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AUSTRALIAN OIL & GAS CORP
Form 8-K/A
July 18, 2006

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

FORM 8-K/A

CURRENT REPORT

Pursuant to Section 13 or 15(d) of the Securities Exchange Act of 1934

Date of Report (Date of earliest event reported) April 17, 2006

AUSTRALIAN OIL & GAS CORPORATION

(Exact Name of Registrant as Specified in Charter)

| | | |
|---|-----------------------------|---|
| Delaware | 000-26721 | 84-1379164 |
| ----- | ----- | ----- |
| (State or Other Jurisdiction of Incorporation) | (Commission File Number) | (I.R.S. Employer Identification No.) |
| 2480 North Tolemac Way, Prescott, Arizona | | 86305 |
| ----- | | ----- |
| (Address of Principal Executive Offices) | | (Zip Code) |

Registrant's telephone number, including area code: (928) 778 1450

(Former Name or Former Address, if Changed Since Last Report)

EXPLANATORY STATEMENT

This Amended Current Report on Form 8-K/A amends and supplements the Current Report on Form 8-K filed with the Commission on April 17, 2006. This Amended Current Report provides, among others, the information required by Item 9.01 - Financial Statements, Pro Forma Information and Exhibits.

Item 2.01. Completion of Acquisition or Disposition of Assets.

As reported on Form 8-K filed on April 17, 2006, Australian Oil & Gas Corporation (AOGC) completed on April 12, 2006 the acquisitions of each of Nations Natural Gas Pty Ltd (Nations) and Alpha Oil & Natural Gas Pty Ltd (Alpha), both companies incorporated in Australia.

Item 9.01. Financial Statements and Exhibits

(a) FINANCIAL STATEMENTS OF BUSINESSES ACQUIRED. In accordance with Item 9.01 (a), the following are filed herewith and incorporated herein by reference:

- Financial statements of Alpha Oil & Natural Gas Pty Ltd (Alpha)

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- Independent Auditor's Report
 - Balance Sheet at December 31, 2005
 - Statement of Operations for the years ended December 31, 2005 and 2004
 - Statement of Changes in Shareholders' Equity for the years ended December 31, 2005 and 2004
 - Statement of Cash Flows for year ended December 31, 2005
 - Notes to Financial Statements
-
- Financial statements of Nations Natural Gas Pty Ltd (Nations)
 - Independent Auditor's Report
 - Balance Sheet at December 31, 2005
 - Statement of Operations for the years ended December 31, 2005 and 2004
 - Statement of Changes in Shareholders' Equity for the years ended December 31, 2005 and 2004
 - Statement of Cash Flows for year ended December 31, 2005
 - Notes to Financial Statements

(b) PRO FORMA FINANCIAL INFORMATION. In accordance with Item 9.01 the following are filed herewith and incorporated herein by reference. Unaudited pro forma financial statements as of December 31, 2005 and March 31, 2006 are filed herewith and incorporated herein by reference:

- o Unaudited Pro Forma Condensed Consolidated Statement of Operations for the year ended December 31, 2005
- o Unaudited Pro Forma Condensed Consolidated Balance Sheet as of March 31, 2006
- o Unaudited Pro Forma Condensed Consolidated Statement of Operations for the three months ended March 31, 2006

(c) EXHIBITS.

The exhibits listed in the following Exhibit Index are filed as part of this report.

| EXHIBIT NO. | DESCRIPTION |
|-------------|--|
| 10.1 | Sale and Purchase of Shares in Alpha Oil & Natural Gas Pty Ltd, dated as of April 12, 2006. |
| 10.2 | Amending Agreement to the Sale and Purchase of Shares in Alpha Oil & Natural Gas Pty Ltd, dated as of June 29, 2006. |
| 10.3 | Sale and Purchase of Shares in Nations Natural Gas Pty Ltd, dated as of April 12, 2006. |
| 10.4 | Amending Agreement to the Sale and Purchase of Shares in Nations Natural Gas Pty Ltd, dated as of June 29, 2006. |

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SIGNATURES

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

AUSTRALIAN OIL & GAS CORPORATION

Date: July 17, 2006

By: /s/ E. Geoffrey Albers

E. Geoffrey Albers
President

Index to Financial Statements

(a) FINANCIAL STATEMENTS OF BUSINESSES ACQUIRED:

Financial Statements of Alpha Oil & Natural Gas Pty Ltd (Alpha)

| | |
|---|------------|
| Audit Report..... | F-1 |
| Balance Sheet..... | F-2 |
| Statement of Operations..... | F-3 |
| Statement of Changes in Shareholders' Equity..... | F-4 |
| Cash Flow Statement..... | F-5 |
| Notes to the Financial Statements..... | F-6 - F-13 |

Financial Statements of Nations Natural Gas Pty Ltd (Nations)

| | |
|---|-------------|
| Audit Report..... | F-14 |
| Balance Sheet..... | F-15 |
| Statement of Operations..... | F-16 |
| Statement of Changes in Shareholders' Equity..... | F-17 |
| Cash Flow Statement..... | F-18 |
| Notes to the Financial Statements..... | F-19 - F-26 |

(b) Pro Forma Financial Information:

| | |
|--|------|
| Unaudited Pro Forma Condensed Consolidated Statement of Operations for the year ended December 31, 2005..... | F-27 |
|--|------|

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| | |
|--|------|
| Unaudited Pro Forma Condensed Consolidated Balance Sheet as of March 31, 2006..... | F-28 |
| Unaudited Pro Forma Condensed Consolidated Statement of Operations for the three months ended March 31, 2006..... | F-29 |
| Notes to Unaudited Condensed Consolidated Financial Statements for the three months ended March 31, 2006 | F-30 |

INDEPENDENT AUDITORS' REPORT

We have audited the accompanying balance sheet of Alpha Oil & Natural Gas Pty Ltd as of 31 December 2005, and the related income statement, statement of changes in equity and cash flow statement for each of the two years in the period ended 31 December 2005. These financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on these financial statements based on our audit.

