

AUSTRALIAN OIL & GAS CORP  
Form 10-Q  
May 14, 2010

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, 2010

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  
(State or other jurisdiction of incorporation of  
organization)

84-1379164  
(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  (Do not check if a smaller reporting company) 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

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

45,650,531 shares of common stock, \$0.001 par value, as of May 14, 2010.

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AUSTRALIAN OIL & GAS CORPORATION  
(an exploration stage enterprise)

For the Quarterly Period Ended: March 31, 2010

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## Item 1. Financial Statements (Unaudited)

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

(Dollar amounts in thousands)

ASSETS	03/31/10 \$	12/31/09 \$
Current assets:		
Cash and cash equivalents	579	5
Receivables	269	1
Total Current Assets	848	6
Non-Current assets:		
Exploration and Evaluation Asset (Note 8)	2,842	2,968
Total Non-Current Assets	2,842	2,968
Total Assets	3,690	2,974
LIABILITIES AND STOCKHOLDERS' EQUITY (DEFICIT)		
Current liabilities:		
Accounts payable and accrued expenses	2,105	3,466
Accounts payable to director related entities	11	12
Total Current Liabilities	2,116	3,478
Non-Current liabilities:		
Line of Credit – Director Related (Note 3)	212	206
Total Liabilities	2,328	3,684
STOCKHOLDERS' EQUITY (DEFICIT)		
Common stock, \$0.001 par value; 75,000,000 shares authorized, Issued shares, 45,650,531 at March 31, 2010 and 45, 650,531 at December 31, 2009; Outstanding shares, 46,150,531 at March 31, 2010 and 45,650,531 at December 31, 2009.	46	46
Capital in excess of par value	2,722	2,722
Accumulated other Comprehensive Income	284	264
Deficit accumulated during the exploration stage	(1,690)	(3,742)
Total Stockholders' Equity (Deficit)	1,362	(710)

Total Liabilities and Stockholders' Equity (Deficit)	3,690	2,974
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The accompanying notes are an integral part of these consolidated financial statements.

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Australian Oil & Gas Corporation  
(an exploration stage enterprise)  
CONSOLIDATED STATEMENT OF OPERATIONS  
For the three months ended March 31, 2010 and 2009  
and for the period from inception (August 6, 2003) to March 31, 2010

(Dollar amounts in thousands)

	For the three months ended Mar 31, 2010 \$	For the three months ended Mar 31, 2009 \$	From inception to Mar 31, 2010 \$
Expenses			
General and administrative	2,151	68	4,632
Merger and reorganisation	25	31	1,171
Exploration	-	-	249
Total operating expenses	2,176	99	6,052
Loss before other income and expense	(2,176 )	(99 )	(6,052 )
Other Income and Expense			
Income from sale of tenement and tenement information (Note 7)	4,244	-	6,143
Write down of investments	-	-	(1,759 )
Currency exchange gain /(loss)	(13 )	(2 )	51
Interest income	3	-	66
Interest expense	(6 )	(2 )	(115 )
Profit (loss) before income tax	2,052	(103 )	(1,666 )
Income tax provision	-	-	24
Net Profit (loss)	2,052	(103 )	(1,690 )
Loss per Common share :			
Net Profit / (loss)	\$(0.04 )	\$(0.00 )	\$(0.05 )
Weighted average common share used in calculation	45,646,026	43,456,575	34,627,366

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

Australian Oil & Gas Corporation  
(an exploration stage enterprise)  
CONSOLIDATED STATEMENTS OF CASH FLOWS  
For the three months ended March 31, 2010 and 2009  
and Cumulative from inception (August 6, 2003) to March 31, 2010

(Dollar amounts in thousands – except per share data)

