

Edgar Filing: AUSTRALIAN OIL & GAS CORP - Form 10-Q

AUSTRALIAN OIL & GAS CORP  
Form 10-Q  
May 14, 2009

UNITED STATES  
SECURITIES AND EXCHANGE COMMISSION  
Washington, D.C. 20549

FORM 10-Q

(Mark One)

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

For the quarterly period ended: March 31, 2009

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

For the transition period from \_\_\_\_\_ to \_\_\_\_\_

Commission File Number 000-26721

AUSTRALIAN OIL & GAS CORPORATION

-----  
(Exact name of registrant as specified in its charter)

Delaware  
-----

84-1379164  
-----

(State or other jurisdiction of  
incorporation of organization)

(IRS Employer Identification Number)

Level 21, 500 Collins Street  
Melbourne, Victoria, 3000  
Australia

Issuer's Telephone Number: (61-3) 8610 4701

NOT APPLICABLE

(Former name, former address and former fiscal year,  
if changed since last report)

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

Indicate by check mark whether the registrant is a large accelerated filer, an accelerated filer, a non-accelerated filer, or a smaller reporting company. See the definitions of "large accelerated filer," "accelerated filer" and "smaller reporting company" in Rule 12b-2 of the Exchange Act.

Large accelerated filer

Accelerated filer

Non-accelerated filer

Smaller reporting company

Do not check if a smaller reporting company)

Indicate by check mark whether the registrant is a shell company (as defined in Rule 12b-2 of the Exchange Act. Yes  No

Indicate the number of shares outstanding of each of the issuer's classes of common stock, as of the latest practicable date:

# Edgar Filing: AUSTRALIAN OIL & GAS CORP - Form 10-Q

43,450,531 shares of common stock, \$0.001 par value, as of May 14, 2009.

## INDEX

AUSTRALIAN OIL & GAS CORPORATION  
(an exploration stage enterprise)

For the Quarterly Period Ended: March 31, 2009

### Part 1. FINANCIAL INFORMATION

#### Item 1. Financial Statements. (Unaudited)

Consolidated Balance Sheets as at March 31, 2009 (Unaudited) and December 31, 2008 (Audited)

Consolidated Statements of Operations for the three months ended March 31, 2009 and 2008 (Unaudited), and for the cumulative period from August 6, 2003 (Date of Inception) to March 31, 2009 (Unaudited)

Consolidated Statements of Cash Flows for the three months ended March 31, 2009 and 2008 (Unaudited) and the cumulative period from August 6, 2003 (Date of Inception) to March 31, 2009 (Unaudited)

Notes to Financial Statements (Unaudited)

#### Item 2. Management's Discussion and Analysis of Financial Condition and Results of Operations.

#### Item 3. Quantitative and Qualitative Disclosures about Market Risk.

#### Item 4. Controls and Procedures.

### Part 11. OTHER INFORMATION

#### Item 6. Exhibits.

#### Signatures

#### Item 1. Financial Statements (Unaudited)

Australian Oil & Gas Corporation  
(an exploration stage enterprise)  
CONSOLIDATED BALANCE SHEETS

(Dollar amounts in thousands)

| Mar. 31, 2009 | Dec. |
|---------------|------|
| (Unaudited)   |      |
| \$            |      |
| -----         | ---  |

Edgar Filing: AUSTRALIAN OIL & GAS CORP - Form 10-Q

| ASSETS                    |       |
|---------------------------|-------|
| Current assets:           |       |
| Cash and cash equivalents | 7     |
| Receivables               | 1     |
|                           | ----- |
| Total Current Assets      | 8     |
|                           | ----- |
| Total Assets              | 8     |
|                           | ===== |

| LIABILITIES AND STOCKHOLDERS' EQUITY           |       |
|--|-------|
| Current liabilities:                           |       |
| Accounts payable and accrued expenses (Note 4) | 197   |
| Accounts payable to director related entities  | 186   |
|  | ----- |
| Total Current Liabilities                      | 383   |
|  | ----- |
| Total Liabilities                              | 383   |
|  | ===== |

|  |         |
|--|---------|
| Stockholders' Equity   |         |
| Common stock, \$0.001 par value; 75,000,000 shares authorized, Issued shares, 44,000,531 at March 31, 2009 and 43,450,531 at December 31, 2008; Outstanding shares, 43,450,531 at March 31, 2009 and 41,050,531 at December 31, 2008. (Note 5) |         |
|  | 35      |
| Capital in excess of par value   | 2,644   |
| Accumulated other Comprehensive Income   | 300     |
| Deficit accumulated during the exploration stage   | (3,354) |
|  | -----   |
| Total Stockholders' Equity   | (375)   |
|  | -----   |
| Total Liabilities and Stockholders' Equity   | 8       |
|  | =====   |

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

Australian Oil & Gas Corporation  
(an exploration stage enterprise)  
CONSOLIDATED STATEMENT OF OPERATIONS  
For the three months ended March 31, 2009 and 2008  
and for the period from inception (August 6, 2003) to March 31, 2009

(Dollar amounts in thousands)

| For the three<br>months ended<br>Mar 31, 2009 | For the three<br>months ended<br>Mar 31, 2008 | From<br>inception to<br>Mar 31, 2009 |
|---|---|--------------------------------------|
| \$  | \$  | \$                                   |

Edgar Filing: AUSTRALIAN OIL & GAS CORP - Form 10-Q

|   |            |            |            |
|---|------------|------------|------------|
|   | -----      | -----      | -----      |
| Expenses  |            |            |            |
| Exploration                                       | 68         | 157        | 1,878      |
| General and administrative                        | 31         | 32         | 1,060      |
| Merger and reorganization                         | --         | --         | 249        |
|   | -----      | -----      | -----      |
| Total operating expenses                          | 99         | 189        | 3,187      |
|   | -----      | -----      | -----      |
| Loss before other income                          | (99)       | (189)      | (3,187)    |
|   | -----      | -----      | -----      |
| Other Income (Expense)                            |            |            |            |
| Income from sale of tenement                      | --         | --         | 1,650      |
| Write down of investments                         | --         | --         | (1,759)    |
| Currency exchange gain / (loss)                   | (2)        | 14         | 6          |
| Interest income                                   | --         | 5          | 63         |
| Interest expense                                  | (2)        | (8)        | (103)      |
|   | -----      | -----      | -----      |
| Loss before provision for income tax              | (103)      | (178)      | (3,330)    |
|   | -----      | -----      | -----      |
| Income tax provision                              | --         | --         | 24         |
|   | -----      | -----      | -----      |
| Net Loss  | (103)      | (178)      | (3,354)    |
|   | =====      | =====      | =====      |
| Loss per Common Share:                            |            |            |            |
| Basic & Diluted                                   | \$ (0.00)  | \$ (0.01)  | \$ (0.10)  |
| Weighted average common share used in calculation | 43,456,575 | 37,406,026 | 32,852,744 |
|   | =====      | =====      | =====      |

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

4

Australian Oil & Gas Corporation  
(an exploration stage enterprise)  
CONSOLIDATED STATEMENTS OF CASH FLOWS  
For the three months ended March 31, 2009 and 2008  
and Cumulative from inception (August 6, 2003) to March 31, 2009

