

SECURITIES AND EXCHANGE COMMISSION

FORM 10-Q

Quarterly report pursuant to sections 13 or 15(d)

Filing Date: **1994-05-13** | Period of Report: **1994-03-31**
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HONDO OIL & GAS CO

CIK: **76696** | IRS No.: **951998768** | State of Incorporation: **DE** | Fiscal Year End: **0930**
Type: **10-Q** | Act: **34** | File No.: **001-08979** | Film No.: **94528333**
SIC: **2911** Petroleum refining

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FORM 10-Q

SECURITIES AND EXCHANGE COMMISSION

WASHINGTON, D.C. 20549

(Mark One)

QUARTERLY REPORT PURSUANT TO SECTION 13 OR 15(d)
OF THE SECURITIES EXCHANGE ACT OF 1934

For the quarterly period ended: March 31, 1994

OR

TRANSITION REPORT PURSUANT TO SECTION 13 OR 15(d)
OF THE SECURITIES EXCHANGE ACT OF 1934

For the transition period from _____ to _____

Commission File Number 0-52

HONDO OIL & GAS COMPANY
(Exact name of registrant as specified in its charter)

Delaware
(State or other jurisdiction
of incorporation or organization)

95-1998768
(I.R.S. Employer
Identification No.)

410 East College Blvd, Roswell, New Mexico
(Address of principal executive offices)

88201
(Zip Code)

Registrant's telephone number, including area code: (505) 625-8700

Indicate by check mark whether the registrant (1) has filed all reports required to be filed by Section 13 or 15(d) of the Securities Exchange Act of 1934 during the preceding 12 months (or for such shorter period that the registrant was required to file such reports), and (2) has been subject to such filing requirements for the past 90 days. Yes X No

--- ---

The registrant has one class of common stock outstanding. As of May 9, 1994, 13,006,892 shares of registrant's \$1 par value common stock were outstanding.

HONDO OIL & GAS COMPANY
INDEX TO QUARTERLY REPORT ON FORM 10-Q
FOR THE SIX MONTHS ENDED MARCH 31, 1994

PAGE

PART I - FINANCIAL INFORMATION

ITEM 1 Financial Statements

Consolidated Balance Sheets as of March
31, 1994 and September 30, 1993 3

Consolidated Statements of Operations for
the three months ended March 31, 1994 and 1993 4

Consolidated Statements of Operations for
the six months ended March 31, 1994 and 1993 5

Consolidated Statements of Cash Flows for
the six months ended March 31, 1994 and 1993 6

Notes to Consolidated Financial Statements 8

ITEM 2 Management's Discussion and Analysis of Financial
Condition and Results of Operations 12

PART II - OTHER INFORMATION

ITEM 6 Exhibits and Reports on Form 8-K 16

SIGNATURES 16

PART I

Item 1 FINANCIAL STATEMENTS

HONDO OIL & GAS COMPANY
CONSOLIDATED BALANCE SHEETS
(In Thousands Except Share Information)

	March 31, 1994	September 30, 1993
	----- (Unaudited)	-----
ASSETS		
Current assets:		
Cash and cash equivalents	\$1,264	\$601
Accounts receivable	1,152	4,266
Inventory	137	770
Prepaid expenses and other	297	165
	-----	-----
Total current assets	2,850	5,802
Properties, net	14,523	15,910
Net assets of discontinued operations (Note 2)	7,983	7,750
Other assets	630	680
	-----	-----
	\$25,986	\$30,142
	=====	=====
 LIABILITIES AND SHAREHOLDERS' EQUITY (DEFICIT)		
Current liabilities:		
Accounts payable	\$355	\$1,871
Current portion of long-term debt	220	210
Accrued expenses and other	299	1,992
	-----	-----
Total current liabilities	874	4,073
Long-term debt, including \$75,505 and \$74,505, respectively, payable to a related party	79,622	78,828
Deferred taxes (Note 5)	561	561
Other liabilities, including \$2,250 in fiscal 1994 payable to a related party (Note 3)	5,312	2,495

	-----	-----
	86,369	85,957
Shareholders' equity (deficit):		
Common stock, \$1 par value, 30,000,000 shares authorized; shares issued and outstanding: 13,006,892	13,007	13,007
Additional paid-in capital	43,807	43,807
Accumulated deficit	(117,197)	(112,629)
	-----	-----
	(60,383)	(55,815)
	-----	-----
	\$25,986	\$30,142
	=====	=====

The accompanying notes are an integral part of these financial statements.

