drilling of the Cachirre #1 well as well as to write off seismic exploration and evaluation costs, general and administrative costs and environmental and governmental costs that were attributable to the CPO 4 block through June 30, 2012. Following cessation of operations on the Cachirre #1 well, efforts commenced to move the drilling rig to the location of our third well on the CPO 4 block, the Zorro Gris well. Data gathered from drilling of the Tamandua #1 and Cachirre #1 wells is expected to be used to enhance planned drilling operations on the Zorro Gris well and any future wells that we may drill on the CPO 4 block.

With respect to development of our Serrania Block, the National Hydrocarbon Agency of Colombia (the "ANH") has granted extensions of our required development commitments, including drilling of a first test well, until September 2013 based on conditions on the ground. Based on those conditions, we do not anticipate that drilling of a first test well on the Serrania Block will occur until 2013.

On July 19, 2012, a purported derivative cause of action was filed in the U.S. District Court for the Southern District of Texas against certain directors and officers of the Company and the Company, as nominal defendant: E. Howard King, Jr., derivatively, on behalf of Houston American Energy Corp., v. John F. Terwilliger, John P. Boylan, Orrie Lee Tawes III, Stephen Hartzell, James J. Jacobs, Kenneth A. Jeffers, defendants, and Houston American Energy Corp., as nominal defendant, Case No. 4:12-CV-02182. The complaint asserts a cause of action by a shareholder on

behalf of Houston American against certain of our directors and senior executive officers in connection with the June 11, 2012 approval of payment of certain bonuses, increases in salary, grant of certain stock options and entry into certain Change in Control Agreements. The complaint alleges that the approval of such matters constituted breach of fiduciary duty and corporate waste and seeks injunctive relief to bar each of the actions in question and seeks restitution. No damages have been or, by the nature of the derivative cause of action, are expected to be alleged against Houston American. We may, however, incur certain costs and demands on management time and resources in connection with the lawsuit.

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In connection with the ongoing non-public formal investigation being conducted by the SEC and indemnification provisions contained in an engagement agreement with Global Hunter Securities, LLC relating to our 2009 equity offering, in July 2012, we entered into an agreement with Global Hunter whereby we agreed to pay, and did pay, \$271,580 to settle any and all claims by Global Hunter related to reimbursement of attorney's fees under the indemnity provision. In exchange for the payment, we were granted a full release by Global Hunter of any future claims or liabilities asserted by Global Hunter in connection with the offering.

For a more complete description of our business, and recent developments affecting our business, see our Annual Report on Form 10-K for the year ended December 31, 2011 and our Current Reports on Form 8-K since December 31, 2011 as well as other filings made with the SEC and incorporated herein by reference.

Company Information

Our executive offices are located at 801 Travis, Suite 1425, Houston, Texas 77002, and our telephone number is (713) 222-6966. Our corporate website is located at www.houstonamericanenergy.com. We make available free of charge through our Internet website our annual report on Form 10-K, quarterly reports on Form 10-Q, current reports on Form 8-K, and amendments to these reports filed or furnished pursuant to Section 13(a) or 15(d) of the Exchange Act, as soon as reasonably practicable after we electronically file such material with, or furnish it to, the SEC. Information on our website does not constitute part of this prospectus supplement or the accompanying prospectus.

Conflicts of Interest

One of our directors, O. Lee Tawes III, serves as Executive Vice President and Head of Investment Banking, and a Director at Northeast Securities, Inc, a selected dealer participating in this offering. Northeast Securities, Inc. is deemed to have a "conflict of interest" under Rule 5121 of the Financial Industry Regulatory Authority, or FINRA. This offering is being conducted in compliance with FINRA Rule 5121. Pursuant to that rule, the appointment of a qualified independent underwriter is not necessary in connection with this offering.