(Dollar amounts in thousands - except per share data)

|  | For the three<br>months ended<br>Mar 31, 2009 | For the three<br>months ended<br>Mar 31, 2008 | inception<br>Mar 31, 2003 |
|--|---|---|---------------------------|
|  | \$  | \$  | \$                        |
|  | -----   | -----   | -----                     |
| Cash flows from operating activities:  |   |   |                           |
| Net profit / (loss)  | (103)   | (178)   |                           |
| Adjustments to reconcile net profit/(loss) to net cash used in operating activities: |   |   |                           |
| Adjustments for non-cash items   |   |   |                           |
| Compensation expense   | 28  | 20  |                           |

Edgar Filing: AUSTRALIAN OIL & GAS CORP - Form 10-Q

|  |       |       |
|--|-------|-------|
| Currency exchange loss/(gain)  | (12)  | (40)  |
| Write down of investment   | --    | --    |
| Issuance of Convertible Note in lieu of repayment of advances from director related entity | --    | 7     |
| Gain on transfer of interest in tenement   | --    | --    |
| Change in assets and liabilities:  |       |       |
| Increase/(decrease) in accounts payable  | 86    | 15    |
| Increase/(decrease) in income tax payable  | --    | (1)   |
| Decrease in exploration assets   | --    | --    |
| Decrease/(increase) in accounts receivable   | --    | --    |
|  | ----- | ----- |
| Net cash used in operating activities  | (1)   | (177) |
|  | ----- | ----- |
| Cash flows from financing activities:  |       |       |
| Proceeds from advance from director-related entities                                       | --    | 2     |
| Repayment of advance from director-related entities  | --    | --    |
| Proceeds from the sale of Common stock - net   | --    | --    |
|  | ----- | ----- |
| Net cash (used in)/ provided by financing activities                                       | --    | 2     |
|  | ----- | ----- |
| Cash flows from investing activities:  |       |       |
| Proceeds from sale of tenement   | --    | --    |
|  | ----- | ----- |
| Net cash provided by investing activities  | --    | --    |
|  | ----- | ----- |
| Increase/ (decrease) in cash   | (1)   | (175) |
| Cash at beginning of period  | 8     | 484   |
| Effect of currency exchange rate fluctuations on cash held                                 | --    | 12    |
|  | ----- | ----- |
| Cash at end of period  | 7     | 321   |
|  | ===== | ===== |
| Supplemental disclosure of non-cash activities:  |       |       |
| Administration Fees charged by Setright Oil & Gas Pty Ltd                                  | 6     | 9     |
| Interest charged by Great Missenden Holdings Pty Ltd                                       | 2     | 8     |
| Issuance of Stock for compensation and settlement of advances                              | 126   | --    |
| Gain on transfer of interest in tenement   | --    | --    |

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

5

Australian Oil & Gas Corporation  
 (an exploration stage enterprise)  
 NOTES TO FINANCIAL STATEMENTS (UNAUDITED)

The accompanying interim consolidated financial statements of Australian Oil & Gas Corporation are unaudited. However, in the opinion of management, the interim data includes all adjustments, consisting of only normal recurring adjustments, necessary for a fair presentation of the results for the interim period. The results of operations for the period ended March 31, 2009 are not necessarily indicative of the operating results for the entire year. The interim financial statements should be read in conjunction with our Annual Report on

## Edgar Filing: AUSTRALIAN OIL & GAS CORP - Form 10-Q

Form 10-K for the year ended December 31, 2008.

### Note 1: Organization

Australian Oil & Gas Corporation (the Company) was incorporated in Delaware on August 6, 2003, and began operations on August 11, 2003 and is considered to be a crude petroleum and natural gas company in the exploratory stage as defined by SFAS No. 7. Since inception it has been engaged in the assessment of oil and gas exploration properties.

The authorized capital stock of the AOGC consists of 75,000,000 shares of common stock (AOG Common Stock), \$0.001 par value

The Company has two wholly owned, Delaware-incorporated US subsidiaries; Gascorp, Inc. and Nations LNG, inc. and two wholly owned Australian subsidiaries; Alpha Oil & Natural Gas Pty Ltd and Nations Natural Gas Pty Ltd.

Alpha Oil & Natural Gas Pty Ltd itself has two wholly owned Australian subsidiaries, Vulcan Australia Pty Ltd (which holds the joint venture interest in the Vulcan Joint Ventures) and Braveheart Oil & Gas Pty Ltd (which holds the joint venture interest in the Browse Joint Venture).

### Note 2: Summary of Significant Accounting Policies

#### Use of estimates

The preparation of financial statements in conformity with accounting principles generally accepted in the United States of America requires management to make estimates and assumptions that affect the amounts reported in the financial statements and footnotes thereto. Actual results could differ from those estimates.

### Note 3: Related Party Transactions

Mr. E Geoffrey Albers, the Chairman and President of AOGC, is a director and shareholder of each of Great Missenden Holdings Pty Ltd and of Setright Oil & Gas Pty Ltd.

Great Missenden Holdings Pty Ltd charged \$1,538 for interest on all advances during the quarter. Setright Oil & Gas Pty Ltd charged the Company \$5,966 during the quarter for the provision of accounting and administrative services rendered by third parties for the benefit of the Company, but not including services rendered by Mr. E Geoffrey Albers, who is remunerated separately.

We also have the use of premises in Australia at Level 21, 500 Collins Street, Melbourne, Victoria. The office space is taken on a nonexclusive basis, with no rent payable, but the usage of the premises is included in the charges Setright Oil & Gas Pty Ltd makes in respect to the administration of the Company.

6

Mr. Albers is a director and shareholder in the joint venture participants with Alpha Oil & Natural Gas Pty Ltd (Alpha) with regard to exploration permits ACP/33, ACP/35 and AC/P39; namely National Gas Australia Pty Ltd, National Gas Corporation Pty Ltd and Auralandia N.L. Mr Muzzin is a shareholder in Auralandia N.L. As a result of incurring expenditures, National Gas Australia Pty Ltd has earned an aggregate 25% interest in each of AC/P33, AC/P35 and AC/P39 (Vulcan Joint Venture), 5% of which was earned from AOGC subsidiary, Alpha.

With regard to the Browse Joint Venture, Mr. Albers is a director and shareholder in each of Batavia Oil & Gas Pty Ltd and Exoil Limited, the parent of Hawkestone Oil Pty Ltd. He is a major shareholder in the parent of

## Edgar Filing: AUSTRALIAN OIL & GAS CORP - Form 10-Q

Goldsborough Energy Pty Ltd. All of these companies are the holders of the Browse Joint Venture.

Mr. Mark A Muzzin, a director and Vice-President of AOGC, is a shareholder in Exoil Limited, the parent of Hawkestone Oil Pty Ltd.

With regard to the National Gas Consortium, Mr. Albers is a director and shareholder in each of National Oil & Gas Pty Ltd, Australian Natural Gas Pty Ltd and Natural Gas Australia Pty Ltd. Expenditure incurred by National Gas Australia Pty Ltd has resulted in National Gas Australia Pty Ltd earning an aggregate 30% interest in each of NT/P62, NT/P63, NT/P64, NT/P65, NT/P71 and NT/P72, (National Gas Consortium), of which 9% was earned from Nations.

