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AUSTRALIAN OIL & GAS CORP  
Form 10QSB  
May 22, 2006

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

FORM 10-QSB

(Mark One)

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

For the quarterly period ended: March 31, 2006

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

For the transition period from \_\_\_\_\_ to \_\_\_\_\_  
Commission file number 000-26721

AUSTRALIAN OIL & GAS CORPORATION  
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(Exact name of Registrant as Specified in its Charter)

Delaware  
(State or other jurisdiction of  
incorporation of organization)

84-1379164  
(IRS Employer  
Identification Number)

2480 North Tolemac Way, Prescott, Arizona 86305  
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(Address of principal executive offices)

Issuer's Telephone Number: (928) 778 1450      Internet Website: www.ausoil.com  
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NOT APPLICABLE  
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(Former name, former address and former fiscal year,  
if changed since last report)

Check whether the issuer (1) filed all reports required to be filed by Section 13 or 15(d) of the Exchange Act during the past 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 shell company (as defined in Rule 12b-2 of the Exchange Act). Yes  No

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

29,800,528 shares of common stock, \$0.001 par value, as of March 31, 2006.

Transitional Small Business Disclosure Format (Check one): Yes  No

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AUSTRALIAN OIL & GAS CORPORATION

For the Quarterly Period Ended: March 31, 2006

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Item 1. Financial Statements (Unaudited)

Australian Oil & Gas Corporation

(a development stage enterprise)

CONSOLIDATED BALANCE SHEETS

March 31, 2006 (Unaudited) and December 31, 2005 (Audited)

ASSETS

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(Dollar amounts in thousands)	As at 3/31/06 (Unaudited)	As at 12/31/05 (Audited)
	\$	\$
<b>Current assets:</b>		
Cash and cash equivalents	15	10
	-----	-----
Total Current Assets	15	10
	-----	-----
<b>Fixed assets:</b>		
Capitalized exploration expenditure	7	7
Investments in director related entities	74	74
Advances to director-related entities	1	1
	-----	-----
Total Fixed Assets	82	82
	-----	-----
<b>Total Assets</b>	<b>97</b>	<b>92</b>
	=====	=====
<b>LIABILITIES AND STOCKHOLDERS' EQUITY (DEFICIT)</b>		
<b>Current liabilities:</b>		
Accounts payable	89	21
Advances from director related entities	101	101
	-----	-----
Total Current Liabilities	190	122
	-----	-----
<b>Non-current liabilities:</b>		
Convertible Notes	256	250
	-----	-----
Total Non-current Liabilities (Note 3)	256	250
	-----	-----
<b>Total Liabilities</b>	<b>446</b>	<b>372</b>
	=====	=====
<b>Stockholders' Equity (Deficiency)</b>		
<b>Common stock, \$0.001 par value; 75,000,000 shares</b>		
Authorized 29,800,528 shares issued and outstanding	22	22
Capital in excess of par value	303	303
Deficit accumulated during the development stage	(674)	(605)
	-----	-----
Total Stockholders' Deficit	(349)	(280)
	-----	-----
Total Liabilities and Stockholders' Deficit	97	92
	=====	=====

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

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(a development stage enterprise)  
 CONSOLIDATED STATEMENTS OF OPERATIONS  
 for the three months ended March 31, 2006 (Unaudited) and the  
 equivalent comparative period for 2005, and for the Cumulative  
 period from August 6, 2003 (Date of Inception) to March 31, 2006  
 (Unaudited)

(Dollar amounts in thousands -except per share data)

	For the three months ended March 31, 2006	For the three months ended March 31, 2005	Cumulative period from Inception to March 31, 2006
	\$	\$	\$
Revenues:	Nil	Nil	Nil
Costs and Expenses:			
General and administrative	69	64	285
Merger and reorganisation	-	-	139
	-----	-----	-----
Compensation expense	-	-	250
	-----	-----	-----
	69	64	674
	-----	-----	-----
Net Loss	(69)	(64)	(674)
	=====	=====	=====
Basic loss per share	\$ (*)	\$ (*)	\$ (0.02)
	=====	=====	=====
Number of Common Shares used in calculation	29,800,528	27,300,550	29,800,528
	=====	=====	=====

