AUSTRALIAN OIL & GAS CORP
Form 10-Q
August 12, 2011

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

FORM 10-Q

(Mark One)

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

For the quarterly period ended: June 30, 2011

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

For the transition period from to

Commission File Number 000-26721

AUSTRALIAN OIL & GAS CORPORATION
(Exact name of registrant as specified in its charter)

Delaware	84-1379164
(State or other jurisdiction of incorporation of organization)	(IRS Employer Identification Number)

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

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

NOT APPLICABLE
(Former name, former address and former fiscal year, if changed since last report)

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

Indicate by check mark whether the registrant has submitted electronically and posted on its corporate Web site, if any, every Interactive Data File required to be submitted and posted pursuant to Rule 405 of Regulation S-T (§232.405 of this chapter) during the preceding 12 months (or for such shorter period that the registrant was required to submit and post such files). Yes x No o

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 o	Accelerated filer o
Non-accelerated filer o (Do not check if a smaller reporting company)	Smaller reporting company x

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

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

47,650,531 shares of common stock, $0.001 par value, as of August 12, 2011.

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AUSTRALIAN OIL & GAS CORPORATION
(an exploration stage enterprise)

For the Quarterly Period Ended: June 30, 2011

Item 1. Financial Statements (Unaudited)

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

(Dollar amounts in thousands)	06/30/11	12/31/10
	(Unaudited)	(Audited)
ASSETS		
Current assets:	$	$
Cash and cash equivalents	1,742	37
Receivables	6	5
Total Current Assets	1,748	42
Non-Current assets:		
Exploration and Evaluation Asset (Note 7)	1,528	3,050
Total Non-Current Assets	1,528	3,050
Total Assets	3,276	3,092
LIABILITIES AND STOCKHOLDERS' EQUITY (DEFICIT)		
Current liabilities:		
Accounts payable and accrued expenses	194	108
Accounts payable to director related entities	-	15
Total Current Liabilities	194	123
Non-Current liabilities:		
Convertible Lines of Credit – Director Related (Note 3)	365	343
Loan – Director Related Party (Note 3)	2,049	1,844
Total Liabilities	2,608	2,310
STOCKHOLDERS' EQUITY		
Common stock, $0.001 par value; 75,000,000 shares authorized, Issued shares, 48,550,531 at June 30, 2011 and 47,650,531 at December 31, 2010; Outstanding shares, 48,550,531 at June 30, 2011 and 47,650,531 at December 31, 2010.	48	48
Capital in excess of par value	2,880	2,880
Accumulated other Comprehensive Income	363	304
Deficit accumulated during the exploration stage	(2,623)	(2,450)
Total Stockholders' Equity (Deficit)	668	782

Total Liabilities and Stockholders' Equity (Deficit)	3,276	3,092

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

Australian Oil & Gas Corporation
(an exploration stage enterprise)
CONSOLIDATED STATEMENT OF OPERATIONS
For the six months ended June 30, 2011 and 2010,
For the three months ended June 30, 2011 and 2010
and for the period from inception (August 6, 2003) to June 30, 2011 (unaudited)

(Dollar amounts in thousands)

	For the six months ended June 30, 2011	For the six months ended June 30, 2010	For the three months ended June 30, 2011	For the three months ended June 30, 2010	Cumulative period from Aug. 6, 2003 (Date of Inception) to June 30, 2011
Expenses					
General and administrative	87	61	19	36	1,389
Merger and reorganisation	-	-	-	-	249
Exploration (Note 8)	80	2,194	53	43	5,265
Total operating expenses	167	2,255	72	79	6,903
Loss before other income and expense	(167)	(2,255)	(72)	(79)	(6,903)
Other Income (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)	14	(102)	10	(89)	5
Interest income	4	5	4	2	75
Interest expense	(24)	(13)	(13)	(7)	(160)
(Loss) / income before income tax	(173)	1,879	(71)	(173)	(2,599)
Income tax provision	-	-	-	-	24
Net (Loss) / Income	(173)	1,879	(71)	(173)	(2,623)
(Loss) / Income per Common share :					
Basic and Dilutive	$ (0.00)	$ 0.04	$ (0.00)	$ (0.00)	$ (0.07)
Weighted average common share used in calculation – Basic and Dilutive	48,105,531	45,906,026	48,105,476	46,156,026	36,583,372

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 six months ended June 30, 2011 and 2010
and Cumulative from inception (August 6, 2003) to June 30, 2011 (unaudited)

(Dollar amounts in thousands – except per share data)