The Company entered into a new agreement on February 17, 2009 with Mr. Albers to secure his services on a part-time basis for a new 4-year period, with a commencement date effective from January 1, 2008 ending December 31, 2011. As the Company's cash resources were limited, the board has again agreed to remunerate Mr. Albers by issuing common stock in lieu of cash payments. Specifically, the Company issued 2,400,000 shares of Common Stock to Mr. Albers on March 26, 2009 for his services in relation to the period from January 1, 2008 to December 31, 2008. A further 2,200,000 shares of Common Stock will be issued to him for his services for the period from January 1, 2009 to December 31, 2009. A further 2,000,000 shares of Common Stock will be issued to him for his services for the period from January 1, 2010 to December 31, 2010. A further 1800,000 shares of Common Stock will be issued to him for his services for the period from January 1, 2011 to December 31, 2012.

### Note 4: Current Liabilities

At March 31, 2009 the accounts payable balance includes \$27,500 for remuneration due to Mr Albers for his services.

### Note 5: Issued Shares

At March 31, 2009, 550,000 shares included in issued and outstanding shares of 44,000,531 disclosed in the balance sheet and used for the earnings per common share calculation were reserved but not yet issued. These shares will be used to compensate Mr Albers and will be issued in the quarter ending March 31 2010 (See Note 4).

7

### Note 6: Comprehensive Income

Comprehensive income is the change in equity during a period from transactions and other events from non-owner sources. The Company is required to classify items of other comprehensive income in financial statement to display the accumulated balance of other comprehensive income separately in the equity section of the Consolidated Balance Sheet.

The functional currency of Australian Oil & Gas Corporation's Australian subsidiaries is the Australian dollar. The comprehensive income of \$300,000 disclosed in the Consolidated Balance Sheet is the accumulation of all currency exchange differences arising from translating the Australian subsidiaries' financial statements from functional currency to presentation from the acquisition date of these Australian subsidiaries to the current balance date.

### Note 7: Subsequent Events

On April 3, 2009 the company's Australian subsidiary, Alpha Oil and Natural Gas Pty Ltd sold a 35% interest in NT/P73 to Gascorp Australia Pty Ltd (Gascorp) for \$249,935 (AUD\$350,000) on the following basis:

## Edgar Filing: AUSTRALIAN OIL & GAS CORP - Form 10-Q

- (1) A put option granted by Alpha to enable Gascorp to sell the interest back to Alpha within 3 years for: (i) an amount equivalent to AUD\$350,000 plus interest at 1% per month; and (ii) a royalty of 1% with respect to the 30% permit interest.
- (2) An option from Alpha to Gascorp to enable Gascorp to increase its interest in NT/P73 by 15% to 50% by expending a further \$196,377 (AUD\$275,000) (on behalf of Alpha's remaining 65%) in relation to exploration in NT/P73.

Gascorp Australia Pty Ltd is an affiliate company of Mr. EG Albers. The NT/P73 permit has been offered for farmout, with a number of international companies considering the acreage.

8

Item 2. Management's Discussion and Analysis of Financial Condition and Results of Operations.

Forward-looking statements

References in this report to "the Company", "AOGC", "we", "us", or "our" are intended to refer to Australian Oil & Gas Corporation. This quarterly report contains certain statements that may be deemed forward-looking statements within the meaning of Section 27A of the Securities Act of 1933, as amended, and Section 21E of the United States Securities Exchange Act of 1934, as amended. Readers of this quarterly report are cautioned that such forward-looking statements are not guarantees of future performance and that actual results, developments and business decisions may differ from those envisaged by such forward-looking statements.

All statements, other than statements of historical facts, so included in this quarterly report that address activities, events or developments that the Company intends, expects, projects, believes or anticipates will or may occur in the future, including, without limitation: statements regarding our business strategy, plans and objectives and statements expressing beliefs and expectations regarding our ability to successfully raise the additional capital necessary to meet our obligations, our ability to secure the permits necessary to facilitate anticipated seismic and drilling activities and our ability to attract additional working interest owners to participate in the exploration for and development of oil and gas resources, are forward-looking statements within the meaning of the Act. These forward-looking statements are and will be based on management's then-current views and assumptions regarding future events.

Plan of Operation

-----

General. Australian Oil & Gas Corporation is an independent energy company focused on the acquisition of petroleum exploration permits in the offshore areas adjacent to Australia and exploration for oil and natural gas resources within the area of those permits. We rely on the considerable experience in the oil and gas industry of our President, Mr. E. Geoffrey Albers, together with our consultants, in order to identify and conduct initial analyses of permits in which we may acquire an interest.

Strategy. We devote essentially all of our resources to the identification of



## Edgar Filing: AUSTRALIAN OIL & GAS CORP - Form 10-Q

large-tract exploration permits in their early stages of exploration. We attempt to focus on areas where we consider that there is the potential for a high impact outcome for the Company, in the event of exploration success. We plan to advance the prospectivity of these acreages largely through the application of geological and geophysical expertise and through the provision of new 2D and 3D seismic surveys. We seek to keep our capital outlays and overheads at a minimum level by farming out exploration costs and by retaining selected consultants, contractors and service companies. We generally use proven technologies in evaluating the prospectivity of our oil and gas properties. We expect to invest in projects at different percentage levels of participation, including up to 100% ownership. We plan to maintain as high a participation as can be prudently managed in the early stages of a project. We focus on areas considered to have speculative near term potential for oil discovery or medium term potential for gas discovery. An important part of our strategy is to select prospective acreage which, at the seismic or drilling stage, can be farmed out and/or developed in conjunction with other, preferably larger more financially robust petroleum industry participants, so as to reduce exploration risk (which is high) and minimize our financial outlay requirements. We attempt to do so, wherever possible, through promoted transactions. Our overall intention is to provide maximum leverage for shareholders at minimal cost, in return for the extremely high risk activities that we undertake. The funding of our exploration programs is an on-going challenge.

9

Since August 2003, when the Company began operations, we have not conducted any business which generates revenue from the sale of hydrocarbons. Accordingly, we have no results of such operations to report. We are actively pursuing our long term strategy of maintaining our oil and gas exploration projects which, in the long-term and given success, may have the future potential to generate substantial revenue.

Permitting. It should be noted that Australian offshore petroleum permits are initially granted for a term of 6 years, pursuant to the Offshore Petroleum Act, 2006 (Commonwealth). Provided all exploration commitments are met, petroleum exploration permits may be renewed for two consecutive 5-year terms, with relinquishment of 50% of the area of a permit at the end of the first 6-year term, and again at the end of the second 5-year permit term. Any Retention Lease or Production License is excluded from the calculation of the area to be relinquished. Permits therefore, have a potential 16-year life, subject to these requirements and to the fulfillment of exploration commitments.