We conducted our audit in accordance with auditing standards generally accepted in Australia and the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as, evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinion.

In our opinion, the financial statements referred to above present fairly, in all material respects, the balance sheet of Alpha Oil & Natural Gas Pty Ltd at 31 December 2005 and the results of its operations and its cash flows for each of the two years in the period ended 31 December 2005 in conformity with accounting principles generally accepted in Australia.

Accounting principles generally accepted in Australia vary in certain respects from accounting principles generally accepted in the United States. The application of the accounting principles generally accepted in the United States would have affected the determination of net income for each of the two years in the period ended 31 December 2005 and the determination of total equity at 31 December 2005 to the extent summarised in note 14 to the financial statements.

/s/ PKF

Melbourne, Australia
5 July 2006

F-1

ALPHA OIL & NATURAL GAS PTY LTD

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BALANCE SHEET
AS AT 31 December 2005

| | NOTES | 2005 A\$ |
|--|-------|-------------|
| | | ----- |
| Current Assets | | |
| Cash and cash equivalents | | 1 |
| Receivables from director related entities | 4 | 25,004 |
| | | ----- |
| TOTAL CURRENT ASSETS | | 25,005 |
| | | ----- |
| Non-Current Assets | | |
| Deferred exploration costs | 5 | 272,267 |
| | | ----- |
| TOTAL NON-CURRENT ASSETS | | 272,267 |
| | | ----- |
| TOTAL ASSETS | | 297,272 |
| | | ----- |
| Current Liabilities | | |
| Payables | 6 | 293,524 |
| | | ----- |
| TOTAL CURRENT LIABILITIES | | 293,524 |
| | | ----- |
| TOTAL LIABILITIES | | 293,524 |
| | | ----- |
| NET ASSETS | | 3,748 |
| | | ----- |
| Shareholders' Equity | | |
| Contributed equity | | 1,000,001 |
| Accumulated losses | | (996,253) |
| | | ----- |
| TOTAL SHAREHOLDERS' EQUITY | | 3,748 |
| | | ----- |

See accompanying notes to the financial statements

F-2

ALPHA OIL & NATURAL GAS PTY LTD

STATEMENT OF OPERATIONS
FOR THE YEARS ENDED 31 December 2005 and 2004

| | NOTES | 2005 A\$ | 2004 A\$ |
|----------|-------|-------------|-------------|
| | | ----- | ----- |
| Revenues | | - | - |
| Expenses | 2 | (11,861) | (984,392) |
| | | ----- | ----- |

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| | | | |
|------------------------|---|-------------------|--------------------|
| Loss before income tax | | (11,861) | (984,392) |
| Income tax benefit | 3 | ----- - | ----- - |
| Loss after income tax | | ----- (11,861) | ----- (984,392) |

See accompanying notes to the financial statements

F-3

ALPHA OIL & NATURAL GAS PTY LTD

STATEMENT OF CHANGES IN SHAREHOLDERS' EQUITY
FOR THE YEARS ENDED 31 December 2005 and 2004

| | Contributed Equity A\$ | Accumulated Losses A\$ | Total Equity A\$ |
|-----------------------------|------------------------------|------------------------------|------------------------|
| | ----- | ----- | ----- |
| Balance at 1 January 2004 | 1,000,001 | -- | 1,000,001 |
| Loss after income tax | ----- -- | (984,392) | ----- (984,392) |
| Balance at 31 December 2004 | 1,000,001 | (984,392) | 15,609 |
| Loss after income tax | ----- -- | (11,861) | ----- (11,861) |
| Balance at 31 December 2005 | ===== 1,000,001 | ===== (996,253) | ===== 3,748 |

See accompanying notes to the financial statements

F-4

ALPHA OIL & NATURAL GAS PTY LTD

CASH FLOW STATEMENT
FOR THE YEAR ENDED 31 December 2005

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| NOTES | 2005 A\$ | 2004 A\$ |
|---|-------------|-------------|
| | ----- | ----- |
| CASH FLOWS FROM ACTIVITIES | | |
| Net increase in cash held | -- | -- |
| Cash at the beginning of the financial year | 1 | 1 |
| | ----- | ----- |
| CASH AT THE END OF THE FINANCIAL YEAR | 1 | 1 |
| | ----- | ----- |
| RECONCILIATION OF LOSS AFTER INCOME TAX TO NET CASH USED IN OPERATING ACTIVITIES | | |
| Loss after income tax | (11,861) | (984,392) |
| Write down of Investments | -- | 974,995 |
| Movements in assets | | |
| Decrease in receivables | 1 | -- |
| Increase in deferred exploration costs | (228,638) | (43,629) |
| Movements in liabilities | | |
| Increase in payables | 240,498 | 53,026 |
| | ----- | ----- |
| Net cash used in operating activities | -- | -- |
| | ----- | ----- |

See accompanying notes to the financial statements

F-5

ALPHA OIL & NATURAL GAS PTY LTD

NOTES TO THE FINANCIAL STATEMENTS
31 DECEMBER 2005

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Alpha Oil and Natural Gas Pty Ltd is a company incorporated and domiciled in Australia with its registered office at Level 25, 500 Collins St, Melbourne, Victoria. Operations of the company comprise exploration activities for oil and gas reserves.