HONDO OIL & GAS COMPANY
CONSOLIDATED STATEMENTS OF OPERATIONS (Unaudited)
(In Thousands Except Share and Per Share Data)

For the three months ended
March 31,

	-----	-----
	1994	1993
	-----	-----
REVENUES		
Sales and operating revenue	\$26	\$21
Gain on sale of assets	--	26
Overhead reimbursement and other income	243	115
	-----	-----
	269	162
	-----	-----
COSTS AND EXPENSES		
Operating costs	137	8
Depreciation, depletion, and amortization	66	89
General and administrative	487	1,143
Interest on indebtedness including \$1,119 and \$826, respectively, to a related party	1,119	829
Loss on sale of assets	940	--
	-----	-----
	2,749	2,069
	-----	-----
Loss from continuing operations before income taxes	(2,480)	(1,907)
Income tax expense (Note 5)	--	--
	-----	-----
Loss from continuing operations	(2,480)	(1,907)
Loss from discontinued operations (Note 2)	--	--

Net Loss	(\$2,480)	(\$1,907)
Loss per share:		
Continuing operations	(\$0.19)	(\$0.15)
Discontinued operations	--	--
Loss per share	(\$0.19)	(\$0.15)
Weighted average common and common equivalent shares outstanding	13,006,892	13,006,999

The accompanying notes are an integral part of these financial statements.

4

HONDO OIL & GAS COMPANY
CONSOLIDATED STATEMENTS OF OPERATIONS (Unaudited)
(In Thousands Except Share and Per Share Data)

For the six months ended
March 31,

	1994	1993
REVENUES		
Sales and operating revenue	\$355	\$21
Gain on sale of assets	--	177
Overhead reimbursement and other income	327	532
	682	730
COSTS AND EXPENSES		
Operating costs	439	63
Depreciation, depletion, and amortization	144	188
General and administrative	1,180	2,532
Costs of exploration and exploratory dry holes	2	46
Interest on indebtedness including \$2,250 and \$1,627, respectively, to a related part	2,250	1,637
Loss on sale of assets	1,235	--
	5,250	4,466

Loss from continuing operations before income taxes	(4,568)	(3,736)
Income tax expense (Note 5)	--	--
Loss from continuing operations	(4,568)	(3,736)
Loss from discontinued operations (Note 2)	--	(1,200)
Net Loss	(\$4,568)	(\$4,936)
Loss per share:		
Continuing operations	(\$0.35)	(\$0.29)
Discontinued operations	--	(0.09)
Loss per share	(\$0.35)	(\$0.38)
Weighted average common and common equivalent shares outstanding	13,006,892	13,006,972

The accompanying notes are an integral part of these financial statements.

5

<TABLE>
<CAPTION>

HONDO OIL & GAS COMPANY
CONSOLIDATED STATEMENTS OF CASH FLOWS (Unaudited)
(In Thousands)

	For the six months ended March 31,	
	1994	1993
</CAPTION>		
<S>	<C>	<C>
Cash flows from operating activities:		
Pretax loss from continuing operations	(\$4,568)	(\$3,736)
Adjustments to reconcile pretax loss from continuing operations to net cash used by continuing operations:		
Depreciation, depletion and amortization	144	188
(Gain) loss on sale of assets	1,235	(177)
Costs of exploratory dry holes	--	86
Changes in operating assets and liabilities:		
Decrease (increase) in:		
Accounts receivable	1,634	899
Inventory	633	--
Prepaid expenses and other	(132)	(234)
Other assets	(6)	38
Increase (decrease) in:		