Management. The Company relies upon its Chairman and President, who also holds the position of Chief Executive Officer and Chief Financial Officer, Mr. E Geoffrey Albers, to manage the Company's operations and to identify and acquire interests in oil and gas prospects. The Company previously entered into an agreement with Mr. Albers to secure his services on a part-time basis for a 3-year period, with a commencement date effective from January 1, 2005. As the Company's cash resources are limited, the board agreed to remunerate Mr. Albers by issuing common stock in lieu of cash payments. On February 17, 2009 the Company signed a new four-year contract with Mr. Albers ("the Director") with respect to the continuation of his services for a further period effective from January 1, 2008 to 31 December 2011, on terms which include the following:

- (i) by the Company issuing to the Director or, at the election of the Director, to the Trustee of the Fund, Common Stock in lieu of cash payments. Specifically, during the first quarter of 2009, the Company will issue 2,400,000 shares of Common Stock for his services in relation to the period from 1 January 2008 to 31 December 2008. These shares were issued March, 26, 2009.
- (ii) by the Company issuing to the Director or, at the election of the Director,

## Edgar Filing: AUSTRALIAN OIL & GAS CORP - Form 10-Q

to the Trustee of the Fund, Common Stock in lieu of cash payments. Specifically, during the fourth quarter of 2009, the Company will issue 2,200,000 shares of Common Stock for his services in relation to the period from 1 January 2009 to 31 December 2009.

10

- (iii) by the Company issuing to the Director or, at the election of the Director, to the Trustee of the Fund, Common Stock in lieu of cash payments. Specifically, during each the fourth quarter of 2010, the Company will issue 2,000,000 shares of Common Stock for his services in relation to the period from 1 January 2010 to 31 December 2010.
- (iv) by the Company issuing to the Director or, at the election of the Director, to the Trustee of the Fund, Common Stock in lieu of cash payments. Specifically, during the fourth quarter of 2011, the Company will issue 1,800,000 shares of Common Stock for his services in relation to the period from 1 January 2011 to 31 December 2011.

Working Capital. Funding As an exploration stage enterprise, the Company has and continues to rely on capital infusions through the advances of Great Missenden Holdings Pty Ltd. The Company has accepted advances and in the future anticipates that it will draw down further advances to enable it to meet its administrative costs and expenditure requirements in developing its portfolio of oil and gas interests.

### Funding for Exploration Programs

When the Company requires further significant funds for its exploration programs, then it is the Company's intention that the additional funds would be raised in a manner deemed most expedient by the Board of Directors at the time, taking into account budgets, share market conditions and the interest of industry in co-participation in the Company's programs.

It is the Company's intention to meet its obligations by either partial sale of the Company's interests or farm out, the latter course of action being a fundamental part of the Company's overall strategy. Should funds be required for appraisal or development purposes the Company would, in addition, look to project loan finance.

Should these methods considered not to be viable, or in the best interests of stockholders, then it is the Company's plan that they could be raised by any one or a combination of the following manners: stock placements, pro-rata issue to stockholders, and/or an issue of stock to eligible parties.

Following implementation of our acquisition strategy, we now hold interests in 14 Petroleum Exploration Permits granted by the Commonwealth of Australia. With one exception, they are held in joint venture with other parties. We are now intent on exploring, farming-out and generally up-grading these interests. A summary of the permits and the current activities in each permit is set out below.

11

VULCAN SUB-BASIN INTERESTS, TERRITORY OF ASHMORE AND CARTIER ISLANDS, AUSTRALIA  
(AC/P33, AC/P35 and AC/P39)

## Edgar Filing: AUSTRALIAN OIL & GAS CORP - Form 10-Q

Geologically, AC/P33, AC/P35 and AC/P39 are located on the eastern margin of the Vulcan Sub-basin, a broad, deep and proven hydrocarbon-generative basin, one of a number of proven petroliferous sub-basins which together comprise the North West Shelf hydrocarbon province of Australia. The permits are within the Territory of Ashmore and Cartier Islands, an Australian offshore territory.

The Territory of the Ashmore and Cartier Islands ("the Territory") was ceded from Britain and accepted by the Commonwealth of Australia ("Commonwealth") in 1933. The responsibility for the administration of the Territory was transferred from the Northern Territory of Australia ("Northern Territory") to the Commonwealth when a level of self-government was instituted in the Northern Territory in 1978.

Petroleum extraction activities in the area within the Territory are administered on behalf of the Commonwealth by the Northern Territory Department of Mines and Energy through the Designated Authority protocol operating pursuant to the Offshore Petroleum and Greenhouse Storage Act 2006 (Commonwealth).

Commonwealth laws, laws of the Northern Territory and Ordinances made by the Governor-General make up the body of law generally applicable in the Territory.

The Territory comprises West, Middle and East Islands of Ashmore Reef, Cartier Island and the territorial sea generated by those islands. The islands are uninhabited, small, low and composed of coral and sand, with some grass cover.

The Territory is located on the outer edge of the continental shelf in the Indian Ocean approximately 320 km off Australia's north-west coast and 144 kilometres south of the Indonesian Island of Roti. The Jabiru and Challis oil fields are located within the Territory, as are numerous other oil and gas accumulations and occurrences.

We acquired our initial 20% interest in the Vulcan Sub-basin permits as a result of the acquisition of Alpha Oil & Natural Gas Pty Ltd ("Alpha") in 2006.

On May 15, 2006 Alpha agreed to farmout 5% of its 20% interest in each of the Vulcan Sub-basin Permits to National Gas Australia Pty Ltd ("NGA") (leaving Alpha with a 15% interest) in return for the acquisition and funding of Alpha's 20% share of the new Oliver 3D seismic survey of approximately 124 km<sup>2</sup> and the funding of the cost of reprocessing of approximately 2,800 km<sup>2</sup> of the existing Onnia 3D Seismic Survey data, relevant to all of AC/P33, AC/P35 and AC/P39. The cost of the Company's share of the Oliver survey and the Onnia reprocessing has thus been met entirely by NGA.

We have subsequently farmed out half of our interest in AC/P33 to Stuart Petroleum Limited ("Stuart") (see Oliver Joint Venture below), leaving Alpha with a 7.5% interest.

12

Our wholly owned subsidiary, Alpha, has established a wholly owned subsidiary named Vulcan Australia Pty Ltd ("Vulcan") and has transferred its interests in each of its Timor Sea permits, AC/P33, AC/P35 and AC/P39 to Vulcan. NGA has transferred its interests to its wholly owned subsidiary Petrocorp Australia Pty Ltd.

In addition, the joint venture operating agreement, which previously governed joint venture operations in all three of the permits, has been replaced by new separate joint venture agreements for each permit. The new joint ventures are known as Oliver Joint Venture (AC/P33), Vulcan Joint Venture (AC/P35) and Nome Joint Venture (AC/P39).

## Edgar Filing: AUSTRALIAN OIL & GAS CORP - Form 10-Q

Oliver Joint Venture (AC/P33)

Our wholly owned subsidiary, Vulcan, following farmout of drilling and development commitments to Stuart, (see below) now holds a 7.5% interest in the Oliver Joint Venture permit, AC/P33, in joint venture with Stuart (50%) now the designated operator, and our joint venture affiliates; Petrocorp Australia Pty Ltd ("Petrocorp") (12.5%), Natural Gas Corporation Pty Ltd (NGC) (15%) and Auralandia N.L. (Auralandia) (15%).