The Offering

Common Stock Offered	Shares
Common Stock Outstanding After the Offering (1)	Shares
Use of Proceeds	We intend to use these net proceeds for general working capital purposes, including funding our share of costs of development of properties in which we hold interests.
NYSE MKT Symbol	HUSA
Risk Factors	An investment in our common stock involves a high degree of risk. Before making an investment decision, investors should carefully consider the "Risk Factors" of this prospectus supplement and the accompanying prospectus, as well as the "Risk Factors" and "Forward-Looking Statements" in our Annual Report on Form 10-K for the year ended December 31, 2011 and our subsequently filed Exchange Act reports.

(1) The number of shares of common stock outstanding after this offering is based on 37,365,230 shares outstanding at September 20, 2012 and excludes (i) 1,948,677 shares of common stock issuable upon exercise of fully vested stock options at a weighted-average exercise price of \$5.66 per share, (ii) 1,409,905 shares of common stock issuable upon exercise of unvested stock options at a weighted-average exercise price of \$3.08 per share, and (iii) 6,200,000 shares of common stock issuable upon exercise of outstanding warrants exercisable at \$2.68 per share. Of the shares underlying unvested stock options, exercise of 915,525 shares is subject to shareholder approval of an amendment to our 2008 Equity Incentive Plan. Assuming approval of such amendment, in addition to the shares reserved for issuance upon the exercise of outstanding stock options, we will have 1,009,752 shares reserved for future issuance under equity incentive plans.

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RISK FACTORS

Investing in our securities involves a high degree of risk. You should carefully consider the risk factors discussed below, together with all the other information contained or incorporated by reference in this prospectus supplement and the accompanying prospectus before making an investment decision. Additional risks related to us and our securities are discussed under “Risk Factors” in our Annual Report on Form 10-K for the year ended December 31, 2011 and may be discussed in our other filings with the SEC pursuant to Sections 13(a), 13(c), 14 or 15(d) of the Exchange Act each of which is incorporated by reference in this prospectus supplement. In evaluating our company, the factors described below should be considered carefully. The occurrence of one or more of these events could significantly and adversely affect our business, prospects, financial condition, results of operations and cash flows.

Risks Related to our Business

Our cash flows and profitability may fluctuate by large amounts as a result of our strategy of investment in drilling and exploration of unproven properties and opportunistic asset divestitures.

We have historically experienced large fluctuations in our cash flows and profitability associated with our drilling and development of properties, divestitures of interests in select properties and reinvestment in drilling and development of unproven properties. Our strategy has historically focused on early identification of, and entrance into, existing and emerging resource plays. As part of that strategy, we and our partners have participated in accumulating positions and drilling unproven acreage, that may be perceived to be higher risk, where acquisition, drilling and operation costs may be lower with a view to proving reserves, divesting selected assets on an opportunistic basis to operators willing to pay higher prices for proven prospects without early stage drilling risk and reinvesting operating cash flow and sales proceeds in accumulating, drilling and developing additional, and larger, acreage positions. As a result of such strategy, we sold acreage positions in 2008, 2010 and 2012 that provided large one-time profits and cash proceeds and substantially reduced our proved reserves, production and operating cash flows immediately following such sales and after which we invested substantial portions of sales proceeds in the accumulation and exploratory drilling of larger acreage positions. Typically, our reserves, production, operating cash flows and operating profitability has grown as properties have been drilled and developed and fall following strategic asset divestitures when we are incurring costs to drill and develop properties. As a result of drilling and other risks, there can be no assurance that our reserve and production growth strategy will allow us to continue to grow, and replace, our acreage position, reserves, production and profitability following divestitures and we may continue to experience large fluctuations in such positions.

Our divestiture strategy exposes us to risks associated with a lack of diversification and a concentration of properties, increased dependence on a small number of properties and disproportionate risk of loss associated with drilling results and operations of one or a small number of properties.