	For the three months ended Mar 31, 2010 \$	For the three months ended Mar 31, 2009 \$	From inception to Mar 31, 2010 \$
Cash flows from operating activities:			
Net profit / (loss)	2,052	(103 )	(1,690 )
Adjustments to reconcile net profit/(loss) to net cash used in operating activities:			
Adjustments for non-cash items			
Compensation expense	30	28	785
Currency exchange loss/(gain)	31	(12 )	-
Write down of investment	-	-	1,759
Issuance of Convertible Note in lieu of repayment of advances from director related entity	-	-	100
Gain on transfer of interest in tenement	(4,243 )	-	(6,142 )
Change in assets and liabilities:			
Increase/(decrease) in accounts payable	(1,398 )	86	2,432
Increase /(decrease) in income tax payable	-	-	(9 )
Decrease/(increase) in accounts receivable	(141 )	-	(59 )
Increase in exploration assets	-	-	(2,968 )
Net cash used in operating activities	(3,669 )	(1 )	(5,792 )
Cash flows from financing activities:			
Proceeds from sale of Common stock –net	-	-	75
Proceeds from advance from director-related entities	-	-	534
Repayment of advance from director-related entities	-	-	(73 )
Net cash (used in)/ provided by financing activities	-	-	536
Cash flows from investing activities:			
Proceeds from sale of tenement/tenement information	4,243	-	5,753
Net cash provided by investing activities	4,243	-	5,753

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Increase/ (decrease) in cash	574	(1	)	497
Cash at beginning of period	5	8		-
Effect of currency exchange rate fluctuations on cash held	-	-		82
Cash at end of period	579	7		579
Supplemental disclosure of non-cash activities:				
Administration Fees charged by Setright Oil & Gas Pty Ltd	5	6		238
Interest charged by Great Missenden Holdings Pty Ltd	6	2		117
Issuance of Stock for compensation and settlement of advances	-	126		852
Profit on sale of tenement and tenement information (Note 7)	4,243	-		6,142

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

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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, 2010 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 Form 10-K for the year ended December 31, 2009.

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 Australian subsidiaries; Alpha Oil & Natural Gas Pty Ltd and Nations Natural Gas Pty Ltd. Alpha Oil & Natural Gas Pty Ltd itself has three wholly owned Australian subsidiaries, Vulcan Australia Pty Ltd (which holds the joint venture interest in each of the Oliver, Vulcan and Nome Joint Ventures), Braveheart Oil & Gas Pty Ltd (which holds the joint venture interest in the Braveheart Joint Venture) and Cornea Oil & Gas Pty Ltd (which will hold the joint venture interest in the Cornea Joint Venture).

Nations Natural Gas Pty Ltd has a wholly owned Australian subsidiary, Napoleon Nations Gas Pty Ltd (which will hold the joint venture interest in the National Gas Consortium 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.

On September 22, 2009, Great Missenden Holdings Pty Ltd advanced \$200,000 on its \$250,000 Line of Credit to AOGC under the terms of the Line of Credit Agreement signed between AOGC and Great Missenden Holdings Pty Ltd on February 17, 2009. This line of credit expires December 31, 2012. For the quarter ended March 31, 2010 Great Missenden Holdings Pty Ltd charged \$6,108 for interest.

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. For the quarter ended March 31, 2010 Setright Oil & Gas Pty Ltd charged the Company \$5,326 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 by way of the issue of shares of common stock.

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

With regard to the Braveheart Joint Venture, Mr. Albers is a director and shareholder in each of Browse Petroleum Pty Ltd, Braveheart Petroleum Pty Ltd, Moby Oil & Gas Limited, Braveheart Energy Pty Ltd and Exoil Limited, the parent of Braveheart Resources Pty Ltd. He is a major shareholder in the parent of Braveheart Energy Pty Ltd. All of these companies are the holders of the Braveheart Joint Venture.

With regard to the Cornea Joint Venture, Mr. Albers is a director and shareholder in each of Coldron Pty Ltd, Cornea Petroleum Pty Ltd, Moby Oil & Gas Limited, Auralandia NL, Cornea Energy Pty Ltd, Octanex NL and Exoil Limited, the parent of Cornea Resources Pty Ltd. All of these companies are the holders of the Cornea Joint Venture.

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/P65, NT/P71 and NT/P72, (National Gas Consortium), of which 9% was earned from Nations.

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

#### Note 4: Current Liabilities

At March 31, 2010 the accounts payable balance includes \$30,000 for remuneration due to Mr Albers for his services which is to be met by the issue of shares (see Management Discussion and Analysis section on Management).

#### Note 5: Issued Shares

At March 31, 2010, 500,000 shares included in issued and outstanding shares of 46,150,531 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 Dec 31, 2010 (See Note 4).