AC/P33 (granted July 6, 2004) includes the undeveloped Oliver oil and gas accumulation, drilled by the now plugged and abandoned Oliver-1 well. AC/P33 comprises five graticular blocks, totalling approximately 400 km<sup>2</sup> (98,800 acres). During the first three years of the initial 6-year term of permit AC/P33, the joint venture participants obtained a range of existing reports and open file seismic data and have mapped, interpreted and revised analyses and concepts for the area. The joint venture has carried out enhancement of existing seismic data around the Oliver feature and examined various techniques for potential to provide direct hydrocarbon indicators. As a result of the farmout to NGA, the joint venture has acquired 124 km<sup>2</sup> (acres) of new high quality enhanced parameter 3D seismic survey, known as the Oliver 3D Seismic Survey. The survey was conducted over the Oliver feature and part of its extension to the east. Processing of the new Oliver Seismic Survey and reprocessing of part of the immediately adjacent Onnia 3D Seismic Survey in the vicinity of the Oliver-1 well, in preparation for the proposed Oliver 2 exploration/appraisal well, has been concluded. The joint venture has elected to enter the second three years of the initial permit and the farminee, Stuart, plans to drill one exploration well prior to the end of 2009, and to perform further interpretational work at its cost. Active geological and geophysical evaluation of the permit continues.

Stuart's earn-in obligations will be satisfied by sole funding the drilling of an appraisal well on the Oliver feature, completion of engineering studies up to Final Investment Decision for development of an oilfield and sole funding the first \$25 million of development expenditure. The first phase of development of the Oliver field - drilling the appraisal well, Oliver 2, and completing engineering studies - is expected cost \$60 million and to be complete late in 2010.

The Oliver field, containing a column of oil, gas and condensate, was discovered by a BHP Petroleum operated consortium in 1988. The Oliver 1 well was drilled in 305 metres of water to a depth of 3,500 metres. The well encountered the column in the Plover Formation between 2,927 metres and 3,097 metres.

Stuart's interpretation of the recently acquired Oliver 3D seismic data over the Oliver field resulted in Stuart's estimated potential recoverable liquids in the range of 9.9 million barrels to 33 million barrels of oil and condensate with a mean joint venture volume of 19.3 million barrels. According to Stuart, these estimates have been independently reviewed and confirmed. They are not independently verified reserves, but are estimates only provided to the joint venture participants for preliminary planning and feasibility purposes.

13

Studies to identify economic development alternatives and to determine viability have been commenced by Stuart and are expected to be followed by the Oliver 2 appraisal well to confirm the size of the field. The semi-submersible drilling rig, Songa Venus, has been contracted by Stuart to drill this well at Stuart's cost in mid-2009. In the event of a successful outcome, further economic viability and development studies will then determine whether and how to best develop the field.

Equity participants in permit AC/P33 presently are:

## Edgar Filing: AUSTRALIAN OIL & GAS CORP - Form 10-Q

|  | %    |
|--|------|
| Stuart Petroleum Limited (Operator)        | 50.0 |
| Natural Gas Corporation Pty Ltd            | 15.0 |
| Auralandia NL                              | 15.0 |
| Petrocorp Australia Pty Ltd                | 12.5 |
| Vulcan Australia Pty Ltd (AOGC subsidiary) | 7.5  |

The Company is considering how it might meet future funding requirements of its subsidiary Vulcan, with respect to funding of any Oliver development. Discussions amongst the non-Stuart joint venture participants has focused on the concept of each of the participants, other than the operator Stuart and other than Auralandia, selling their interest in each of the Vulcan Sub-basin permits to Auralandia or another jointly sponsored company in return for an appropriate pro rate issue of shares. Auralandia has signified that it is open to proposals which would see it as the corporate vehicle for unifying 50% of the interests in this manner. The Company is investigating this concept and plans to participate, pending further investigations and finalization in an appropriate commercial arrangement. Capital would thus be required by the entity for further appraisal and development drilling and development of Oliver following satisfaction of the Stuart farmin terms, but would relieve the Company of any direct cost commitment to any of the Vulcan Sub-basin permits (AC/P33, AC/P35 and AC/P39).

### Vulcan Joint Venture (AC/P35)

AC/P35 (granted October 18, 2005) is located immediately to the north of AC/P33. It comprises 46 graticular blocks, totalling approximately 3,410 km(2) (842,645 acres). There have been five wells drilled in the area, with two having oil and gas indications, all of which were plugged and abandoned. During the first three years of the initial 6-year term of the AC/P35 permit, we have obtained a range of pertinent existing reports and open file seismic data. We have applied for a variation and suspension and extension of the permit for a period of twelve months. In the third permit year, we presently plan to shoot up to 250 km(2) of new 3D seismic survey. Should we so decide, we can elect to enter the second stage of three permit years of the initial permit term and, if warranted, drill one exploration well and perform further interpretational work. Geological evaluation of the permit is continuing. 1,750 km(2) of the previously acquired proprietary 3D seismic over AC/P35 known as the Onnia 3D Seismic Survey has been reprocessed. We are assessing the need for and possible locations of a further 2D seismic survey prior to acquiring the 250 kms(2) 3D seismic program. The joint venture is considering whether it will acquire approximately 250 line kilometres of 2D seismic data over the Fairfax lead.

14

The participants in the Vulcan Joint Venture are:

|                                 | %    |
|---------------------------------|------|
| Auralandia NL (Operator)        | 30.0 |
| Natural Gas Corporation Pty Ltd | 30.0 |
| Petrocorp Australia Pty Ltd     | 25.0 |
| Vulcan Australia Pty Ltd        | 15.0 |

### Nome Joint Venture (AC/P39)

AC/P39 (granted April 7, 2006) is located 600 km west of Darwin, immediately to the east of AC/P33 and AC/P35. It comprises 11 graticular blocks, totalling approximately 920 km(2) (2,273 acres). AC/P39 lies within 100 km of existing petroleum production facilities and along the eastern elevated flank of the Vulcan Sub-basin. There have been five wells drilled in the area, with two

## Edgar Filing: AUSTRALIAN OIL & GAS CORP - Form 10-Q

having oil and gas indications. In the first three years of the initial 6-year term of the AC/P39 permit, we have obtained a range of existing reports and open file seismic data. We requested a 12 month suspension and extension of Year 2 in order to complete the reprocessing of 920 km(2) Onnia 3D seismic survey within the permit. The re-processing has now been completed, but was delayed because of the manpower constraints of the contractor, PGS. In the third permit year, subject to maturing the current leads to drillable prospects, we presently plan to drill one exploration well. Geological evaluation of the permit is continuing, including the assessment of risk as to whether any leads are of sufficient quality to warrant the risk and cost of drilling and the likelihood of a farminee being prepared to meet the cost of such a well in the current depressed economic climate.

The participants in the Nome Joint Venture are:

|                                 | %    |
|---------------------------------|------|
| Auralandia NL (Operator)        | 30.0 |
| Natural Gas Corporation Pty Ltd | 30.0 |
| Petrocorp Australia Pty Ltd     | 25.0 |
| Vulcan Australia Pty Ltd        | 15.0 |

15

### BROWSE BASIN INTERESTS, OFFSHORE FROM WESTERN AUSTRALIA - WA-332-P, WA-333-P and WA-342-P

The Browse Basin region is a major proven hydrocarbon area and it forms a part of the extensive series of continental margin sedimentary basins that, together, comprise the North West Shelf hydrocarbon province of Australia. The Browse Basin has been host to a series of major gas, gas condensate and oil discoveries which began with the 1971 discovery at Scott Reef-1. The Browse Basin is currently the focus for two proposals to establish new LNG export facilities; one by Woodside Energy Ltd in relation to the Torosa/Brecknock/Calliance complex and the other by Inpex Corporation in relation to the Ichthys complex. Two of the Browse Joint Venture permits are presently lightly explored. There is one well on the boundary of WA-332-P (Prudhoe-1), one well in WA-333-P (Rob Roy-1), and a total of fourteen wells in WA-342-P, mostly associated with the undeveloped Cornea oil and gas accumulation.