\*Less than \$.01 per share

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

Australian Oil & Gas Corporation  
 (a development stage enterprise)  
 CONSOLIDATED STATEMENTS OF CASH FLOWS  
 for the three months ended March 31, 2006 (Unaudited) and  
 the equivalent comparative period, 2005 and for the  
 cumulative period from August 6, 2003 (Date of Inception) to  
 March 31, 2006 (Unaudited)

(Dollar amounts in thousands - except per share data)

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	For the three months ended March 31, 2006 \$	For the three months ended March 31, 2005 \$	Cumulative from M
Cash flows from operating activities:			
Net loss	(69)	(64)	
Adjustments for non-cash items:			
Increase in convertible notes	6	-	
	-----	-----	
	(63)	(64)	
Adjustments to reconcile net loss to net cash used in operating activities:			
Change in assets and liabilities:			
Increase in accrued expenses and payables	68	54	
	-----	-----	
Total adjustments	68	54	
	-----	-----	
Net cash provided by (used in) operating activities	5	(10)	
	-----	-----	
Cash flows from investing activities:			
Exploration tenement expenditure	-	(3)	
Advances to director-related entities	-	(1)	
Shares in director-related entities	-	(1)	
	-----	-----	
Net cash used in investing activities	-	(4)	
	-----	-----	
Cash flows from financing activities:			
Proceeds from advances from director-related entities	-	18	
Proceeds from the sale of common stock - net	-	-	
	-----	-----	
Net cash provided by financing activities	-	18	
	-----	-----	
Increase in cash	5	4	
Cash and cash equivalents at beginning of period	10	2	
	-----	-----	
Cash and cash equivalents at end of period	15	6	
	=====	=====	
Supplemental disclosure of non-cash activities			
Great Missenden Holdings Pty Ltd charged:-			
Administration Fees	-	-	
Interest	6	4	
Compensation awarded to EG Albers			
Issuance of Stock	50	53	

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

Australian Oil & Gas Corporation  
(a development stage enterprise)  
NOTES TO FINANCIAL STATEMENTS (UNAUDITED)

The accompanying interim financial statements of Australian Oil & Gas Corporation are unaudited. However, in the opinion of management, the interim

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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, 2006 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-KSB for the year ended December 31, 2005.

### 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 and a development stage enterprise as defined by SFAS No. 7, and since inception, has been engaged in the assessment of oil and gas exploration properties. The authorized capital stock of the Australian Oil & Gas Corporation consists of 75,000,000 shares of common stock, \$0.001 par value.

### Note 2: Related Party Transactions

Mr. E Geoffrey Albers is a director and shareholder of each of Great Missenden Holdings Pty Ltd and of Setright Oil & Gas Pty Ltd. Effective from April 4, 2005, in return for the previous advances of \$212,000, the Company issued to Great Missenden Holdings Pty Ltd 212 Series I Convertible Notes of \$1,000 each, with an interest coupon of 10% per annum, convertible into shares of Common Stock at any time on or before December 31, 2007 on the basis of 12,500 shares of Common Stock for every \$1,000 Convertible Note or part thereof. Effective from April 26, 2005, Great Missenden Holdings Pty Ltd approved a further \$100,000 Line of Credit to the Company in return for the issue to Great Missenden Holdings of 100 Series II Convertible Notes of \$1,000 each with an interest rate of 10% per annum, convertible into shares of Common Stock at any time on or before 31 December, 2008 on the basis of 10,000 shares of Common Stock for every \$1,000 Series II Convertible Notes or part thereof. As at March 31, 2006, an amount of \$44,000 had been drawn down pursuant to the \$100,000 Line of Credit, which were converted into these Series II Convertible Notes. A total charge of \$6,175.81 by way of interest on all advances from Great Missenden Holdings Pty Ltd was incurred during the quarter. For the quarter ended March 31, 2006, Setright Oil & Gas Pty Ltd charged the Company \$8,305 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 to be remunerated separately. At March 31, 2006 an aggregate amount of \$10,210 (representing charges made prior to 31 December 2005) was recorded as a liability to Setright Oil & Gas Pty Ltd.