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 \$284,000 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: Sale of Tenement

On February 18, 2010 AOGC's wholly owned subsidiary, Vulcan Australia Pty Ltd ("Vulcan") completed the sales of its 7.5% interest in AC/P33 to a wholly-owned subsidiary of PTT Exploration and Production Public Company Limited, a major Thailand petroleum exploration and production company. Vulcan recovered \$ 4,244,679 for its 7.5% interest. These proceeds have been utilized to meet a large proportion of our obligations to the Braveheart Joint Venture and Cornea Joint Venture with respect to the costs associated with the recent drilling of the Braveheart-1 well and Cornea-3 well.

Note 8: Exploration and evaluation costs

As of March 31, 2010 the company's Australian subsidiary, Alpha Oil and Natural Gas Pty Ltd (on behalf of its subsidiary Cornea Oil and Gas Pty Ltd) share of drilling costs of the Cornea-3 exploration well in WA-342-P was approximately \$2,841,000. The well was drilled from December 11, 2009 to December 28 December. 2009. Overall, the results of Cornea-3 have, for the first time, clearly defined the location of an oil column. Looking forward, the data obtained from Cornea-3 will enable the Cornea Joint Venture to formulate a future exploration, appraisal and development strategy now that an oil column has been proved and that good data relating to the potential reservoir performance has been obtained. On this basis the costs of the well have been capitalized.

On March 31, 2010 the company's Australian subsidiary, Alpha Oil and Natural Gas Pty Ltd (on behalf of its subsidiary Braveheart Oil and Gas Pty Ltd) share of drilling costs of the Braveheart-1 exploration well in WA-333-P was \$1,985,479. The well was drilled from December 29, 2009 to January 17, 2010. The well was plugged and abandoned after encountering only minor indications of hydrocarbons. On this basis all costs of the well have been written off and expensed through the statement of operations.

Note 9: Subsequent Events

The Company has evaluated subsequent events for the period from March 31, 2010, the date of these financial statements through to May 14, 2010, which represents the date these financial statements are being filed with the Commission. Pursuant to the requirements of FASB ASC Topic 855, there were no events or transactions occurring during this subsequent event reporting period that require recognition or disclosure in the financial statement, apart from the one transaction shown below, With respect to this disclosure, the Company has not evaluated subsequent events occurring after May 10, 2010.

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 and its subsidiaries. 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 or farminees 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 have devoted essentially all of our resources to the identification of large-tract exploration permits in their early stages of exploration. We have attempted to focus on areas where we consider there is 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 to develop our exploration plays and concepts. 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 (which are also high). We attempt to do so, wherever possible, through promoted transactions. Our overall intention is to provide shareholders with exposure to potential high level outcomes, thus providing maximum leverage at minimal cost, in return for the extreme risk activities that we undertake. The funding of our exploration programs is an on-going challenge.



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 and maturing our oil and gas exploration, appraisal and development 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 and Greenhouse Gas Storage 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. Exploration permits therefore, have a potential 16-year life, subject to these requirements and to the fulfillment of exploration commitments.

**Management** The Company's Chairman and President, who also holds the position of Chief Executive Officer and Chief Financial Officer, Mr. E Geoffrey Albers, manages the Company's operations. 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 December 31, 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 January 1, 2008 to December 31, 2008. These shares were issued March, 26, 2009.
  - (ii) 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 2009, the Company will issue 2,200,000 shares of Common Stock for his services in relation to the period from January 1, 2009 to December 31, 2009.
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(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 January 1, 2010 to December 31, 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 January 1, 2011 to December 31, 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, at the end of the quarter we now hold interests in 10 Petroleum Exploration Permits granted by the Commonwealth of Australia. They are held in joint venture with other parties. A summary of the permits and the current activities in each permit is set out below.

#### The Nature of Prospective Resources

In this Quarterly Report we have attempted to give you our best estimate of the size of the features that we are assessing. We have referred to "Prospective Resources" when quantifying the size of the features.

The term "resources", as used in the SPE Petroleum Resources Classification System, encompass all quantities of petroleum naturally occurring on or within the Earth's crust, discovered and undiscovered (recoverable and unrecoverable), plus those quantities already produced.

The SPE resources classification system defines the major recoverable resources classes: Production, Reserves, Contingent Resources, and Prospective Resources, as well as Unrecoverable petroleum. Shareholders should understand that “Prospective Resources” are “those quantities of petroleum which are estimated, on a given date, to be potentially recoverable from undiscovered accumulations.” They are not discovered resources.