Accounts payable	(1,516)	(1,831)
Accrued expenses and other	(785)	(3,790)
Other liabilities	2,817	3,630
	-----	-----
Net cash used by continuing operations	(544)	(4,927)
	-----	-----
Pretax loss from discontinued operations	--	(1,200)
Adjustments to reconcile pretax loss from discontinued operations to net cash used by discontinued operations:		
Depreciation and amortization	--	1,390
Provision for losses, net of utilization	(250)	(7,509)
Decrease in operating assets	--	4,968
Decrease in operating liabilities	--	(5,478)
	-----	-----
Net cash used by discontinued operations	(250)	(7,829)
	-----	-----
Net cash used by operating activities	(794)	(12,756)
	-----	-----

</TABLE>

(Continued)

6

<TABLE>
<CAPTION>

HONDO OIL & GAS COMPANY
CONSOLIDATED STATEMENTS OF CASH FLOWS (Unaudited) (continued)
(In Thousands)

	For the six months ended March 31,	
	1994	1993
	-----	-----
</CAPTION>		
<S>	<C>	<C>
Cash flows from investing activities:		
Proceeds from sale of assets	1,458	1,720
Capital expenditures	(805)	(8,569)
	-----	-----
Net cash provided (used) by investing activities	653	(6,849)
	-----	-----

Cash flows from financing activities:

Proceeds from long-term borrowings	1,000	--
Principal payments on long-term debt	(196)	(234)
	-----	-----
Net cash provided (used) by financing activities	804	(234)
	-----	-----
Net increase (decrease) in cash and cash equivalents from all operations	663	(19,839)
Less net decrease in cash and cash equivalents from discontinued operations	--	(957)
	-----	-----
Net increase (decrease) in cash and cash equivalents from continuing operations	663	(18,882)
Cash and cash equivalents at the beginning of the period	601	20,475
	-----	-----
Cash and cash equivalents at the end of the period	\$1,264	\$1,593
	=====	=====

</TABLE>

The accompanying notes are an integral part of these financial statements.

7

HONDO OIL & GAS COMPANY
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
March 31, 1994

(All Dollar Amounts in Thousands)

1) Summary of Significant Accounting Policies

(a) Basis of Consolidation and Presentation

The consolidated financial statements of Hondo Oil & Gas Company

(hereinafter referred to as "Hondo Oil" or "the Company") include the accounts of all subsidiaries, all of which are wholly-owned. All significant intercompany transactions have been eliminated. The Hondo Company (hereinafter referred to as "Hondo") owns 78% of Hondo Oil's common stock.

The accompanying consolidated financial statements have been prepared in accordance with generally accepted accounting principles for interim financial information and with the instructions to Form 10-Q and Article 10 of Regulation S-X. Accordingly, they do not include all of the information and footnotes required by generally accepted accounting principles for complete financial statements. There has not been any change in the Company's significant accounting policies except for implementation of Statement of Financial Account Standards ("SFAS") No. 109, "Accounting for Income Taxes", as further described in Note 5. There have not been any significant developments or changes in contingent liabilities and commitments.

In the opinion of management, all adjustments (consisting of normal recurring accruals) considered necessary for a fair presentation have been included. The results for these interim periods are not necessarily indicative of results for the entire year. These statements should be read in conjunction with the financial statements and notes thereto included in the Company's Form 10-K for the fiscal year ended September 30, 1993.

(b) Earnings Per Share

Net income (loss) per share amounts have been computed using the weighted average number of common shares and dilutive common equivalent shares outstanding. Fully diluted per share amounts are not presented as the effect of the exercise of stock options is not significant.

(c) Inventory

Inventory, which consists entirely of lease and well equipment in Colombia, is valued at the lower of cost or net realizable value.