We also have the use of premises in Australia at Level 25, 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.

With regard to exploration permits AC/P33, AC/P35 and AC/P39, Mr. Albers is a director and shareholder in the joint venture participants; namely Natural Gas Corporation Pty Ltd and Auralandia N.L.

With regard to the various interests in the Browse Joint Venture, Mr. Albers is a director and shareholder in each of Batavia Oil & Gas Pty Ltd (Batavia) and Exoil Limited (Exoil), the parent company of Hawkestone Oil Pty Ltd (Hawkestone). He is also a major shareholder in and a director of Alpha and a shareholder of Goldsborough Limited, the parent of Goldsborough Energy Pty Ltd (Goldsborough). Mr. Mark A Muzzin, a director of AOGC, is a shareholder in Exoil and is a director of Goldsborough. Batavia, Hawkestone, Alpha and Goldsborough

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are collectively the holders of the Browse Joint Venture.

With regard to the interest in the National Gas Consortium, Mr. Albers, a director of AOGC, is a director and shareholder in each of National Oil & Gas Pty Ltd, Australian Natural Gas Pty Ltd and Nations. These companies are the members of the National Gas Consortium.

### Note 3: Non-Current Liabilities

At March 31, 2006 the Company recorded a liability to Setright Oil & Gas Pty Ltd of \$10,210 as set out in Note 2 Related Party Transaction.

### Note 4: Unaudited Proforma Consolidated Statements of Income

On 12 April, 2006 Australian Oil & Gas Corporation completed its acquisition of Nations Natural Gas Pty Ltd and Alpha Oil & Natural Gas Pty Ltd, both companies are incorporated in Australia.

The unaudited proforma consolidated statements of income data for each of the quarters ended March 31, 2006 and 2005, assuming that Alpha Oil & Natural Gas Pty Ltd and Nations Natural Gas Pty Ltd were included in our results from the beginning of 2005, are as follows:

(Dollar amounts in thousands)	For the three months ended March 31, 2006	For the three months ended March 31, 2005
	\$	\$
Costs and Expenses		
General and administrative Expenses	69	64
Other Income		
Sale of interest in permit WA-341	1,257	-
	-----	-----
Net Income/ (Loss)	1,188	(64)
	=====	=====
Basic Earnings per share	\$.04	\$(*)
Basic Weighted average common shares	29,800,528	27,300,550

## Item 2. Management's Discussion and Analysis or Plan of Operation

### Forward-looking statements

References in this report to "the Company", "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 (Securities Act), and Section 21E of the United States Securities Exchange Act of 1934, as amended (Exchange Act). 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.

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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 and exploration for oil and natural gas resources. Our core business is directed at the acquisition of interests in oil and gas properties in the offshore areas of Australia's territorial waters. We rely on the considerable experience in the oil and gas industry of our President, Mr. E. Geoffrey Albers, and our consultants, to identify and conduct initial analyses of properties in which we may acquire an interest.

**Strategy** We devote essentially all of our resources to the identification of large-tract oil and gas properties in their early stages of exploration which have the potential for a high impact outcome for the Company in the event of exploration success. We plan to advance the prospectivity of these properties 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. We retain selected consultants, contractors and service companies. We use proven technologies in evaluating the prospectivity of our oil and gas properties. We expect to invest in projects at different levels of participation, including 100% ownership. We plan to maintain as high a percentage of participation as can be prudently managed. We will 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 industry players so as to minimize our financial outlay requirements, wherever possible, through promoted transactions. Our overall intention is to provide maximum leverage for shareholders at minimal cost, in return for the high risk activities that we undertake.

Since August 2003, when current management began operating the Company, we have not conducted any revenue generating business operations. Accordingly, we have no results of such operations to report. However, we continue to actively pursue our long term strategy of acquiring interests in oil and gas exploration projects with a particular emphasis on the northern basins of the North West Shelf of Australia.