Estimates of resources of any category rely on the integrity, skill, and judgement of the evaluator and are affected by the geological complexity, stage of exploration or development and amount of available data from which they are derived. The assessment of any resource is also affected by a wide range of other assumptions. Any estimate is ultimately a matter of opinion and is subject to an inherent level of uncertainty and in the case of Prospective Resources, it should be recognised that there must always be the prospect that, as the definition refers to “undiscovered accumulations”, the “accumulation” might not exist, with the result that no actual resources will ultimately be discovered.

#### EXPLORATION AND APPRAISAL ACTIVITIES

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

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 (“the Territory”), an Australian offshore territory which 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.

The Territory comprises West, Middle and East Islands of Ashmore Reef, Cartier Island and a large area of territorial sea generated by those islands. The Territory is an area of active offshore oil and gas exploration. 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.

Petroleum extraction activities 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 Gas Storage Act 2006 (Commonwealth).

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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.

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 3D seismic survey and the Onnia reprocessing has thus been met entirely by NGA. NGA subsequently transferred its interests to its wholly owned subsidiary, Petrocorp Australia Pty Ltd.

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

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

In addition, the singular 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 were named Oliver Joint Venture (AC/P33), Vulcan Joint Venture (AC/P35) and Nome Joint Venture (AC/P39).

#### Oliver Joint Venture (AC/P33)

Our wholly owned subsidiary, Vulcan, following farmout of drilling and development commitments made by Stuart (see below), until the recent sale (see below) held a 7.5% interest in the Oliver Joint Venture permit, AC/P33, in joint venture with Stuart (50%), 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 mapped, interpreted and revised analyses and concepts for the area. The joint venture carried out enhancement of existing seismic data around the Oliver feature and examined various techniques with potential to provide direct hydrocarbon indicators. As a result of the farmout to NGA, the joint venture acquired 124 km<sup>2</sup> 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 was carried out.

The joint venture elected to enter the second three years of the initial permit and, following farmout, Stuart made plans to drill one exploration well in late 2009/early 2010, and to perform further interpretational work at its cost.

Stuart's earn-in obligations were to 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.

On February 18, 2010 Vulcan completed the sale of its 7.5% interest in AC/P33 to a wholly-owned subsidiary of PTT Exploration and Production Public Company Limited, a major Thailand petroleum exploration and production company. Vulcan recovered \$ 4,244,679 for its 7.5% interest. These proceeds will be utilized in meeting a large proportion of our obligations to the Braveheart Joint Venture and Cornea Joint Venture with respect to the costs associated with the recent drilling of the Braveheart-1 well and Cornea-3 well.

#### 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<sup>2</sup> (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 obtained a range of pertinent existing reports and open file seismic data. We also acquired the right to the reprocessed Onnia 3D seismic data-set of some 1,750 km<sup>2</sup> within AC/P35. On June 15, 2009 the company was granted a 12 month extension on year three of the permit. Year three now ends April 17, 2010 and includes an existing work obligation to shoot up to 250 km<sup>2</sup> of a new 3D seismic survey and a new obligation for 200km of 2D seismic, which we have met with a 275 km acquisition (see below).

Our geological evaluation of this permit during the quarter saw the development of the Fairfax feature as a focus of our exploration efforts in AC/P35. The Fairfax feature was not within the area of coverage of the Onnia 3D survey, being in the west of AC/P35 and being covered only by some older seismic lines acquired by previous explorers. We saw the potential for the Fairfax feature to be a possible mirror-image of the Oliver oil/gas accumulation. In order to better understand the feature and to advance it to lead status, we decided to acquire a 2D seismic survey to infill the existing data bank and to constrain the south-western end of the feature. The Fairfax 2D seismic was completed during the year, with approximately 275 kms of new high quality 2D acquired, utilizing Bergen Offshore's BOS Atlantic vessel. The joint venture plans to co-process the new acquisition and some of the pre-existing seismic lines which are already held over the Fairfax feature.

Before their decision to sell out of AC/P33, Stuart Petroleum had shown significant interest in Fairfax, such that Stuart took an option to acquire a 250 km<sup>2</sup> 3D survey over Fairfax in return for meeting the cost of the Fairfax 2D survey.

On July 27, 2009, Stuart Petroleum Limited signed an agreement with the Vulcan Joint Venture participants in relation to AC/P35. Stuart agreed to fund the cost of acquisition and processing of a 2D seismic survey over the Fairfax feature in AC/P35. The cost of this work was estimated at \$240,000 and the data was acquired in August 2009.