The financial report was authorised by the directors for issue on July 5, 2006.

(a) Basis of Preparation

The financial report is a general purpose financial report which has been prepared in accordance with Accounting Standards, Urgent Issues Group Interpretations, other authoritative pronouncements of the Australian Accounting Standards Board. This is the first AIFRS financial report presented by Alpha Oil and Natural Gas Pty Ltd. Australian Accounting Standards include Australian equivalents to International Financial Reporting Standards (IFRS). Compliance with the Australian equivalents to

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IFRS (AIFRS) ensures that the financial report complies with IFRS.

The financial report is presented in Australian dollars and conforms with Australian Accounting Standards that require management to make judgements, estimates and assumptions that affect the application of policies and reported amounts of assets and liabilities, income and expenses. The estimates and associated assumptions are based on historical experience and various other factors that are believed to be reasonable under the circumstances, the results of which form the basis of making the judgements and carrying values of assets and liabilities that are not readily apparent from other sources. Actual results may differ from these estimates.

The financial report has been prepared on the basis of historical costs and, except where stated, does not take into account changing money values or fair values of assets. These accounting policies have been consistently applied and are consistent with those of the previous year.

(b) Going Concern

The financial report has been prepared under the going concern concept (which assumes the realisation of assets and the extinguishment of liabilities in the normal course of business at the amounts stated in the financial statements) on the assumption that the Company achieves appropriate funding by capital raising or sale or farmout of its petroleum exploration tenement interests. The directors consider this basis to be appropriate.

Details of funds received subsequent to year end are disclosed in note 12.

(c) Recoverable amount assets

At each reporting date, the Company assesses whether there is any indication that an asset may be impaired. Where an indicator of impairment exists, the Company makes a formal estimate of the recoverable amount. Where the carrying amount of an asset exceeds its recoverable amount the asset is considered impaired and is written down to its recoverable amount.

Recoverable amount is the greater of fair value less costs to sell and value in use. It is determined for an individual asset, unless the asset's value in use cannot be estimated to be close to its fair value less costs to sell and it does not generate cash inflows that are largely independent of those from other assets or groups of assets, in which case, the recoverable amount is determined for the cash-generating unit to which the asset belongs.

In assessing value in use, the estimated future cash flows are discounted to their present value using a pre-tax discount rate that reflects current market assessments of the time value of money and the risks specific to the asset.

F-6

ALPHA OIL & NATURAL GAS PTY LTD

NOTES TO THE FINANCIAL STATEMENTS
31 DECEMBER 2005

(d) Taxes

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Income Tax

Income taxes are accounted for using the comprehensive balance sheet liability method whereby:

- o The tax consequences of recovering (settling) all assets (liabilities) are reflected in the financial statements;
- o Current and deferred tax is recognised as income or expense except to the extent that the tax related to equity items or to a business combination;
- o A deferred tax asset is recognised to the extent that it is probable that future taxable profit will be available to realise the asset;
- o Deferred tax asset and liabilities are measured at the tax rates that are expected to apply to the period where the asset is realised or the liability settled.

Goods and Services Tax (GST)

Revenues, expenses and assets are recognised net of the amount of GST, except where the amount of GST incurred is not recoverable from the taxation authority. In these circumstances, the GST is recognised as part of the cost of acquisition of the asset or as part of the expense.

Receivables and payables are stated with the amount of GST included.

(e) Receivables

Trade and other receivables are stated at principle amounts due at balance date plus any accrued interest less impairment losses.

(f) Payables

Trade and other payables are stated at principle amounts due at balance date plus any accrued interest.

(g) Contributed Equity

Ordinary share capital is recognised at the fair value of the consideration received by the Company. Transactions costs arising on the issue of ordinary shares are recognised directly in equity as a reduction of the consideration received.

(h) Exploration and Evaluation Expenditure

Exploration and evaluation expenditure is measured on the cost basis, accumulated separately for each area of interest and carried forward provided that one of the following conditions is met:

- such costs are expected to be recouped through successful development and exploitation of the area of interest or sale; or
- exploration activities have not yet reached a stage which permits a reasonable assessment of the existence or otherwise of economically recoverable reserves, and active and significant operations in relation to the area are continuing.

Exploration expenditure which no longer satisfies the above conditions is written off. In addition, a provision is raised against exploration expenditure where the directors are of the opinion that the carried forward net cost may not be recoverable. The increase in the provision is charged against the results for the year.

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ALPHA OIL & NATURAL GAS PTY LTD

NOTES TO THE FINANCIAL STATEMENTS
31 DECEMBER 2005

(i) Restoration, Rehabilitation and Environment Expenditure

Restoration, rehabilitation and environmental costs necessitated by exploration and evaluation activities are provided for as part of the cost of those activities. Costs are estimated on the basis of the present value of the future expenditure required to settle the obligation, current legal requirements and current technology.

Estimates of future costs are reassessed at least annually. Changes in estimates relating to areas of interest in the exploration and evaluation phase are dealt with retrospectively, with any amounts that would have been written off or provided against under the accounting policy for exploration and evaluation immediately written off. Changes in estimates of costs relating to producing areas are dealt with prospectively over the remaining resource life.