Effective March 31 and September 4, 1991, respectively, the Company adopted plans of disposal for its refining and marketing and real estate segments. In October 1992, the Fletcher refinery was placed in a cold shut-down and subsequently the facility was used to terminal crude oil and petroleum products for third parties. On September 15, 1993, the Company executed an agreement for the sale of its Fletcher refinery and its asphalt terminal in Hilo, Hawaii. These assets represent the material portion of the Company's refining and marketing segment. The transaction closed on October 1, 1993 at which time \$992 of the net accrued proceeds of \$1,992 were received. Additional net proceeds of \$179 have been received subsequently and further proceeds will be received when certain components of the refinery equipment are sold by the buyer.

Operating losses of discontinued operations for the quarters ended March 31, 1994 and 1993 were \$127 and \$3,158, respectively. Corresponding amounts for the six months ended March 31, 1994 and 1993 were \$246 and \$8,595, respectively, and were charged against loss provisions established in earlier periods. A loss provision of \$1,200 pertaining to the real estate segment was recorded for the quarter ended December 31, 1992. The Company has not recorded a loss provision for discontinued operations this fiscal year.

Interest expense included in the losses from discontinued operations pertains only to debt directly attributable to the discontinued segments. The operating losses from discontinued operations for the quarters ended March 31, 1994 and 1993 include interest expense of \$70 and \$698, respectively. Corresponding amounts for the six months ended March 31, 1994 and 1993 were \$142 and \$1,407, respectively. Total interest expense allocated to discontinued operations, both expensed and capitalized, includes \$823 and \$1,661 attributable to Lonrho Plc for the quarter and six months ended March 31, 1993, respectively.

A summary of the segments' net assets is as follows:

	March 31, 1994	September 30, 1993
	-----	-----
Refining and Marketing:		
Properties, net	\$ --	\$100
Loss provisions, net	--	(100)
	-----	-----
Refining and marketing net assets	--	--
Real estate	7,983	7,750
	-----	-----
Net assets	\$7,983	\$7,750
	=====	=====

(All Dollar Amounts in Thousands)

3) Other Liabilities

In accordance with the terms of the Company's debts to Lonrho Plc, accrued interest is either added to the outstanding principal or paid by issuance of the Company's common stock on the interest due date, at the option of Lonrho Plc. Accrued interest of \$2,250, classified as a long-term liability as of March 31, 1994, was added to the outstanding principal balances on April 1, 1994.

During the quarter ended March 31, 1994, the Company entered into an agreement with the City of Long Beach which provides, among other things, that payment of amounts due to the City of Long Beach arising from the Company's interest in the Long Beach Unit, Wilmington Oil Field, California (THUMS), including \$542 classified as a current liability at September 30, 1993, will be deferred. Accordingly, all liabilities to the City of Long Beach are now classified as long-term. Other liabilities consist of the following:

	March 31, 1994	September 30, 1993
	-----	-----
Interest payable to Lonrho Plc	\$2,250	\$ --
City of Long Beach	1,637	1,332
Other	1,425	1,163
	-----	-----
	\$5,312	\$2,495
	=====	=====

4) Cash Flow Information

Cash interest expense paid for the six months ended March 31, 1994 and 1993 was \$133 and \$3,912, respectively.

5) Income Taxes

As required by the provisions of SFAS No. 109, the Company changed its method of accounting for income taxes from the provisions of SFAS No. 96, "Accounting For Income Taxes", to the provisions of SFAS No. 109, "Accounting For Income Taxes", effective October 1, 1993. The change in accounting method had no material effect on the Company's financial position, results of operations, or components of income tax expense for the current or previous fiscal years. Accordingly, no cumulative effect of a change in accounting principle has been recognized and the footnote disclosures required by SFAS No. 109 have been omitted.