Because a significant element of our strategy has been the opportunistic divestiture of properties and redeployment of financial resources to new resource plays or properties, we have historically been focused on development of a small number of geographically concentrated prospects. Accordingly, we lack diversification with respect to the nature and geographic location of our holdings. As a result of such concentration of holdings, we are exposed to higher dependence on individual resource plays and may experience substantial losses should a single individual prospect prove unsuccessful. Absent other operating properties, the failure or underperformance of a single prospect could materially adversely affect our financial resources, reserve and production outlook and profitability. In particular, during 2011 we committed a substantial portion of the proceeds received from our 2010 divestiture of Hupecol properties to a drilling program on our CPO 4 prospect. Our initial test well on the CPO 4 prospect, the Tamandua #1 well, commenced drilling in June 2011 with an anticipated drilling schedule of 45 days. In April 2012, after expending more than twice our original drilling budget and more than six months after the originally scheduled completion date, our operator ceased testing and completion efforts on the well as a result of formation damage that occurred during

drilling. Given our focus on development of the CPO 4 prospect, including the commitment of substantial financial resources, and the lack of current production from our other prospects, failure to complete the Tamandua #1 well as a commercial well, and the subsequent failure of our second test well on the CPO 4 prospect, materially adversely affected our financial position and operating outlook. Although we are drilling a third test well utilizing information gained during drilling of the first two wells, our future drilling results on the CPO 4 prospects may not result in commercial production. As a result of our focus on development of the CPO 4 prospect, a failure to attain commercial production would further materially adversely affect our financial position and operating outlook.

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

Unless we conduct successful development, exploitation and exploration activities or acquire properties containing proved reserves, our proved reserves will decline as those reserves are produced. Producing oil and natural gas reservoirs generally are characterized by declining production rates that vary depending upon reservoir characteristics and other factors. Our future oil and natural gas reserves and production, and, therefore our cash flow and income, are highly dependent on our success in efficiently developing and exploiting our current reserves and economically finding or acquiring additional recoverable reserves. If we are unable to develop, exploit, find or acquire additional reserves to replace our current and future production, our cash flow and income will decline as production declines, until our existing properties would be incapable of sustaining commercial production.

A substantial percentage of our properties are unproven and undeveloped; therefore the cost of proving and developing our properties and risk associated with our success is greater than would be the case if the majority of our properties were categorized as proved developed producing.

Because a substantial percentage of our properties were unproven and undeveloped as of June 30, 2012, we require significant capital to prove and develop such properties before they may become productive. Following the sale of our principal producing property in Colombia in March 2012, substantially all of our net acreage was unproven and undeveloped. Because of the inherent uncertainties associated with drilling for oil and gas, some of these properties may never be successfully drilled and developed to the extent that they result in positive cash flow. Even if we are successful in our drilling and development efforts, it could take several years for a significant portion of our unproven properties to be converted to positive cash flow.

We expect to need additional financing to fund our drilling budget for the balance of 2012 and may need additional financing to support operations and future capital commitments.

At June 30, 2012, our estimated drilling budget for the balance of 2012 was approximately \$20.0 million, principally relating to the drilling of a third well on the CPO 4 prospect, a future seismic acquisition program on CPO 4, a new Standby Letter of Credit for our Phase II election on CPO 4, as well as general and administrative, environmental and other cost associated with CPO 4. We do not believe that we presently have adequate capital to fully fund the balance of our 2012 drilling budget. If, for any reason, we are unable to fully fund our drilling budget and fail to satisfy commitments reflected therein, including funding of our share of drilling and related cost on the third well of the CPO 4 prospect as well as our future seismic and other obligations, we may be subject to penalties or to the possible loss of some of our rights and interests in prospects with respect to which we fail to satisfy funding commitments. We have no commitments to provide any additional financing and there is no guarantee that we will be able to secure additional financing on acceptable terms, or at all, to fully fund our 2012 drilling budget and to support future acquisitions and development activities.

Prospects that we decide to drill may not yield oil or natural gas in commercially viable quantities.