On April 12, 2006, we completed the acquisition of Alpha Oil & Natural Gas Pty Ltd ("Alpha"), a transaction entered into on July 1, 2004. The acquisition of Alpha was made in order to acquire a 20% interest in the Browse Joint Venture, being permits, WA-332-P, WA-333-P, WA-341-P and WA-342-P. Following signing of this transaction, but prior to the agreement between being finalized, Alpha (with the approval of AOGC) sold its 20% interest in WA-341-P to a third party for an amount in excess of book value. The settlement funds received by Alpha were incorporated in funds available to AOGC, through this wholly owned subsidiary, following completion of the Alpha purchase.

The now remaining three permits within the Browse Basin, WA-332-P, WA-333-P and WA-342-P, are contiguous and are located offshore in the eastern Browse Basin. They cover a total area of 9,460 km(2) (2,336,620 acres).

Our wholly owned subsidiary, Alpha, together with its joint venturers, in 2008 entered into a farmout agreement with respect to WA-332-P, WA-333-P and WA-342-P ("Permits") with Gascorp Australia Pty Ltd ("Gascorp") whereby Gascorp agreed to earn a 15% interest in each of the three Permits in return for Gascorp expending \$1,120,000 in acquiring approximately 490 line kilometres of new 2D seismic data

## Edgar Filing: AUSTRALIAN OIL & GAS CORP - Form 10-Q

in the Permits and in acquiring a drill site survey in order to determine a specific location to test the Braveheart prospect. The surveys provided coverage of leads within WA-332-P as well as assisting in the determination of the location of the Braveheart 1 well. As a result of this farmout, Alpha's interest in each of the three permits reduced from 20% to 17%.

Browse Joint Venture (Braveheart Joint Venture) - WA-332-P and WA-333-P

In the first three year term of the Permits, the Browse Joint Venture obtained available open file reports and basic 2D and 3D seismic data acquired by the earlier efforts of previous explorers. The pre-existing 2D seismic data set has been integrated with the acquisition and processing of the Braveheart 2D seismic survey. The Browse Joint Venture previously acquired the Braveheart seismic survey of approximately 1,949 line km of new 2D seismic survey over these Browse Joint venture permits. This has been infilled with the further 490 kms of 2D seismic. The Browse Joint Venture has elected to enter a second three year permit term in which it presently is planning for the drilling of Braveheart 1 in WA-333-P.

16

The Browse Joint Venture, in March 2008, applied for an 18-months suspension and extension of Year 5 of permit WA-332-P in order to acquire further new infill 2D seismic survey over potential leads in WA-332-P and to secure a drilling vessel. If granted, Year 5 of WA-332-P will end September 30, 2009.

In March 2008, the Browse Joint Venture also applied for a 12-month suspension and extension of Year 5 of the WA-333-P permit in order to allow additional time for the drilling of the Braveheart-1 well in WA-333-P. The Joint Venture has entered into a contract with a drilling vessel management company, as a result of which a well is expected to be drilled on the Braveheart feature in early 2010. If granted, Year-5 of WA-333-P will end on March 31, 2010. Further extensions may be necessary.

The participants in each of the WA-332-P and WA-333-P permits have formed new 100% owned subsidiary companies and have transferred their respective interests to such wholly owned subsidiaries. Alpha incorporated Braveheart Oil & Gas Pty Ltd as a wholly owned subsidiary to which it has assigned its residual 17% interest in each of these Permits. The Joint Venture has also adopted the new name of the "Braveheart Joint Venture".

Participants in the Braveheart Joint Venture presently are:

|  |        |
|--|--------|
| Braveheart Resources Pty Ltd (subsidiary of Exoil Limited) (Operator)  | 29.75% |
| Braveheart Petroleum Pty Ltd (subsidiary of Batavia Oil & Gas Pty Ltd) | 29.75% |
| Browse Petroleum Pty Ltd (subsidiary of Gascorp Australia Pty Ltd)     | 15.00% |
| Braveheart Oil & Gas Pty Ltd (subsidiary of Alpha)                     | 17.00% |
| Braveheart Energy Pty Ltd (subsidiary of Goldsborough Limited)         | 8.50%  |

The participants in the Joint Venture have contracted to engage the services of Australian Drilling Associates Pty Ltd to provide project management services to support the conduct of drilling operations and has gained access to one drilling slot in a group sponsored multi-well program utilising the semi-submersible drilling rig, the Songa Venus. The drilling slot is to be used for the drilling of the Braveheart 1 well, anticipated in early 2010.

The Braveheart prospect is now drill-ready, subject to completion of detailed well design and obtaining of all governmental approvals. The Braveheart prospect is a postulated stratigraphic trap covering an area of more than 300 kms(2), with large resource potential. The feature was delineated through AVO analysis and is in a water depth of about 125m, with the target at 2200m.

## Edgar Filing: AUSTRALIAN OIL & GAS CORP - Form 10-Q

While each of the two permits of the Browse Joint Venture have been offered for farmout, alternatively, the participants are considering how they might meet the funding requirements for the drilling of a well or wells, should these farmout efforts not be successful. Discussions amongst the joint venture participants have advanced the concept of the formation of a special purpose Australian company to acquire the permit interests in return for a pro rata issue of shares to each of the Braveheart Joint Venture participants. The concept is for such a special purpose company to seek public equity funding in Australia in order to meet the significant cost of any well or wells to be drilled in each of the Browse permits

17

Cornea Joint Venture (formerly part of the Browse Joint Venture)

The Cornea Joint Venture comprises the interests held in WA-342-P, which is adjacent to WA-332-P and WA-333-P.

On October 22, 2007, the Browse Joint Venture lodged a request for a variation of the permit WA-342-P so that instead of drilling a well in Year-5 the permit would require geotechnical studies, while Year-6 of the permit would require reprocessing 1000 kms(2) of the existing 3D seismic data set. If such variation of the permit is granted, then Year-6 of the permit would commence on November 28, 2009.

The joint venture continues to carry out extensive studies as to prospectivity of the known Cornea gas/oil accumulation where as much as 92 million barrels of oil may be recoverable, if our geological concepts and assumptions are correct. However, the challenges at Cornea include a difficult reservoir with difficult to model production characteristics (although there are analogues in production in the region at Stag and Wandoo) and the long, narrow shape of the field. Because the reservoir is relatively shallow, in the order of 800m, drilling is correspondingly cheaper.

Cornea represents an opportunity to invest in an appraisal drilling campaign with the possibility of early development, if the geological assumptions are correct and if initial drilling objectives are realised. The plan is to drill a horizontal Cornea exploration/appraisal well in the predicted best sands and conduct a well designed production test to quantify flow rates and define oil and gas contacts.

Conditional on a positive outcome, an appraisal and field development strategy for Cornea would be prepared. An initial successful appraisal well would also provide a focus for the applicability of various methods for funding a development, including subsequent capital raising and/or joint development (part sale or farmout).