(j) Joint Ventures

Interest in joint ventures is brought to account by including in the respective classifications, the Company's share of individual assets employed and share of liabilities and expenses incurred. Where the Company is acquiring or disposing of a joint venture interest, the Company's share of joint venture assets is based on the contributions made to the joint venture.

F-8

ALPHA OIL & NATURAL GAS PTY LTD

NOTES TO THE FINANCIAL STATEMENTS
31 DECEMBER 2005

2. EXPENSES

| | NOTES | 2005 A\$ |
|---|-------|-------------|
| | | ----- |
| Loss from ordinary activities before income tax expense has been arrived at after charging the following items: | | |
| Audit fees | | 3,500 |
| ASIC fees | | 212 |
| Interest Expense | | 8,149 |
| Write down of investments | 13 | - |
| | | ----- |

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| | | |
|----|--|---------|
| | | 11,861 |
| | | ----- |
| 3. | INCOME TAX | |
| | Prima facie income tax benefit calculated at 30% of the loss | (3,558) |
| | Deferred tax asset not brought to account | 3,558 |
| | | ----- |
| | Income tax expense | - |
| | | ----- |
| | Estimated deferred tax asset arising from tax losses and temporary differences not recognised as an asset because recovery is not probable | 6,377 |
| | The deferred tax asset will only be obtained if: | |
| | (a) the company derives future assessable income of a nature and of an amount sufficient to enable the benefit to be realised; | |
| | (b) the company continues to comply with the conditions for deductibility imposed by the law; and (c) no changes in tax legislation adversely affect the company in realising the benefit. | |
| 4. | RECEIVABLES | |
| | Advances to director related entities | 10 |
| 5. | DEFERRED EXPLORATION COSTS | |
| | Carrying amount at beginning of period | |
| | Deferred exploration cost capitalised during the year | |
| | Carrying amount at end of period | |
| | Ultimate recovery of deferred exploration costs carried forward is dependent upon achieving appropriate funding by capital raising or sale or farmout of petroleum exploration tenement interests for continued support of exploration activities. | |
| 6. | PAYABLES | |
| | Trade creditors | |
| | Payables due to Director related entities | 10 |
| | Other trade payables and accrued expenses | |

F-9

ALPHA OIL & NATURAL GAS PTY LTD

NOTES TO THE FINANCIAL STATEMENTS
31 DECEMBER 2005

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7. EXPLORATION EXPENDITURE COMMITMENTS

Minimum work requirements contracted for under exploration permit interests are estimated at balance date:

Browse Joint Venture

Payable within one year

Payable later than one year but not later than three years

Expenditure commitments include obligations arising from farm-in arrangement, and minimum work obligations for the initial 3 year period of exploration permits and thereafter annually. Minimum work obligations may, subject to negotiation and approval, be varied. They may also be satisfied by farmout, sale, relinquishment or surrender of permit.

8. INTEREST IN JOINT VENTURES

The Company has a twenty percent interest in the assets, liabilities and output of the Browse Joint Venture operations for the exploration and development of petroleum in Australia.

The Company has taken up its share of joint venture transactions based on the Company's contributions to the joint venture. Expenditure commitments in respect of the joint ventures are disclosed in Note 7.

9. KEY MANAGEMENT PERSONNEL DISCLOSURES

The key management personnel in Alpha Oil and Natural Gas Pty Ltd are EG Albers, director, and Mark A Muzzin, general manager.

During the year key management personnel:

- o Received no remuneration or benefits (2004: Nil)
- o Received no shares, options or any right over the equity of the company (2004: Nil)

Related party transactions between the company and director related entities are disclosed in note 10.

10. OTHER RELATED PARTY TRANSACTIONS

Advances to Director Related Entities of EG Albers:
Great Missenden Holdings

The above receivable relates to the sale of investments by Alpha Oil and Natural Gas Pty Ltd during the year.

Advances from Director Related Entities of EG Albers:
Australian Oil & Gas Corporation
Batavia Oil & Gas Pty Ltd
Exoil Limited

The above loans relate to invoices paid on behalf of Alpha Oil and Natural Gas Pty Ltd.

ALPHA OIL & NATURAL GAS PTY LTD

NOTES TO THE FINANCIAL STATEMENTS
31 DECEMBER 2005

11. FINANCIAL INSTRUMENTS

(a) Fair Value

All financial assets and liabilities are stated at cost, which approximates fair value.

(b) Credit Risk Exposure

The maximum credit risk exposure of financial assets is represented by the carrying amounts recognised in the balance sheet.

(c) Interest Rate Risk

The Company is not exposed to any significant interest rate risk.

(d) Currency Rate Risk

The Company incurs seismic exploration and well drilling costs in US dollars. To this extent, the Company is exposed to exchange rate fluctuations between the Australian and US dollar. Otherwise, the Company is not exposed to any significant currency rate risk.

12. EVENTS SUBSEQUENT TO REPORTING DATE

-Alpha Oil & Natural Gas Pty Ltd sold its twenty percent interest in WA341P on 16 March 2006 to Conoco Philips WA Exploration Pty Ltd for US\$1.24m.

-On 12 April, 2006 Australian Oil & Gas Corporation completed its acquisition of one hundred percent of the shares of Alpha Oil & Natural Gas Pty Ltd.

13. INVESTMENTS

At 30 June 2004, the value of investments held by the Company was written down for impairment. Directors based their re-assessment of valuations on the progress of exploration in the permits held by the investee-companies. In addition, the directors took account of the perceived prospects and ability of each of the investee-companies and their joint venture participants to fund the required exploration program in their respective joint venture blocks.