HONDO OIL & GAS COMPANY
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
March 31, 1994

(All Dollar Amounts in Thousands)

5) Income Taxes (continued)

Under Statement 109, the liability method is used in accounting for income taxes. Under this method, deferred tax assets and liabilities are determined based on reversals of differences between financial reporting and tax bases of assets and liabilities and are measured using the enacted effective tax rates and laws that will be in effect when the differences are expected to reverse. Prior to the adoption of Statement 109, income tax expense was determined using the liability method prescribed by Statement 96, which has been superseded by Statement 109. Among other changes, Statement 109 changes the recognition and measurement criteria for deferred tax assets included in Statement 96.

The Company provides for income taxes based on estimated annual effective rates. The Company has investment tax credit carryforwards of approximately \$4,096. The Company has recorded current income tax expense to the extent that federal, state or alternative minimum tax is projected to be owed. Deferred income taxes are recorded to the extent that tax net operating losses are not available to offset future reversals of temporary differences.

Item 2 MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION
AND RESULTS OF OPERATIONS

GENERAL DISCUSSION

Continuing Operations

The Company's principal asset is its interest in the Opon Association Contract (the "Opon Contract") in Colombia. Hondo Magdalena Oil & Gas Limited ("Hondo Magdalena"), a wholly-owned subsidiary, entered into a Farmout Agreement dated August 9, 1993 under which Amoco Colombia Petroleum Company ("Amoco Colombia") will earn a participating interest in Hondo Magdalena's Opon Contract in the Middle Magdalena Valley of Colombia. Under the terms of the Farmout Agreement, Amoco Colombia will earn a 50% interest in the Opon Contract from Hondo Magdalena. Hondo Magdalena retains a 30% interest. To earn the interest, Amoco Colombia paid \$3.0 million in cash and is paying Hondo Magdalena's costs related to the fifth-year obligations under the Opon Contract, the Opon No. 3 well, a well to the La Paz formation. Amoco Colombia also has an option to conduct further seismic evaluation of the contract area at its expense. After drilling of the Opon No. 3, Amoco Colombia may (i) withdraw and relinquish its interest or, (ii) pay Hondo Magdalena an additional \$5.0 million and all but \$2.0 million of Hondo Magdalena's costs related to the sixth-year obligations under the Opon Contract, another La Paz formation well, or (iii) relinquish 5% of its interest to Hondo Magdalena and pay all of Hondo Magdalena's costs related to the sixth-year obligations under the Opon Contract. Amoco Colombia will again have the option to withdraw and relinquish its interests after the drilling of the second farmout well.

The Company commenced the drilling of the Opon No. 3 well on October 12, 1993. The Opon No. 3 well was commenced with a smaller drilling rig in order to meet time constraints under the Opon Contract. The drilling of the well recommenced on January 31, 1994 with a larger top-drive drilling rig. The well has been drilled to approximately 9,500 feet, where an intermediate casing string is being installed. After the casing is set, drilling will continue to the target depth of 13,000 feet.

Amoco Colombia exercised its right under the Farmout Agreement to become operator effective March 1, 1994. The drilling of the sixth-year obligation well under the Opon Contract must be commenced by July 15, 1994. However, Amoco Colombia is presently seeking an extension of this date from the Colombian national oil company.

Because of losses in prior years and decreases in shareholders' equity, the Company does not fully meet all of the guidelines of the American Stock Exchange for continued listing of its shares. Management has taken steps to improve the Company's ability to meet the Exchange's guidelines and preserve the listing; however, no assurances can be given that the

Company's shares will remain listed on the Exchange in the future.

In 1965, the Company (then Pauley Petroleum Inc.) acquired a nonoperating contractor's interest in the Long Beach Unit, Wilmington Oil Field, California ("THUMS"). The principal economic benefit of the interest was the right to receive approximately 4,000 barrels per day of THUMS crude oil that the Company used in conjunction with the Fletcher refinery. Following the sale of the refinery in October 1993, the Company's interest in the Unit, which had been marginally profitable at best, became a potentially severe cash drain due to the recent decline in crude oil prices.