Participants in the Cornea Joint Venture are:

|   |        |
|---|--------|
| Hawkestone Oil Pty Ltd ((subsidiary of Exoil Limited) (Operator)  | 29.75% |
| Batavia Oil & Gas Pty Ltd   | 29.75% |
| Browse Petroleum Pty Ltd(subsidiary of Gascorp Australia Pty Ltd) | 15.00% |
| Alpha Oil & Natural Gas Pty Ltd                                   | 17.00% |
| Goldsborough Energy Pty Ltd                                       | 8.50%  |

The participants in the Cornea Joint Venture plan to engage the services of Australian Drilling Associates Pty Ltd to provide project management services to support the conduct of drilling operations within the permit and will negotiate to gain access to one drilling slot in a group sponsored multi-well program utilising the semi-submersible drilling rig, the Songa Venus. The drilling slot



## Edgar Filing: AUSTRALIAN OIL & GAS CORP - Form 10-Q

is for the proposed drilling of a horizontal appraisal well into the postulated Cornea oil rim, anticipated in early 2010.

18

While the Cornea Joint Venture permit, WA-342-P, has been offered for farmout, alternatively, the participants are considering how they might meet the funding requirements for the drilling of a horizontal well or wells on the Cornea feature, should these farmout efforts not be successful. Discussions amongst the joint venture participants have advanced the concept of the formation of a special purpose Australian company to acquire the Cornea interests in return for a pro rata issue of shares to each of the Cornea Joint Venture participants. The concept is for such a special purpose company to seek public equity funding in Australia in order to meet the significant cost of any well or wells to be drilled in the permit.

BONAPARTE BASIN INTERESTS, OFFSHORE FROM THE NORTHERN TERRITORY OF AUSTRALIA - NT/P62, NT/P63, NT/P64, NT/P65, NT/P71 and NT/P72

The Timor Sea covers a huge area underlain by sedimentary basins with potential for new hydrocarbon discoveries. The region has a long history of exploration activity and discovery and has now become the focus for domestic and international petroleum exploration and development activities. There have been numerous oil, gas/condensate and gas discoveries to the north west in the region of the permits, including the Laminaria, Corallina and Bayu-Undan fields. The giant gas fields of Greater Sunrise, Evans Shoal, Caldita and Barossa are to the north and east of the permits. Recent Plover Formation discoveries have been made in the Heron-2 well and the Blackwood-1 well, in permit NT/P68 immediately north of NT/P63 and immediately south of NT/P65.

The Timor Sea is a major emerging petroleum province, with a developing emphasis in gas processing for the export market. Discoveries made over the past few years are expected to lead to the area providing substantial gas production and revenue, through value-added gas projects covering a range of gas to liquids processes and technologies.

National Gas Consortium - NT/P62, NT/P63, NT/P64, NT/P65, NT/P71 and NT/P72

On April 12, 2006, we completed the acquisition of 100% of Nations Natural Gas Pty Ltd (Nations). The acquisition of Nations was entered into on September 10, 2004 and made in order to acquire a 30% interest in the initial four permits of the National Gas Consortium, being permits, NT/P62, NT/P63, NT/P64 and NT/P65 ("Timor Sea Permits"), located in the Australian sector of the Timor Sea, offshore from the Northern Territory.

Nations on June 15, 2006, agreed to farmout 6% of its 30% interest in each of the Timor Sea Permits to NGA (leaving Nations with a net 24% interest) in return for the acquisition and funding of Nations 30% share of the new Sunshine 2D seismic survey (887 kms) and Kurrajong 2D seismic survey (3,291 km) which were acquired in November 2006.

19

Nations on June 16, 2008, agreed to a further farmout of a further 3% of its 24% interest in each of the Timor Sea Permits to NGA (leaving Nations with a net 21% interest) in return for further expenditure of AUD\$1.6 million by NGA on Joint Venture exploration costs. The cost of the Company's share of the Sunshine and Kurrajong surveys has been met entirely by NGA.

On August 8, 2006, Nations, together with the other joint venturers in the

## Edgar Filing: AUSTRALIAN OIL & GAS CORP - Form 10-Q

National Gas Consortium were granted petroleum exploration permits NT/P71 and NT/P72 for an initial 6-year term. Permits NT/P71 and NT/P72, which cover a total area of approximately 17,380 km<sup>2</sup> (4,294,772 acres), are located in the Australian sector of the Timor Sea, and are held by the National Gas Consortium, which holds the contiguous NT/P62, NT/P63 and NT/P64 permits to the immediate west.

The National Gas Consortium now holds six permits aggregating approximately 32,255 km<sup>2</sup> (7,970,533 acres) namely, NT/P62, NT/P63, NT/P64, NT/P65, NT/P71 and NT/P72, all within jurisdiction of Australia.

The participants in the National Gas Consortium are:

|                                       | %    |
|---------------------------------------|------|
| National Oil & Gas Pty Ltd (Operator) | 24.5 |
| Australian Natural Gas Pty Ltd        | 24.5 |
| National Gas Australia Pty Ltd        | 30.0 |
| Nations Natural Gas Pty Ltd           | 21.0 |

On November 16, 2007, the members of the National Gas Consortium applied for a 12-month extension of Year 4 of each of the permits NT/P62, NT/P63, NT/P64 and NT/P65 in order to complete the interpretation of the new Sunshine and Kurrajong 2D seismic data sets, in conjunction with interpretation of pre-existing 1,349 line km Jacaranda 2D seismic data set and 1,377 line km Halimeda 2D seismic survey data set, both of which have been reprocessed. If granted, then Year-4 of each of these permits would end on December 31, 2008.

The Timor Sea permits have been offered for farmout, with a number of international companies having considered parts of or the whole of the acreage. In the meantime, the National Gas Consortium Joint Venture participants are considering methods of meeting the funding requirements for the drilling of a well or wells, should these farmout efforts not be successful. Discussions amongst the joint venture participants have focused on the formation or acquisition of a special purpose company to acquire the National Gas Consortium Joint Venture permits interests in return for a pro rata issue of shares to each of the joint venture participants. This special purpose public company would then seek public equity funding in Australia in order to meet the significant cost of any well or wells to be drilled in the permits.

20

### Crocodile Joint Venture - Eastern Bonaparte Basin - NT/P70

On October 10, 2005, the Australian Government granted petroleum exploration permit NT/P70, for a 6-year term. The Company initially held a 100% interest in the permit and now holds an 80% interest as the result of farmout (see below).

NT/P70 covers an area of 7,370 km<sup>2</sup> (1,821,200 acres) and is located in the eastern Timor Sea, about 300 km north of Darwin, and 250 km northeast of the proposed Darwin to Bayu-Undan gas pipeline. The Greater Sunrise, Evans Shoal, Barossa and Caldita gas accumulations are located to the west and southwest of the NT/P70 permit area.

AOGC agreed on June 15, 2006, to farmout 20% of its 100% interest in NT/P70 to NGA in return for the acquisition and funding by NGA of the cost of a new 800 line km Crocodile 2D seismic survey, subsequently acquired in the NT/P70 permit. Subsequently AOGC has agreed to transfer its 80% interest to its wholly owned subsidiary Alpha Oil & Natural Gas Pty Ltd.