	For the six months ended June 30, 2011 $	For the six months ended June 30, 2010 $	Cumulative period from inception to June 30, 2011 $
Cash flows from operating activities:			
Net income / (loss)	(173)	1,879	(2,623)
Adjustments to reconcile net income /(loss) to net cash used in operating activities:			
Adjustments for non-cash items			
Compensation expense	95	60	1,010
Currency exchange loss/(gain)	82	(6)	90
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	-	(4,244)	(6,142)
Change in assets and liabilities:			
Increase/(decrease) in accounts payable	84	(3,043)	560
Increase /(decrease) in income tax payable	-	-	(9)
Decrease/(increase) in accounts receivable	(1)	(32)	77
Increase in exploration assets	(5)	(31)	(3,055)
Net provided by (cash used) in operating activities	82	(5,417)	(8,233)
Cash flows from financing activities:			
Proceeds from sale of Common stock –net	-	-	75
Proceeds from advance from director-related entities	97	1,401	1,941
Proceeds from line of credit	-	13	671
Repayment of advance from director-related entities	-	-	(73)
Net cash provided by financing activities	97	1,414	2,614
Cash flows from investing activities:			
Proceeds from sale of tenement/tenement information (Note 7)	1,526	4,244	7,279
Net cash provided by investing activities	1,526	4,244	7,279
Increase/ (decrease) in cash	1,705	241	1,660
Cash at beginning of period	37	5	-

Effect of currency exchange rate fluctuations on cash held	-	-	82
Cash at end of period	1,742	246	1,742
Supplemental disclosure of non-cash activities:			
Administration Fees charged by Setright Oil & Gas Pty Ltd	-	4	254
Interest charged by Great Missenden Holdings Pty Ltd	14	12	175
Issuance of Stock for compensation and settlement of advances	-	-	1,012

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

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 June 30, 2011 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, 2010.

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. 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).

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, Gascorp Australia 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. The Line of Credit was provided to AOGC in return for the issue to Great Missenden Holdings Pty Ltd of 250 Series III Convertible Unsecured Notes of $1,000 each with an interest rate of 12% per annum. The Series III Convertible Notes may be converted into shares of Common Stock of AOGC at any time on or before December 31, 2012 on the basis of 12,000 shares of Common Stock for every $1,000 Series III Convertible Notes or part thereof. This line of credit was repaid in full with interest on July 1, 2011.(Note 8).

On November 11, 2010, Great Missenden Holdings Pty Ltd advanced $59,838 and on December 17, 2010 another $49,545 on a new $200,000 Line of Credit to AOGC under the terms of the Line of Credit Agreement signed between AOGC and Great Missenden Holdings Pty Ltd on October 18, 2010. The Line of Credit was provided to AOGC in return for the issue to Great Missenden Holdings Pty Ltd of 200 Series IV Convertible Unsecured Notes of $1,000 each with an interest rate of 12% per annum. The Series IV Convertible Notes may be converted into shares of Common Stock of AOGC at any time on or before December 31, 2012 on the basis of 15,000 shares of Common Stock for every $1,000 Series III Convertible Notes or part thereof. For the three months ended June 30, 2011 Great Missenden Holdings Pty Ltd charged $13,436 for interest on this new line of credit. This line of credit was repaid in full with interest on July 1, 2011.(Note 8).

On April 4, 2011, Great Missenden Holdings Pty Ltd advanced $83,080 to AOGC. This short term advance was repaid in full with interest on July 1, 2011.(Note 8).

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 three months ended June 30, 2011 Setright Oil & Gas Pty Ltd charged the Company $4,500 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.

With regard to the Vulcan Joint Venture, Mr. Albers is a director and shareholder in each of Auralandia NL, Natural Resources Group Pty Ltd (former Natural Gas Corporation Pty Ltd), Petrocorp Australia Pty Ltd and Vulcan

Australia Pty Ltd (subsidiary of Australian Oil & Gas Corporation). All of these companies are the holders of the Vulcan Joint Venture. Mr Muzzin is a shareholder in Auralandia NL.

With regard to the Nome Joint Venture, Mr. Albers is a director and shareholder in each of Auralandia NL, Natural Resources Group Pty Ltd, Petrocorp Australia Pty Ltd and Vulcan Australia Pty Ltd (subsidiary of Australian Oil & Gas Corporation). All of these companies are the holders of the Nome Joint Venture. Mr Muzzin is a shareholder in Auralandia NL.

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.

At June 30, 2011 cash calls of $1,843,991 (which is included in “Loan-Director Related Party”) were due to be paid by Alpha Oil & Natural Gas Pty Ltd to the Cornea and Braveheart Joint Ventures. An agreement dealing with the liability to pay those calls has been reached. The agreement has the result that neither Braveheart Oil & Gas Pty Ltd nor Cornea Oil & Gas Pty Ltd, Alpha’s subsidiaries are treated as being in default (so that they might otherwise forfeit their respective Participating Interests in the Joint Ventures), while remaining liable to make the payments. By the agreement, each of Braveheart and Cornea have up to at least 7 July 2012 to make arrangements to satisfy their respective liabilities and may achieve this through a combination of sale of interests or by borrowing funds on commercial terms. The agreement has been entered into on terms which are favourable to Alpha and which enable Alpha to preserve any benefits which may derive from its interests in the period up to July 2012. Alpha paid AUD$1,045,223, (USD$975,476) of the calls due to be paid on July 1, 2011.(Note 8).