**Browse Basin, Australia Region** In June 2004, we entered into a preliminary, non binding agreement to acquire a 20% interest in the permits of the Browse Joint Venture, by acquiring all the shares in Alpha Oil & Natural Gas Pty Ltd (Alpha). Since the period of this report, on 12 April 2006 we completed the acquisition of Alpha. 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 and WA-342-P. The shareholders of Alpha are entitled to receive 2,000,002 shares of common stock in AOGC and to be paid AUD\$100,000. Prior to the agreement between being finalized, Alpha (with the approval of AOGC) sold its 20% interest in WA-341-P for an amount in excess of book value. The settlement funds have been

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received by Alpha and since 12 April 2006 have been incorporated in funds available to AOGC through its new wholly owned subsidiary, Alpha.

The remaining Permits of the Browse Joint Venture are contiguous and are located in the offshore Browse Basin, a part of the North West Shelf of Australia. They cover a total area of 9,460 km<sup>2</sup> (2,336,620 acres).

The Browse Basin region, off the coast of Western Australia, has a 40-year history of exploration. It is a proven major hydrocarbon province 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 Scott Reef/Brecknock complex and the other by Inpex Corporation in relation to the Ichthys complex. 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. The Browse Joint Venture has recently completed the shooting of approximately 1700 line kilometers of new 2D seismic survey over these Browse Joint venture permits.

Vulcan Sub-basin, Australia Region Our wholly owned subsidiary, Gascorp, Inc (Gascorp) holds a 20% interest in the permits, AC/P33, AC/P35 and AC/P39 in joint venture with its affiliates; Natural Gas Corporation Pty Ltd (NGC) (40%) and Auralandia N.L. (Auralandia) (40%), the designated Operator. The permits are within the territory of Ashmore and Cartier Islands, an Australian offshore territory. We hold a 20% interest in the permits.

AC/P33, AC/P35 and AC/P39 are located on the eastern margin of the Vulcan Sub-basin; one of a number of proven petroliferous sub-basins which together comprise the North West Shelf hydrocarbon province of Australia.

AC/P33 includes the undeveloped Oliver oil and gas accumulation, drilled by the now plugged and suspended Oliver-1 well. AC/P33 comprises five graticular blocks, totaling approximately 400 km<sup>2</sup> (98,800 acres). In the first three years of the initial 6-year term of permit AC/P33, the joint venture participants plan to obtain a range of pertinent existing reports and open file seismic data, and with this data, to map, interpret and revise analyses and concepts which presently exist for the area. The joint venture has committed to the enhancement of existing seismic data around the Oliver and the Oliver NE feature, and will examine various techniques for their potential use as direct hydrocarbon indicators. The joint venture plans to acquire 80 km<sup>2</sup> (19,760 acres) of new enhanced parameter 3D seismic survey. It is intended that the survey will be conducted over the Oliver and Oliver NE features. Should the joint venture so decide, it can elect to enter the second three years of the initial permit and drill one exploration well and perform further interpretational work. Geological and geophysical evaluation of the permit has commenced.

AC/P35 is located immediately to the north of AC/P33. It comprises 46 graticular blocks, totaling approximately 3410 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. In the first three years of the initial 6-year term of the AC/P35 permit, we plan to obtain a range of pertinent existing reports and open file seismic data. In the third year, we presently plan to shoot 250 km<sup>2</sup> 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.

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AC/P39 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 a broad, deep and proven hydrocarbon-generative 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 plan to obtain a range of existing reports and open file seismic data. In the third year, we plan to drill one exploration well.

Central Bonaparte Gulf, Australia Region In September 2004, we entered into a preliminary, non binding agreement to acquire a 30% interest in the permits of the National Gas Consortium, by acquiring all the shares in Nations Natural Gas Pty Ltd (Nations). Since the period of this report, on 12 April 2006, we completed the acquisition of Nations. The acquisition of Nations was made in order to acquire a 30% interest in the four permits of the National Gas Consortium, being permits, NT/P62, NT/P63, NT/P64 and NT/P65. The shareholders of Nations are entitled to receive 2,100,001 shares of common stock in AOGC and AUD\$50,000 as consideration for Nations.