Our prospects are properties on which we have identified what we believe, based on available seismic and geological information, to be indications of oil or natural gas. Our prospects are in various stages of evaluation, ranging from a prospect that is ready to drill to a prospect that will require substantial additional seismic data processing and interpretation. There is no way to predict in advance of drilling and testing whether any particular prospect will yield oil or natural gas in sufficient quantities to recover drilling or completion costs or to be economically viable. The use of seismic data and other technologies and the study of producing fields in the same area will not enable us to know conclusively prior to drilling whether oil or natural gas will be present or, if present, whether oil or natural gas will be present in commercial quantities. We cannot assure you that the analogies we draw from available data from other

wells, more fully explored prospects or producing fields will be applicable to our drilling prospects.

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

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

delays imposed by or resulting from compliance with regulatory requirements;

pressure or irregularities in geological formations;

shortages of or delays in obtaining equipment and qualified personnel;

equipment failures or accidents;

adverse weather conditions;

reductions in oil and natural gas prices;

title problems; and

limitations in the market for oil and natural gas.

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

We may incur substantial uninsured losses and be subject to substantial liability claims as a result of our oil and natural gas operations.

We are not insured against all risks. Losses and liabilities arising from uninsured and underinsured events could materially and adversely affect our business, financial condition or results of operations. Our oil and natural gas exploration and production activities are subject to all of the operating risks associated with drilling for and producing oil and natural gas, including the possibility of:

environmental hazards, such as uncontrollable flows of oil, natural gas, brine, well fluids, toxic gas or other pollution into the environment, including groundwater and shoreline contamination;

abnormally pressured formations;

mechanical difficulties, such as stuck oil field drilling and service tools and casing collapse;

fires and explosions;

personal injuries and death; and

natural disasters.

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Any of these risks could adversely affect our ability to conduct operations or result in substantial losses to our company. We may elect not to obtain insurance if we believe that the cost of available insurance is excessive relative to the risks presented. In addition, pollution and environmental risks generally are not fully insurable. The occurrence of a significant accident or other event that is not fully covered by insurance could have a material adverse effect on our business, results of operations or financial condition.

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

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

the timing and amount of capital expenditures;

the timing of initiating the drilling and recompleting of wells;

the extent of operating costs; and

the level of ongoing production.

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

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

Shortages or the high cost of drilling rigs, equipment, supplies or personnel could delay or adversely affect our development and exploration operations. As the price of oil and natural gas increases, the demand for production equipment and personnel will likely also increase, potentially resulting, at least in the near-term, in shortages of equipment and personnel. In addition, larger producers may be more likely to secure access to such equipment by virtue of offering drilling companies more lucrative terms. If we are unable to acquire access to such resources, or can obtain access only at higher prices, not only would this potentially delay our ability to convert our reserves into cash flow, but could also significantly increase the cost of producing those reserves, thereby negatively impacting anticipated net income.

If our access to markets is restricted, it could negatively impact our production, our income and ultimately our ability to retain our leases.

Market conditions or the unavailability of satisfactory transportation arrangements may hinder our access to oil and natural gas markets or delay our production. The availability of a ready market for our oil and natural gas production depends on a number of factors, including the demand for and supply of oil and natural gas and the proximity of reserves to pipelines and terminal facilities. Our ability to market our production depends in substantial part on the availability and capacity of gathering systems, pipelines and processing facilities owned and operated by third parties. Our failure to obtain such services on acceptable terms could materially harm our business.

We may operate in areas with limited or no access to pipelines, thereby necessitating delivery by other means, such as trucking, or requiring compression facilities. Such restrictions on our ability to sell our oil or natural gas have several adverse effects, including higher transportation costs, fewer potential purchasers (thereby potentially resulting in a

lower selling price) or, in the event we were unable to market and sustain production from a particular lease for an extended time, possibly causing us to lose a lease due to lack of production.

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A substantial or extended decline in oil and natural gas prices may adversely affect our business, financial condition or results of operations and our ability to meet our capital expenditure obligations and financial commitments.

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

changes in global supply and demand for oil and natural gas;

the actions of the Organization of Petroleum Exporting Countries, or OPEC;

the price and quantity of imports of foreign oil and natural gas;