Following acquisition and processing of the Fairfax 2D seismic, Stuart would have become entitled, at its option, to earn up to a 70% participating interest in AC/P35.

However, subsequently, as a condition to agreeing to Stuart's arrangement with PTT in relation to AC/P33, the joint venture participants insisted that Stuart relinquish all rights to AC/P35, which has occurred.

The participants in the Vulcan Joint Venture currently are:

	%
Auralandia NL (Operator)	30.0
Natural Gas Corporation Pty Ltd	30.0

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Petrocorp Australia Pty Ltd (subsidiary of National Gas Australia Pty Ltd)	25.0
Vulcan Australia Pty Ltd (subsidiary of Australian Oil & Gas Corporation)	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<sup>2</sup> (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 having oil and gas indications. In the first three years of the initial 6-year term of the AC/P39 permit, we 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<sup>2</sup> 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. 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.

Interpretation of approximately 920 km<sup>2</sup> of reprocessed Onnia 3D seismic within AC/P39 is on-going. We are planning for a further 3D seismic program over our best lead in AC/P39, before making any commitment to drill a well.

We have developed nine high risk/high impact leads within AC/P39 ranging in size from a mean scope for recovery of prospective resources of 21 million barrels (Tancred NE lead) to 340 million barrels (Ceto lead).

The participants in the Nome Joint Venture are:

	%
Auralandia NL (Operator)	30.0
Natural Gas Corporation Pty Ltd	30.0
Petrocorp Australia Pty Ltd (subsidiary of National Gas Australia Pty Ltd)	25.0
Vulcan Australia Pty Ltd (subsidiary of Australian Oil & Gas Corporation)	15.0

#### 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 (now called Torosa). 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<sup>2</sup> (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 (the Braveheart 2D survey) in the Permits and in acquiring a drill site survey in order to determine a specific well location from which to test the Braveheart prospect. The seismic surveys provided further coverage of the Braveheart Prospect as well as coverage of leads within WA-332-P. As a result of this farmout, Alpha’s interest in each of the three permits reduced from 20% to 17%.

Separate new operating agreements were entered into for WA-332-P and WA-333-P (Braveheart) and WA-342-P (Cornea).

Braveheart Joint Venture – WA-332-P and WA-333-P

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

On April 3, 2009 the Browse Joint Venture was granted 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.

On April 3, 2009 the Browse Joint Venture was also granted 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 entered into a contract with a drilling vessel management company, as a result of which the Braveheart-1 well commenced drilling on the Braveheart feature in late 2009 and which concluded on January 18, 2010. Year-5 of WA-333-P ended on March 31, 2010.

The participants in each of the WA-332-P and WA-333-P permits formed new 100% owned subsidiary companies and transferred their respective interests in the Braveheart Joint Venture 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 adopted the new name of the “Braveheart Joint Venture” and entered into a new joint venture operating agreement on 21 October 2009 and confirmed the appointment of Hawkestone Oil Pty Ltd (a subsidiary of Exoil Limited) as operator.

The participants had previously farmed out a further 12.5% interest in the Braveheart Permits to Gascorp Australia Pty Ltd in return for that company meeting all of the costs for the planning services of Australian Drilling Associates Pty Ltd in the lead up to drilling Braveheart-1.

These two permits are held by the Braveheart Joint Venture, consisting of the following parties:

Moby Oil & Gas Limited	26.4375%
Braveheart Resources Pty Ltd (subsidiary of Exoil Limited)	25.3750%
Browse Petroleum Pty Ltd (subsidiary of Gascorp Australia Pty Ltd)	20.1875%
Braveheart Oil & Gas Pty Ltd (subsidiary of Australian Oil & Gas Corporation)	14.5000%
Braveheart Energy Pty Ltd (subsidiary of Goldsborough Limited)	7.2500%
Braveheart Petroleum Pty Ltd (subsidiary of Batavia Oil & Gas Pty Ltd)	6.2500%

The Operator of the Braveheart Joint Venture is Hawkestone.

Between the December 29, 2009 and January 18, 2010, the Braveheart-1 exploration well was drilled into the Braveheart Prospect by the Songa Venus semi-submersible rig from a location within WA-333-P. The Braveheart Prospect straddled the two permits.