The Permits of the National Gas Consortium are located in the Australian sector of the Timor Sea, offshore from the Northern Territory, and cover a total area of approximately 14,875 km<sup>2</sup> (3,674,125 acres) . The Timor Sea covers a huge area underlain by sedimentary basins with potential for new hydrocarbon discoveries. The region has a long history of discovery and has now become the focus for domestic and international petroleum exploration and development activities. There have been numerous oil and wet gas discoveries to the north west of the permits, including the Laminaria, Corallina and Bayu-Undan fields, and the giant gas fields of Greater Sunrise, Evans Shoal, Caldita and Lyndoch are to the north east of the permits.

The Timor Sea is a major emerging oil and gas 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 production and revenue, through value-added gas projects covering a wide spectrum of gas to liquids processes and technologies.

In the first three year term of the Permits, the National Gas Consortium has committed to reprocess 750 km of 2D seismic data and shoot 500 km of new 2D seismic survey within each permit. Preliminary geological and geophysical evaluation of the Permits has commenced.

Eastern Bonaparte Gulf, Australia Region On 10 October 2005, the Australian Government granted a petroleum exploration permit, NT/P70, for an initial 6-year term, effective from October 10, 2005. The Company holds a 100% interest in the permit.

NT/P70 covers an area of 7370 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 and Caldita gas accumulations are located to the west and southwest of the NT/P70 permit area.

NT/P70, which straddles the Calder Graben, contains a play trend which is likely to have oil potential. There have been no wells drilled within that part of the Calder Graben which is present within NT/P70.

An undrilled closure, identified as the Warawi Prospect, has been mapped on the

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currently available 2D seismic data on the eastern side of the Graben. A selection of 1988 BHP seismic data obtained from the Geoscience Australia data repository in Canberra confirms the prospectivity of the eastern Calder Graben margin and the presence of the Warawi Prospect. The structure appears to have ample relief and to be large enough to contain a significant hydrocarbon accumulation. Screening volumetrics suggest that the Warawi feature might contain recoverable volumes in excess of 100 million barrels of oil in the event of a successful well test.

We consider that the oil potential of the undrilled trend that is located along the eastern margin of the Calder Graben warrants further exploration effort in light of current and predicted oil prices.

### Warawi Prospect

NT/P70 is covered by existing available BHP and Nexen seismic datasets. Regional interpretation shows the Calder Graben area to be clearly defined. However, on the steeply dipping eastern flank of the Graben there exists an interesting area where a change in structural fault trends occurs and where an apparently "compressional" closed structural feature, hitherto named the "Warawi Prospect", is located.

The Warawi Prospect is situated on the Lynedoch Bank Fault System in water depths of between 160m and 180m. This fault system forms a hinge line/transfer zone separating the Bonaparte Basin in the west from the Money Shoals Platform to the east. There are two major depocentres in the eastern Bonaparte Basin, the north-east/south-west oriented Malita Graben and the north-north-east/south-south-west Calder Graben. These elongate depocentres converge in the south-west area of NT/P70 where the Lynedoch Fault zone becomes the eastern bounding margin of the Calder Graben. The Warawi feature lies at this convergence, and is almost certainly a transpressional feature related to boundary adjustments between the Malita and Calder Grabens. Structural growth is evident over a prolonged period from Mid-Jurassic through the Cretaceous but has been essentially static since that time. The base Tertiary reflector shows minimal displacement across the feature.

It is of considerable significance that the Warawi structure has been in place since the late Cretaceous and has remained apparently undisturbed by faulting that has affected other areas of the Bonaparte basin. The Plover Formation, a major source for hydrocarbons within the Bonaparte Gulf region, is believed to have entered the oil generation window in the late to mid Cretaceous in the Malita Graben. While there are no well penetrations in the Calder Graben, similar timing is likely to apply there. If this is the case, then the timing of the formation of the Warawi structure would appear to be entirely favourable for the entrapment of any hydrocarbon charge.