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.

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.

Our wholly owned subsidiary, Cornea Oil & Gas Pty Ltd (“Cornea Oil”), signed a farmout agreement with Coldron Pty Ltd (“Coldron”) on June 26, 2011. Coldron will earn an 8.5% interest in an Australian offshore petroleum exploration permit WA-342-P (“Permit”). Coldron has reimbursed Cornea Oil an amount of AUD $1,591,480 (USD $1,526,600) during the quarter ended June 30, 2011. Coldron Pty Ltd is an affiliate Australian private company of EG Albers, President and shareholder of AOGC (Note 7).

Note 4: Current Liabilities

At June 30, 2011 the accounts payable balance includes $94,500 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 June 30, 2011, 900,000 shares included in issued and outstanding shares of 48,100,531 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, 2011 (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 $363,000 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: Exploration and evaluation costs

As of June 31, 2011 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 $3,055,000. The well was drilled from December 11, 2009 to December 28, 2009. Overall, the results of Cornea-3 have 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.

Our wholly owned subsidiary, Cornea Oil & Gas Pty Ltd ("Cornea Oil"), signed a farmout agreement for the permit WA-342-P with Coldron Pty Ltd ("Coldron") on June 26, 2011. From the farmout agreement $1,526,600 of exploration costs previously capitalized for the Cornea-3 well has been recovered. On that basis carried forward capitalized exploration costs at June 30, 2011 is $1,528,000.

Note 8: Subsequent Events

The Company has evaluated subsequent events for the period from June 30, 2011, the date of these financial statements through to August 12, 2011, 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 August 12, 2011.

From the proceeds received for the WA-342-P farmout (Note 7), all lines of credit and short term advances from Great Missenden Holdings Pty Ltd, an affiliate company of Mr Albers (Note 3) were repaid in full on July 1, 2011. The amount paid was $461,618. Further, again from the proceeds, the company paid AUD$1,045,223, (USD$975,476) of the cash calls due to be paid to the Braveheart Joint venture on July 1, 2011

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 & G 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 Stated 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 fulfilment 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.

(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 nine 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/P35 and AC/P39)

Geologically, 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).

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.

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

Joint venture operating agreements are in place for each permit. The joint ventures are named Vulcan Joint Venture (AC/P35) and Nome Joint Venture (AC/P39).

Vulcan Joint Venture (AC/P35)

AC/P35 (granted October 18, 2005) comprises 46 graticular blocks, totalling approximately 3,410 km² (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 purchased the right to the reprocessed Onnia 3D seismic data-set of some 1,750 km² within AC/P35.

The Fairfax 2D seismic was completed in 2009, with approximately 275 kms of new high quality 2D acquired, utilizing Bergen Offshore's BOS Atlantic vessel. The joint venture co-processed the new acquisition with some of the pre-existing seismic lines which were already held over the Fairfax feature.

The joint venture continued to assess the prospectivity of the Fairfax feature and of the AC/P35 permit generally but the work program was not continued the permit was cancelled effective July 1, 2011.

The participants in the Vulcan Joint Venture currently were:

	%
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

Nome Joint Venture (AC/P39)

AC/P39 (granted April 7, 2006) is located 600 km west of Darwin, immediately to the east of AC/P35. It comprises 11 graticular blocks, totalling approximately 920 km² (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. We have obtained a range of existing reports and open file seismic data and acquired the reprocessed 920 km² Onnia 3D seismic survey within the permit. Geological evaluation of the permit is continuing, including the assessment of risk as to whether any leads are of sufficient quality to acquire new 3D seismic and whether the leads 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 the 920 km^2 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 further commitment to drill a well.

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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.

Our wholly owned subsidiary, Alpha, together with its joint venturers, in 2008 entered into a farmout agreement with respect to WA332-P (relinquished during 2010), 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 then subsequently it reduced further as a result of Gascorp, at its cost, acquiring infill seismic and 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 these farmouts, Alpha’s interest in each of the three permits reduced in two steps from 20% to 14.5%.

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

Braveheart Joint Venture - WA-333-P

The permit was 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 Octanex NL)	7.2500%

Braveheart Petroleum Pty Ltd (subsidiary of Natural Resources Group Pty Ltd)	6.2500%

The Operator of the Braveheart Joint Venture is Hawkestone.

In late 2009 and early 2010 the Braveheart prospect was drilled by the Songa Venus semi-submersible rig from a location within WA-333-P. The well failed to encounter hydrocarbons and was plugged and abandoned.

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While there was some evidence of miner residual hydrocarbons at the top of the reservoir interval, most of the cleaner sands were water filled.

The company, through its subsidiary, contributed $2,326,939 to the drilling of the Braveheart-1 well.

Since drilling the well the Braveheart Joint Venture considered whether to lodge an application for renewal of the permit for a second term. However, the perceived lack o