During the course of drilling operations on January 13, 2010, the well penetrated the targeted Lower M. australis sandstone. After the conduct and analysis of wireline logging operations, it was established that the targeted sandstone interval extended over a gross interval of 30 metres. Within that gross sandstone interval there were net porous sands of 22.7 metres, estimated as having an average total porosity of 28.7%.

While there was some evidence of residual hydrocarbons at the top of the reservoir interval, most of the cleaner sands were water filled. While this result was disappointing, the well results have validated the depositional model relied upon to support the presence of a high quality reservoir interval at the Braveheart Prospect. Steps were taken to complete the conduct of further data gathering actions after which the well was plugged and abandoned as a dry hole.

Cornea Joint Venture – WA-342-P

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 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<sup>2</sup> of the existing 3D seismic data set. Such variation of the permit has been granted, with Year-6 of the permit commencing on November 28, 2009.

The joint venture has carried out extensive studies as to prospectivity of the known Cornea gas/oil accumulation, where it is postulated that there is scope for recovery of prospective resources of between 40 million and 90 million barrels of oil, if our geological concepts and assumptions are correct. However, the challenges at Cornea include a low permeability reservoir with difficult to model production characteristics and the long, narrow shape of the field.

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This permit is held by the Cornea Joint Venture consisting of the following parties.

Moby Oil & Gas Limited	22.375%
Cornea Oil & Gas Pty Ltd (subsidiary of Australian Oil & Gas Corporation)	17.000%
Cornea Resources Pty Ltd (subsidiary of Exoil Limited)	13.100%
Cornea Petroleum Pty Ltd (subsidiary of Batavia Oil & Gas Pty Ltd)	14.875%
Cornea Energy Pty Ltd (subsidiary of Goldsborough Limited)	8.500%
Octanex N.L.	10.250%
Coldron Pty Ltd (subsidiary of Gascorp Australia Pty Ltd)	7.500%
Auralandia N.L.	6.400%

The Operator of the Cornea Joint Venture is Exoil's wholly-owned subsidiary, Hawkestone Oil Pty Ltd ("Hawkestone").

In early 2009, the Cornea Joint Venture engaged the services of Australian Drilling Associates Pty Ltd to provide project management services to support the conduct of Cornea-3 appraisal drilling operations and took by assignment a drilling slot in a group sponsored multi-well program utilising the semi-submersible drilling rig, the Songa Venus.

Between the 11th and 28th of December 2009, the Cornea-3 appraisal/exploration well was drilled into the known Cornea oil and gas accumulation by the Songa Venus semi-submersible rig

Late on December 24, 2009 the Cornea-3 well penetrated the targeted Middle Albian and Lower Jamieson Formation B and C sand reservoir interval, 2.2 metres deeper than predicted, but, as planned, just below the predicted gas oil contact. The well was then deepened to penetrate exploration targets in the Early Albian and Aptian of the Lower Heywood Formation before terminating at a total depth of 910.6 metres (measured depth below rotary table or MDRT). The data obtained while drilling indicated the intersection of a hydrocarbon bearing column in the Middle Albian, Lower Jamieson Formation. The exploration targets in the Lower Heywood Formation did not contain hydrocarbons.

The objectives of the Cornea-3 well were to define the location of hydrocarbon contacts and to obtain data relating to the potential reservoir qualities of the Middle Albian and Lower Jamieson Formation.

Following the conclusion of drilling, a series of logs were run, including a Magnetic Resonance log, as conventional logging tools are unable to resolve the reservoir properties due to the glauconitic nature of the rocks. In addition, a wireline formation tester was run to assess the pressure within the reservoir and to take fluid samples.

The results of drilling and logging can be summarised as follows.

1. An oil column of 20.4m was intersected between the gas oil contact at 785.6m MDRT and the free water level (as defined by pressure data) at 806m MDRT. The logging has established a clear oil and water gradient – a significant improvement on the position known before the well was drilled. This will better enable the assessment of the aggregate quantity of hydrocarbons across the greater Cornea feature.