The largest component of the write down was due to inherent uncertainty caused by sovereignty claims. During 2004, the newly independent nation of East Timor claimed that exploration permits located adjacent to the Timor Sea were illegal as the acreage was subject to the sovereignty of East Timor. While the company does not agree with the basis of these claims, they undermined the undisputed title that investee-companies believed they had up to that time.

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14. US GAAP EQUIVALENT FINANCIAL STATEMENTS

The financial statements have been prepared in accordance with accounting principles generally accepted in Australia ("A-GAAP"), which differ in certain significant respects from accounting principles generally accepted in the United States of America ("US-GAAP").

Under A-GAAP, the Company capitalised exploration and evaluation expenditure for each separate area of interest in line with the accounting policy disclosed in note 1.

Under US-GAAP, exploration and evaluation expenditure (including the cost of feasibility studies) is expensed as incurred for an area of interest until commercial feasibility is established in compliance with Securities Act Industry Guide 7. After an area of interest has been assessed as commercially feasible, expenditures specific to that area of interest for further development are capitalised.

F-11

ALPHA OIL & NATURAL GAS PTY LTD

NOTES TO THE FINANCIAL STATEMENTS 31 DECEMBER 2005

The effect of complying with US-GAAP results in additional expense of A\$228,638 (2004: A\$43,629). The financial statements under US-GAAP are shown below:

(i) Income Statement

| | 2005 | |
|-------------------------------------|---------|-----------|
| | A\$ | |
| | ----- | ----- |
| Revenues | -- | |
| Expenses | 240,499 | 1,000,000 |
| | ----- | ----- |
| Loss before income tax | 240,499 | 1,000,000 |
| Income tax expense relating to loss | -- | |
| | ----- | ----- |
| Loss after income tax | 240,499 | 1,000,000 |
| | ----- | ----- |

(ii) Statement of Changes in Equity

| | Contributed Equity A\$ | Accumulated Losses A\$ | |
|-----------------------------|------------------------------|------------------------------|-------------|
| | ----- | ----- | ----- |
| Balance at 1 January 2004 | 1,000,001 | -- | 1,000,001 |
| Loss after income tax | -- | (1,028,021) | (1,028,021) |
| | ----- | ----- | ----- |
| Balance at 31 December 2004 | 1,000,001 | (1,028,021) | (28,020) |
| Loss after income tax | -- | (240,499) | (240,499) |
| | ----- | ----- | ----- |

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| | | | |
|---|--------------------|----------------------|--------------------|
| Balance at 31 December 2005 | 1,000,001 ===== | (1,268,520) ===== | (268,519) ===== |
| (iii) Balance Sheet | | | |
| | | 2005 A\$ | |
| Current Assets | | | |
| Cash and cash equivalents | | 1 | |
| Receivables | | 25,004 | |
| | | ----- | |
| TOTAL CURRENT ASSETS | | 25,005 | |
| | | ----- | |
| TOTAL ASSETS | | 25,005 | |
| | | ----- | |
| Current Liabilities | | | |
| Payables | | 293,524 | |
| | | ----- | |
| TOTAL CURRENT LIABILITIES | | 293,524 | |
| | | ----- | |
| TOTAL LIABILITIES | | 293,524 | |
| | | ----- | |
| NET ASSET (DEFICIENCY) | | (268,519) | |
| | | ----- | |
| Shareholders' Equity | | | |
| Contributed equity | | 1,000,001 | |
| Accumulated losses | | (1,268,520) | |
| | | ----- | |
| TOTAL SHAREHOLDERS' EQUITY (DEFICIENCY) | | (268,519) | |
| | | ===== | |

F-12

ALPHA OIL & NATURAL GAS PTY LTD

NOTES TO THE FINANCIAL STATEMENTS

31 DECEMBER 2005

| | | | |
|---|--|-------------|-------------|
| (iv) Cash flow Statement | | 2005 A\$ | 2004 A\$ |
| | | ----- | ----- |
| CASH FLOWS FROM ACTIVITIES | | | |
| Net increase in cash held | | -- | -- |
| Cash at the beginning of the financial year | | 1 | 1 |
| | | ----- | ----- |
| CASH AT THE END OF THE FINANCIAL YEAR | | 1 | 1 |
| | | ----- | ----- |

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RECONCILIATION OF LOSS AFTER INCOME TAX TO NET CASH USED IN OPERATING ACTIVITIES

| | | |
|---|-----------|-------------|
| Loss after income tax | (240,499) | (1,028,021) |
| Write down of Investments to recoverable amount | -- | 974,995 |
| Expensed Exploration costs | 228,638 | 43,629 |
| Movements in liabilities | | |
| Increase in payables | 11,861 | 9,397 |
| | ----- | ----- |
| Net cash used in operating activities | -- | -- |
| | ----- | ----- |

F-13

INDEPENDENT AUDITORS' REPORT

We have audited the accompanying balance sheet of Nations Natural Gas Pty Ltd as of 31 December 2005, and the related income statement, statement of changes in equity and cash flow statement for each of the two years in the period ended 31 December 2005. These financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on these financial statements based on our audit.

We conducted our audit in accordance with auditing standards generally accepted in Australia and the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as, evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinion.

In our opinion, the financial statements referred to above present fairly, in all material respects, the balance sheet of Nations Natural Gas Pty Ltd at 31 December 2005 and the results of its operations and its cash flows for each of the two years in the period ended 31 December 2005 in conformity with accounting principles generally accepted in Australia.