12

On February 2, 1994 the Company entered into an agreement with the City of Long Beach whereby the Company and the City of Long Beach released each other from their respective rights and obligations under the THUMS contracts, effective January 1, 1994. The agreement also provides that amounts due the City of Long Beach of approximately \$1.6 million will be paid on or before January 1, 1997, or prior to that date, if the Company has free available cash flow from the Opon No. 3 well or any other assets. The amount due is not subject to interest charges.

Effective May 1, 1994, The Anderson Company, a wholly-owned subsidiary, sold the Company's office building and certain furniture and equipment in Roswell, New Mexico, for \$0.7 million in cash and deferred payments. A loss of \$0.9 million resulted, largely due to real estate market conditions in Roswell. The sale will further reduce the Company's expenses. The Company will continue to occupy a portion of the building under a lease with the buyer.

Discontinued Operations

The Company has listed its 11 acre Via Verde Bluffs property in the City of San Dimas and its 105 acre Valley Gateway property in the City of Santa Clarita with real estate brokers. The Company has entered into preliminary discussions with potential buyers for both properties. No agreement has been reached on either property at this time and no assurances can be given that these negotiations will lead to a contract for sale.

RESULTS OF OPERATIONS

Due to the sale of substantially all of the Company's domestic oil and gas properties in June 1992 and continuing reductions in the Company's business activities, the results of continuing operations are not comparable and may not be indicative of the Company's future operating results. Operating revenues, gain (loss) on sale of assets, overhead reimbursement and other income, operating costs, and costs of exploration are primarily comprised of non-recurring transactions in both periods.

Quarters Ended March 31, 1994 and 1993

Continuing operations reported losses of \$2.5 million, or 19 cents per

share, for the quarter ended March 31, 1994 and \$1.9 million, or 15 cents per share, for the comparable period last year.

Loss on sale of assets for the quarter ended March 31, 1994 includes a loss of \$0.9 million arising from the sale of the Company's office building and certain furniture and equipment in Roswell, New Mexico.

The decrease in general and administrative expense of \$0.6 million between the quarters arises primarily from reductions in the number of employees, offices, and aircraft.

Total interest expense in the current quarter of \$1.1 million is less than total interest expense of \$1.6 million for the quarter ended March 31, 1993. The net decrease of \$0.5 million arises from lower interest rates in the current quarter, offset by an increase in outstanding debt of \$13.0 million between the quarters. The amounts reported in the consolidated statements of operations increased by \$0.3 million because \$0.8 million of interest expense was allocated to discontinued operations for the quarter ended March 31, 1993.

13

Operating losses of discontinued operations, which are charged against previously established loss provisions, amounted to \$0.1 million and \$3.2 million for the quarters ended March 31, 1994 and 1993, respectively. The amounts are not comparable due to the sale of substantially all of the Company's discontinued refining and marketing segment in September 1993. No additional loss provisions have been recorded in the current quarter.

Six Months Ended March 31, 1994 and 1993

Continuing operations reported losses of \$4.6 million, or 35 cents per share, for the six months ended March 31, 1994 and \$3.7 million, or 29 cents per share, for the comparable period last year.

Loss on sale of assets includes a loss of \$0.9 million recorded for the period ended March 31, 1994, as described above.

Operating expenses for the six months ended March 31, 1994 arise primarily from obsolescence of pipe inventories in Colombia.

The decrease in general and administrative expense of \$1.3 million between the six month periods arises primarily from reductions in the number of employees, offices, and aircraft.

Total interest expense for the six months ended March 31, 1994 of \$2.2 million is less than total interest expense for the year-earlier period of \$3.3 million. The net decrease of \$1.1 million between the periods arises from lower interest rates, offset by an increase in outstanding debt of \$13.0 million. The amounts reported in the consolidated statements of operations increased by \$0.6 million because \$1.7 million of interest expense was allocated to discontinued operations for the six months ended March 31, 1993.

Operating losses of discontinued operations, which are charged against

previously established loss provisions, amounted to \$0.2 million and \$8.6 million for the six months ended March 31, 1994 and 1993, respectively. The amounts are not comparable due to the sale of substantially all of the Company's discontinued refining and marketing segment in September 1993. A loss provision of \$1.2 million was recorded against the carrying value of the discontinued real estate operations for the quarter ended December 31, 1992. No additional loss provisions have been recorded in the current period.