While there are no established well data points in the Calder Graben, it is not unreasonable to assume a close similarity with the confluent Malita Graben. That being the case, the Warawi Structure presents stacked objectives, ranging from fractured reservoir in the (Aptian) Darwin Radiolarite, through possible sandstones in the underlying Echuca Shoals/Flamingo/Elang Formations to sandstones in the Plover Formation itself (Late Jurassic to Early Cretaceous).

Source rock potential is proven for the Echuca Shoals and Plover Formations, although oils sourced from the Echuca Formation have not yet been found in a commercial accumulation. These latter oils have however been sampled from overlying fractured Darwin Radiolarite and typed. It should be noted that the compressional nature of the Warawi structure strongly suggests that the Darwin Radiolarite will be extensively fractured and hence provide a valid objective,

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in addition to the other usual sandstone reservoirs.

The Warawi Prospect is located in a basin margin setting almost 400 metres shallower, at least, than the Lynedoch and Caldita gas discoveries to the east, and has been available for oil charge since the Late Cretaceous. Apart from being structurally shallower at the Plover level than at nearby Lynedoch and Caldita, any early entrapped hydrocarbon could be expected to preserve reservoir quality.

Gas flushing is a risk for any Plover oil accumulation, as adjacent source rocks in the Plover Formation attain higher maturity levels and are a proven source for the large gas accumulations in the region. However, given the existence of intraformational seals in the Flamingo and Elang Formations, it is likely that reservoirs in the Echuca Shoals or the Darwin Formation would be shielded from this effect and remain viable oil targets.

The Company plans to shoot a 3D seismic program over the Warawi Prospect in order to define the feature and to bring it up to "drillable" status.

The permit has been 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").

In the first three years of the initial 6-year term of the NT/P70 permit, we plan to obtain a range of pertinent existing reports and open file seismic data and, with this data, to map, interpret and revise analyses and concepts which presently exist for the area. In the third year, we presently plan to shoot 300 km<sup>2</sup> of 3D seismic survey, and a 700 line km 2D 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, but a course grid of 2D seismic is available.

**Permitting** It should be noted that, provided all exploration commitments are met, Australian offshore petroleum exploration permits may be renewed for two further 5-year terms, upon 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 has 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 has agreed to remunerate Mr. Albers by issuing common stock in lieu of cash payments. Specifically, during the fourth quarter of 2005, the Company issued 2,500,000 shares of Common Stock to Mr. Albers for his services in relation to the period from January 1, 2005 to December 31, 2005. A further 2,000,000 shares of Common Stock will be issued to him for his services for the period from January 1, 2006 to December 31, 2006 (the financial statements for the quarter have accrued \$50,000 representing a pro-rata amount of this compensation). A further 1,500,000 shares of Common Stock will be issued to him for his services for the period from January 1, 2007 to December 31, 2007.

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**Funding** As a development 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. 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. When additional funds for exploration are required, 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. Should these methods considered not to be viable, or in the best interests of stockholders, then it would be 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 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.

### Item 3. 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 September 30, 2005. This evaluation was carried out under the supervision and with the participation of our Chief Executive. Based upon that evaluation, our Chief Executive and Financial Officer concluded that our disclosure controls and procedures are effective in timely alerting management to material information relating to us required to be included in our periodic SEC filings. There have been no significant changes in our internal controls subsequent to the date we carried out our evaluation.

Disclosure controls and procedures are controls and other procedures that are designed to ensure that information required to be disclosed in our reports filed or submitted under the 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 in our reports filed under the Exchange Act is accumulated and communicated to management, including our Chief Executive, to allow timely decisions regarding required disclosure.

## Part 11. OTHER INFORMATION

### Item 6. Exhibits and Reports on Form 8-K.

Since the period of this report, we have filed two 8K's announcing the completion of the acquisitions of each of Nations Natural Gas Pty Ltd and Alpha Oil & Natural Gas Pty Ltd, both companies incorporated in Australia, and the granting of exploration permit AC/P39.

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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

In accordance with the requirements of the Exchange Act, the registrant caused this report to be signed on its behalf by the undersigned, thereunto duly authorized.

AUSTRALIAN OIL & GAS CORPORATION

By: /s/ E. Geoffrey Albers

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

May 19, 2006