Accounting principles generally accepted in Australia vary in certain respects from accounting principles generally accepted in the United States. The application of the accounting principles generally accepted in the United States would have affected the determination of net income for each of the two years in the period ended 31 December 2005 and the determination of total equity at 31 December 2005 to the extent summarised in note 14 to the financial statements.

The accompanying financial statements have been prepared assuming the Company will continue as a going concern. As described in note 1(b), at 31 December 2005, the Company had not yet commenced revenue producing operations. This condition raises substantial doubt about the Company's ability to continue as a going concern. The financial statements do not include any adjustments that might result from the outcome of this uncertainty.

/s/ PKF

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Melbourne, Australia
5 July 2006

F-14

NATIONS NATURAL GAS PTY LTD

BALANCE SHEET
AS AT 31 December 2005

| | NOTES | 2005 A\$ ----- |
|--|-------|----------------------|
| Current Assets | | |
| Receivables from director related entities | 4 | 185,002 ----- |
| TOTAL CURRENT ASSETS | | 185,002 ----- |
| Non-Current Assets | | |
| Deferred exploration costs | 5 | 31,979 ----- |
| TOTAL NON-CURRENT ASSETS | | 31,979 ----- |
| TOTAL ASSETS | | 216,981 ----- |
| Current Liabilities | | |
| Payables | 6 | 44,640 ----- |
| TOTAL CURRENT LIABILITIES | | 44,640 ----- |
| TOTAL LIABILITIES | | 44,640 ----- |
| NET ASSETS | | 172,341 ----- |
| Shareholders' Equity | | |
| Contributed equity | | 1,600,000 |
| Accumulated losses | | (1,427,659) ----- |
| TOTAL SHAREHOLDERS' EQUITY | | 172,341 ===== |

See accompanying notes to the financial statements

F-15

NATIONS NATURAL GAS PTY LTD

STATEMENT OF OPERATIONS
FOR THE YEARS ENDED 31 December 2005 and 2004

| | NOTES | 2005 A\$ | 2004 A\$ |
|-------------------------------------|-------|-------------|-------------|
| | | ----- | ----- |
| Revenues | | -- | -- |
| Expenses | 2 | (6,539) | (1,421,120) |
| | | ----- | ----- |
| Loss before income tax | | (6,539) | (1,421,120) |
| Income tax expense relating to loss | 3 | -- | -- |
| | | ----- | ----- |
| Loss after income tax | | (6,539) | (1,421,120) |
| | | ----- | ----- |

See accompanying notes to the financial statements

F-16

NATIONS NATURAL GAS PTY LTD

STATEMENT OF CHANGES IN SHAREHOLDERS' EQUITY
FOR THE YEARS ENDED 31 December 2005 and 2004

| | Contributed Equity A\$ | Accumulated Losses A\$ | Total Equity A\$ |
|-----------------------------|------------------------------|------------------------------|------------------------|
| Balance at 1 January 2004 | 1,600,000 | -- | 1,600,000 |
| Loss after income tax | -- | (1,421,120) | (1,421,120) |
| | ----- | ----- | ----- |
| Balance at 31 December 2004 | 1,600,000 | (1,421,120) | 178,880 |
| Loss after income tax | -- | (6,539) | (6,539) |
| | ----- | ----- | ----- |
| Balance at 31 December 2005 | 1,600,000 | (1,427,659) | 172,341 |
| | ===== | ===== | ===== |

See accompanying notes to the financial statements

F-17

NATIONS NATURAL GAS PTY LTD
CASH FLOW STATEMENT
FOR THE YEAR ENDED 31 December 2005

| NOTES | 2005 A\$ | 2004 A\$ |
|---|-------------|-------------|
| | ----- | ----- |
| CASH FLOWS FROM ACTIVITIES | -- | -- |
| RECONCILIATION OF LOSS AFTER INCOME TAX TO NET CASH USED IN OPERATING ACTIVITIES | | |
| Loss after income tax | (6,539) | (1,421,120) |
| Write down of Investments | -- | 1,414,998 |
| Movements in assets | | |
| Increase in deferred exploration costs | (7,044) | -- |
| Decrease in investments | 185,002 | -- |
| Increase in receivables | (185,002) | -- |
| Movements in liabilities | | |
| Increase in payables | 13,583 | 6,122 |
| | ----- | ----- |
| Net cash used in operating activities | -- | -- |
| | ----- | ----- |

See accompanying notes to the financial statements

F-18

NATIONS NATURAL GAS PTY LTD
NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 DECEMBER 2005

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Nations Natural Gas Pty Ltd is a company incorporated and domiciled in Australia with its registered office at Level 25, 500 Collins St, Melbourne, Victoria, Australia. Operations of the company comprise exploration activities for oil and gas reserves.

The financial report was authorised by the directors for issue on July 5, 2006.

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(a) Basis of Preparation

The financial report is a general purpose financial report which has been prepared in accordance with Accounting Standards, Urgent Issues Group Interpretations, other authoritative pronouncements of the Australian Accounting Standards Board. This is the first AIFRS financial report presented by Nations Natural Gas Pty Ltd. Australian Accounting Standards include Australian equivalents to International Financial Reporting Standards (IFRS). Compliance with the Australian equivalents to IFRS (AIFRS) ensures that the financial report complies with IFRS.