2. Extensive efforts were made to sample the oil, but the unconsolidated nature of the reservoir meant that, on every attempt, the test MDT tools became blocked with sand preventing fluid sampling. The failure to recover fluid samples was somewhat disappointing, but oil samples had been obtained by the previous operator.
3. A considerable number of pressure testing results were obtained which enabled the establishment of oil and water gradients and hydrocarbon contacts.
4. The condition of the hole through the hydrocarbon bearing section was excellent and enabled the recovery of high quality log data from the Magnetic Resonance tool. These data are now being analysed to deduce reservoir porosity, permeability, water saturation and oil viscosity.

Overall, the results of Cornea-3 have, for the first time, clearly defined the location of an oil column. As already noted, the condition of the hole through the reservoir section was excellent. A great deal has been learned about how future wells can be drilled in the greater Cornea feature. This has given the Cornea Joint Venture confidence about the ability to drill subsequent horizontal wells through the reservoir section.

Looking forward, the data obtained from Cornea-3 will enable the Cornea Joint Venture to formulate a future exploration, appraisal and development strategy now that an oil column has been proved and that good data relating to the potential reservoir performance has been obtained.

Following the logging, Cornea-3 was plugged and abandoned as planned. The Songa Venus rig was then towed to the Braveheart-1 location in WA-333-P where that well was spudded on 29 December 2009 – refer to immediately preceding section.

#### BONAPARTE BASIN INTERESTS, OFFSHORE FROM THE NORTHERN TERRITORY OF AUSTRALIA – NT/P62, NT/P65, NT/P71 and NT/P72

The Timor Sea covers a huge area underlain by the Bonaparte sedimentary basin made up of various geological segments, with potential for new hydrocarbon discoveries. The region has a long history of exploration activity and discovery and has become a 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/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 by NGA 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.

Nations, on June 16, 2008, agreed to a further farmout of 3% of its 24% interest in each of the Timor Sea Permits to NGA (leaving Nations with a net 21% interest) in return for 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 was met entirely by NGA.

On August 8, 2006, Nations, together with the other joint venturers in the 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 then held 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 then were:

	%
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 (AOGC subsidiary)	21.0

During 2009 the National Gas Consortium relinquished NT/P63 and NT/P64.

Interests in the permits NT/P71 and NT/P72 as at the end of the year as per the holdings shown above for the National Gas Consortium.

Sunshine Joint Venture and Mimosa Joint Venture – NT/P65 and NT/P62

On May 29, 2009, the members of the National Gas Consortium applied for a variation in the permits NT/P62 and NT/P65 where the year 5 well obligation in each permit will be swapped for a seismic interpretation and mapping obligation from year 6.

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The obligation to acquire at least 150 km of new 2D seismic data in NT/P62 was met through the completion of the Mimosa 2D survey carried out in March, 2009. Cost of the 2D survey was met by Gascorp Australia Pty Ltd as its farmin obligation.

The obligation to acquire at least 200 km of new 2D seismic data in NT/P65 was met through the completion of the Sunshine Infill 2D survey carried out in March 2009. The cost of the Sunshine survey was met entirely by Gascorp Australia Pty Ltd as its farmin obligation.

Following these farmins the interests in each of NT/P62 and NT/P65 are:

	%
Gascorp Australia Pty Ltd	12.500
National Oil & Gas Pty Ltd (Operator)	21.4375
Australian Natural Gas Pty Ltd	21.4375
National Gas Australia Pty Ltd	26.25
Nations Natural Gas Pty Ltd (AOGC subsidiary)	18.375

Stillwater Joint Venture - NT/P73

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

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 reached agreement with ConocoPhillips with respect to our right to approximately 200 kms<sup>2</sup> 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 with 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.

Following the purchase of seismic and other geological and geophysical data in 2009 Gascorp Australia Pty Ltd exercised an option to acquire a 35% interest in this permit by farmin.

Following these farmin the interests in NT/P73 will be:

	%
Gascorp Australia Pty Ltd	35.000
Alpha Oil & Natural Gas Pty Ltd (Operator)	65.000

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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, 2010, 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, 2010. 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 reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements in accordance with generally accepted accounting principles.

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, 2010, 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, 2010.

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 Quarterly Report.

## Part 11. OTHER INFORMATION

### Item 5. Other Information

#### Reports on Form 8-K

On January 29, 2010, the Company filed a Report on Form 8K relating to the results of drilling two exploration wells in December 2009 and January 2010. On February 18, 2010 the Company filed a Report on Form 8K relating to the settlement of the sale of its interest in the permit AC/P33.

### 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.

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

May 14, 2010