## Edgar Filing: AUSTRALIAN OIL & GAS CORP - Form 10-Q

The equity participants in the NT/P70 Joint Venture are:

|  | %    |
|--|------|
| Alpha Oil & Natural Gas Pty Ltd (Operator) | 80.0 |
| National Gas Australia Pty Ltd             | 20.0 |

The permit was designated as a "frontier area" by the Australian Government attracting an exploration incentive which allows immediate uplift to 150% tax deductibility on Australian Petroleum Resource Rent Tax ("PRRT") which is only payable provided certain levels of return from subsequent production are achieved.

We have obtained a range of pertinent existing reports and open file seismic data and, together with the Crocodile 2D seismic data, have mapped, interpreted and revised analyses and concepts for the area. We are presently assessing whether to shoot 300 km(2) of 3D seismic survey. Should we so decide, we can elect to enter the second three years of the initial permit term and drill one exploration well and perform further interpretational work. There have been no wells drilled in the permit.

The Warawi prospect and the Crocodile prospect have been the major focus of our work in NT/P70.

The NT/P70 permit has been offered for farmout, with a number of international companies having considered the acreage

### Stillwater Joint Venture - NT/P73

On March 27, 2007, the Australian Government granted to our subsidiary, Alpha, a petroleum exploration permit, NT/P73, for an initial 6-year term. NT/P73 is located to the immediate south west of NT/P70 and covers an area of 6,815 km(2) (1,683,300 acres). The Barossa and Caldita gas accumulations are located to the west of the NT/P73 permit area.

### 21

In the first three years of the initial 6-year term of the NT/P73 permit we plan to obtain existing reports and open file seismic data and, with this data, to map, interpret and revise analyses and concepts for the area. We are required to acquire up to 2,000 line km of 2D in the third year of the permit. Should we so decide, we can elect to enter the second three years of the initial permit term and drill one exploration well and perform further interpretational work. There have been no wells drilled in the permit area.

Our work to date has focused on the Stillwater feature of the NW corner of NT/P73. We have recently reached agreement with ConocoPhillips with respect to our right to approximately 200 kms(2) of 3D data acquired by ConocoPhillips in the NW corner of our NT/P73, most of which covers the highly interesting Stillwater feature, which sits en echelon alongside the Caldita feature, located in the adjacent permit held by ConocoPhillips and Santos. This data has been expressed in 2D format, exceeding 2000 line kms, thus meeting our third permit-year obligation.

In order to provide working capital for the AOGC group, on April 3, 2009 the company's Australian subsidiary, Alpha Oil and Natural Gas Pty Ltd, sold a 35% interest in NT/P73 to Gascorp Australia Pty Ltd (Gascorp) for \$249,935 (AUD\$350,000) on the following basis:

- (1) A put option granted by Alpha to enable Gascorp to sell the interest back to Alpha within 3 years for:
  - (i) an amount equivalent to AUD\$350,000 plus interest at 1% per month; and

## Edgar Filing: AUSTRALIAN OIL & GAS CORP - Form 10-Q

(ii) a royalty of 1% with respect to the 30% permit interest.

- (2) An option from Alpha to Gascorp to enable Gascorp to increase its interest in NT/P73 by 15% to 50% by expending a further \$196,377 (AUD\$275,000) (on behalf of Alpha's remaining 65%) in relation to exploration in NT/P73.

Gascorp Australia Pty Ltd is an affiliate company of Mr. EG Albers.

The NT/P73 permit has been offered for farmout.

22

### Item 3. Quantitative and Qualitative Disclosures about Market Risk.

We do not engage in transactions in derivative financial instruments or derivative commodity instruments. As of March 31, 2009, our financial instruments were not exposed to significant market risk due to interest rate risk, foreign currency exchange risk, commodity price risk or equity price risk.

### Item 4. Controls and Procedures.

As required by Rule 13a-15 under the Securities Exchange Act of 1934 (the "Exchange Act"), we carried out an evaluation of the effectiveness of the design and operation of our disclosure controls and procedures as of March 31, 2009. This evaluation was carried out under the supervision and with the participation of our President and Chief Financial Officer. Based upon that evaluation, our President and Chief Financial Officer concluded that our disclosure controls and procedures are effective as of such date.

As used herein, "disclosure controls and procedures" means controls and other procedures of ours that are designed to ensure that information required to be disclosed by us in the reports we file or submit under the Securities Exchange Act is recorded, processed, summarized and reported, within the time periods specified in the Securities and Exchange Commission's rules and forms. Disclosure controls and procedures include, without limitation, controls and procedures designed to ensure that information required to be disclosed by us in the reports we file under the Securities Exchange Act is accumulated and communicated to our management, including our President and Chief Financial Officer, or persons performing similar functions, as appropriate to allow timely decisions regarding required disclosure.

#### Internal Controls

Since the date of the evaluation described above, there were no significant changes in our internal control or in other factors that could significantly affect these controls, and there were no corrective actions with regard to significant deficiencies and material weaknesses.

#### Management's Report on Internal Control over Financial Reporting

The management of Australian Oil and Gas Corporation ("the Company") is responsible for (1) the preparation of the accompanying financial statements; (2) establishing and maintaining internal controls over financial reporting; and (3) the assessment of the effectiveness of internal control over financial reporting. The Securities and Exchange Commission defines effective internal control over financial reporting as a process designed under the supervision of the company's principal executive officer and principal financial officer, and implemented in conjunction with management and other personnel, to provide

## Edgar Filing: AUSTRALIAN OIL & GAS CORP - Form 10-Q

reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements in accordance with generally accepted accounting principles.

24

All internal control systems, no matter how well designed, have inherent limitations and provide only reasonable assurance that the objectives of the control system are met, Therefore, no evaluation of controls can provide absolute assurance that all control issues and misstatements due to error or fraud, if any, within the company have been detected. Additionally, any system of controls is subject to risk that controls may become inadequate due to changes in conditions or that compliance with policies or procedures may deteriorate. Also, projections of any evaluation of effectiveness to future periods are subject to the risk that controls may become inadequate because changes in conditions or that compliance with the policies or procedures may deteriorate.

As of March 31, 2009, management of the Company conducted an assessment of the effectiveness of the company's internal control over financial reporting based on criteria established in the framework in Internal Control - Integrated Framework issued by the Committee of Sponsoring Organizations of the Treadway Commission. From this assessment, management has concluded that the company's internal control over financial reporting was effective as of March 31, 2009.

This Quarterly Report does not include an attestation report of the Company's registered public accounting firm regarding internal control over financial reporting. Management's report was not subject to attestation by the Company's registered public accounting firm pursuant to temporary rules of the Securities and Exchange Commission that permit the Company to provide only management's report in this annual report.

### Part 11. OTHER INFORMATION

#### Item 6. Exhibits

##### List of Exhibits

31.1 Certification pursuant to Section 302 of the Sarbanes-Oxley Act of 2002.

32.1 Certification pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002.

25

### SIGNATURES

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

AUSTRALIAN OIL & GAS CORPORATION

By: /s/ E. Geoffrey Albers  
-----

Edgar Filing: AUSTRALIAN OIL & GAS CORP - Form 10-Q

E. Geoffrey Albers,  
Chief Executive Officer and  
Chief Financial Officer

May 14, 2009