LIQUIDITY AND CAPITAL RESOURCES

During the six months ended March 31, 1994, cash inflows of \$1.5 million and \$1.0 million arose from the sale of assets and borrowings from Lonrho Plc under existing loan agreements, respectively. The Company utilized cash of \$0.5 million and \$0.3 million to finance continuing and discontinued operations, respectively, and made scheduled debt repayments of \$0.2 million. In addition, the Company expended \$0.6 million and \$0.2 million on capital projects for continuing operations and discontinued real estate operations, respectively. Overall, cash balances for the period increased by \$0.7 million to \$1.3 million.

In December 1993 the Company reached an agreement with Lonrho Plc for the restructuring of the terms of all of the Company's debt to Lonrho Plc. The agreement was effective as of September 30, 1993, and provided for all accrued interest on the respective loans at that date to be added to principal. The interest rate for each loan was reduced to 6%, and interest is now payable semi-annually. The Company may offer payment of future interest in shares of its common stock, and Lonrho may either accept such payment in kind or add the amount of the interest due to principal. Lonrho Plc selected the latter option for interest due April 1, 1994. This restructuring substantially decreases the Company's debt service. The ability to pay interest in kind or capitalize interest will allow the Company to service its debt while cash resources are scarce.

The Farmout Agreement with Amoco Colombia is expected to provide funds for the Company's capital expenditure obligations under the Opon Contract in the near term. While Amoco Colombia is committed to drilling the fifth-year obligation well, it has the option to withdraw from the Opon Contract upon completion of that well. If Amoco Colombia elects to withdraw after the completion of the fifth-year well, the Company does not have sufficient funds available to meet the sixth-year obligation, a well which must be commenced prior to July 15, 1994.

The Company's existing cash balances are projected to be sufficient to finance the Company's business activities during fiscal 1994. Cash flow projections for fiscal 1995 assume receipt of (i) \$5.0 million from Amoco Colombia after the Opon No. 3 well is completed and, (ii) proceeds from

the sale of certain equipment of Fletcher under the purchase and sale agreement. Failure to receive these monies would materially and adversely affect the Company's liquidity in fiscal 1995. The Company has curtailed all non-essential capital and other expenditures in order to conserve cash.

The Company's management believes that, before successful completion of the Opon No. 3 well, additional debt or equity funds, may be unavailable to the Company. The Company's cash resources in the near future may be limited to cash on hand and the net proceeds of sales of certain assets. Cash from operations are not expected to be a source of funds unless and until the Opon Project begins commercial production.

The Company's management believes that its Opon Project has significant potential to be developed in conjunction with Colombia's planned natural gas transmission network and that the Company's future revenues will be derived from this source. Successful completion of the Opon No. 3 well and, possibly, the sixth-year obligation well, are essential to the Company's ability to obtain additional financing for the development of the Opon Project. Obtaining additional sources of funds is vital to the Company's long-term ability to successfully develop the Opon Project. Unless and until success is achieved at Opon, substantial doubt will exist as to the Company's ability to continue as a going concern. There can be no assurance that the Opon Project will be successfully developed or that alternative sources of funds will become available in the future.

PART II

Item 6 EXHIBITS AND REPORTS ON FORM 8-K

- (a) There are not exhibits to this report.
- (b) No reports on Form 8-K were filed during the quarter ended March 31, 1994.

SIGNATURES

Pursuant to the requirements of the Securities Exchange Act of 1934, the registrant has duly caused this report to be signed on its behalf by the undersigned, thereunto duly authorized.

HONDO OIL & GAS COMPANY
(Registrant)

Date May 12, 1994

/s/ I. P. Brownlow

I. P. Brownlow
Vice President and
Chief Financial Officer

The above officer of the registrant has signed this report as its duly authorized representative and as its principal financial officer.