The financial report is presented in Australian dollars and conforms with Australian Accounting Standards that require management to make judgements, estimates and assumptions that affect the application of policies and reported amounts of assets and liabilities, income and expenses. The estimates and associated assumptions are based on historical experience and various other factors that are believed to be reasonable under the circumstances, the results of which form the basis of making the judgements and carrying values of assets and liabilities that are not readily apparent from other sources. Actual results may differ from these estimates.

These accounting policies have been consistently applied and are consistent with those of the previous year.

(b) Going Concern

The financial report has been prepared under the going concern concept (which assumes the realisation of assets and the extinguishment of liabilities in the normal course of business at the amounts stated in the financial statements) on the assumption that the Company achieves appropriate funding by capital raising or sale or farmout of its petroleum exploration tenement interests. The directors consider this basis to be appropriate. Details of acquisition of the shares of the Company subsequent to year end are disclosed in note 12.

If the company is unable to continue as a going concern it may be required to realise its assets and extinguish its liabilities other than in the normal course of business and at amounts different to those stated in the financial statements. The financial report does not include any adjustments relating to the recoverability and classification of asset carrying amounts or the amount of liabilities that might result should the company be unable to continue as a going concern and meet its debts as and when they become due and payable.

(c) Recoverable amount assets

At each reporting date, the Company assesses whether there is any indication that an asset may be impaired. Where an indicator of impairment exists, the Company makes a formal estimate of the recoverable amount. Where the carrying amount of an asset exceeds its recoverable amount the asset is considered impaired and is written down to its recoverable amount.

Recoverable amount is the greater of fair value less costs to sell and value in use. It is determined for an individual asset, unless the asset's value in use cannot be estimated to be close to its fair value less costs to sell and it does not generate cash inflows that are largely independent of those from other assets or groups of assets, in

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NATIONS NATURAL GAS PTY LTD

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2005

which case, the recoverable amount is determined for the cash-generating unit to which the asset belongs.

In assessing value in use, the estimated future cash flows are discounted to their present value using a pre-tax discount rate that reflects current market assessments of the time value of money and the risks specific to the asset.

(d) Taxes

Income Tax

Income taxes are accounted for using the comprehensive balance sheet liability method whereby:

- o The tax consequences of recovering (settling) all assets (liabilities) are reflected in the financial statements;
- o Current and deferred tax is recognised as income or expense except to the extent that the tax related to equity items or to a business combination;
- o A deferred tax asset is recognised to the extent that it is probable that future taxable profit will be available to realise the asset;
- o Deferred tax asset and liabilities are measured at the tax rates that are expected to apply to the period where the asset is realised or the liability settled.

Goods and Services Tax (GST)

Revenues, expenses and assets are recognised net of the amount of GST, except where the amount of GST incurred is not recoverable from the taxation authority. In these circumstances, the GST is recognised as part of the cost of acquisition of the asset or as part of the expense.

Receivables and payables are stated with the amount of GST included.

(e) Receivables

Trade and other receivables are stated at principle amounts due at balance date plus any accrued interest less impairment losses.

(f) Payables

Trade and other payables are stated at principle amounts due at balance date plus any accrued interest.

(g) Contributed Equity

Ordinary share capital is recognised at the fair value of the consideration received by the Company. Transactions costs arising on the issue of ordinary shares are recognised directly in equity as a reduction of the consideration received.

(h) Exploration and Evaluation Expenditure

Exploration and evaluation expenditure is measured on the cost basis,

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accumulated separately for each area of interest and carried forward provided that one of the following conditions is met:

- such costs are expected to be recouped through successful development and exploitation of the area of interest or sale; or

F-20

NATIONS NATURAL GAS PTY LTD

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2005

- exploration activities have not yet reached a stage which permits a reasonable assessment of the existence or otherwise of economically recoverable reserves, and active and significant operations in relation to the area are continuing.

Exploration expenditure which no longer satisfies the above conditions is written off. In addition, a provision is raised against exploration expenditure where the directors are of the opinion that the carried forward net cost may not be recoverable. The increase in the provision is charged against the results for the year.

(i) Restoration, Rehabilitation and Environment Expenditure

Restoration, rehabilitation and environmental costs necessitated by exploration and evaluation activities are provided for as part of the cost of those activities. Costs are estimated on the basis of the present value of the future expenditure required to settle the obligation, current legal requirements and current technology.

Estimates of future costs are reassessed at least annually. Changes in estimates relating to areas of interest in the exploration and evaluation phase are dealt with retrospectively, with any amounts that would have been written off or provided against under the accounting policy for exploration and evaluation immediately written off. Changes in estimates of costs relating to producing areas are dealt with prospectively over the remaining resource life.

(j) Joint Ventures

Interest in joint ventures is brought to account by including in the respective classifications, the Company's share of individual assets employed and share of liabilities and expenses incurred. Where the Company is acquiring or disposing of a joint venture interest, the Company's share of joint venture assets is based on the contributions made to the joint venture.

F-21

NATIONS NATURAL GAS PTY LTD

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NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 DECEMBER 2005

2. Expenses

| | NOTES | 2005 A\$ |
|--|-------|-------------|
| | | ----- |
| Loss before income tax expense has been arrived at after charging the following items: | | |
| ASIC fees | | 694 |
| Audit fees | | 3,500 |
| Interest Expense | | 2,345 |
| Write down of investments | 13 | -- |
| | | 6,539 |

3. TAX

| | | |
|--|--|---------|
| Prima facie income tax benefit calculated at 30% of the loss | | (1,962) |
| Deferred tax asset not brought to account | | 1,962 |
| | | -- |
| Income tax expense | | -- |
| Estimated deferred tax asset arising from tax losses and temporary differences not recognised as an asset because recovery is not probable | | 3,799 |

The deferred tax asset will only be obtained if:

- (a) the company derives future assessable income of a nature and of an amount sufficient to enable the benefit to be realised;
- (b) the company continues to comply with the conditions for deductibility imposed by the law; and (c) no changes in tax legislation adversely affect the company in realising the benefit.

4. RECEIVABLES

| | | |
|---------------------------------------|----|---------|
| Advances to Director related entities | 10 | 185,002 |
|---------------------------------------|----|---------|

5. DEFERRED EXPLORATION COSTS

| | | |
|----------------------------|--|--------|
| Deferred exploration costs | | 31,979 |
|----------------------------|--|--------|

Ultimate recovery of deferred exploration costs carried forward is dependent upon achieving appropriate funding by capital raising or sale or farmout of petroleum exploration tenement interests for continued support of exploration activities.

6. PAYABLES

| | | |
|--------------------------------------|----|--------|
| Current | | |
| Loans from Director related entities | 10 | 36,140 |
| Audit Fees payable | | 8,500 |
| | | 44,640 |

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NATIONS NATURAL GAS PTY LTD

NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 DECEMBER 2005

| | 2005 A\$ |
|--|---------------------------|
| 7. EXPLORATION EXPENDITURE COMMITMENTS | |
| Minimum work requirements contracted for under exploration permit interests are estimated at balance date: | |
| National Gas Consortium Payable not later than one year | 328,356 |
| | ----- 328,356 ----- |
| 8. INTEREST IN JOINT VENTURES | |
| The Company has a thirty percent interest in the assets, liabilities and output of the National Gas Consortium operations for the exploration and development of petroleum in Australia. The Company has taken up its share of joint venture transactions based on the Company's contributions to the joint venture. Expenditure commitments in respect of the joint ventures are disclosed in Note 7. | |
| 9. KEY MANAGEMENT PERSONNEL | |
| The key management personnel in Nations Natural Gas Pty Ltd are EG Albers, director, and M.A Muzzin, general manager. | |
| During the year key management personnel: | |
| o Received no remuneration or benefits (2004: Nil) | |
| o Received no shares, options or any right over the equity of the company (2004: Nil) | |
| Related party transactions between the company and director related entities are disclosed in note 10. | |
| 10. RELATED PARTY DISCLOSURES | |
| Transactions with Directors | 2005 A\$ |
| Advances from Director Related Entities of EG Albers: | |
| Australian Oil & Gas Corporation | 694 |
| Gascorp Ltd | 786 |
| National Oil & Gas Pty Ltd | 34,660 |
| | ----- 36,140 ----- |
| The above loans relate to invoices paid on behalf of Nations Natural Gas Pty Ltd. | |
| Advances to Director Related Entities of EG Albers: | |
| Loan to Albers EJ & PJ | 51,900 |

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| | |
|--|---------|
| Loan to Australian Oil & Gas Corporation | 100,000 |
| Loan to Australis Finance Pty Ltd | 16,200 |
| Loan to Exoil Limited | 2 |
| Loan to Sacrosanct Pty Ltd | 16,900 |
| | ----- |
| | 185,002 |
| | ----- |

The above loans relate to consideration receivable by Nations Natural Gas Pty Ltd for shares sold.

F-23

NATIONS NATURAL GAS PTY LTD

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2005

11. FINANCIAL INSTRUMENTS

(a) Fair Value

All financial assets and liabilities are stated at cost, which approximates fair value.

(b) Credit Risk Exposure

The maximum credit risk exposure of financial assets is represented by the carrying amounts recognised in the balance sheet.

(c) Interest Rate Risk

The Company is not exposed to any significant interest rate risk.

(d) Currency Rate Risk

The Company incurs seismic exploration and well drilling costs in US dollars. To this extent, the Company is exposed to exchange rate fluctuations between the Australian and US dollar. Otherwise, the Company is not exposed to any significant currency rate risk.

12. EVENTS SUBSEQUENT TO REPORTING DATE

On 12 April, 2006 Australian Oil & Gas Corporation completed its acquisition of 100 percent of the shares of Nations Natural Gas Pty Ltd.

13. INVESTMENTS

At 30 June 2004, the value of investments held by the Company was written down for impairment. Directors based their re-assessment of valuations on the progress of exploration in the permits held by the investee-companies. In addition, the directors took account of the perceived prospects and ability of each of the investee-companies and their joint venture participants to fund the required exploration program in their respective joint venture blocks.

The largest component of the write down was due to inherent uncertainty

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caused by sovereignty claims. During 2004, the newly independent nation of East Timor claimed that exploration permits located adjacent to the Timor Sea were illegal as the acreage was subject to the sovereignty of East Timor. While the company does not agree with the basis of these claims, they undermined the undisputed title that investee-companies believed they had up to that time.

14. US GAAP EQUIVALENT FINANCIAL STATEMENTS

The financial statements have been prepared in accordance with accounting principles generally accepted in Australia ("A-GAAP"), which differ in certain significant respects from accounting principles generally accepted in the United States of America ("US-GAAP").

Under A-GAAP, the company capitalised exploration and evaluation expenditure for each separate area of interest in line with the accounting policy disclosed in note 1.

Under US-GAAP, exploration and evaluation expenditure (including the cost of feasibility studies) is expensed as incurred for an area of interest until commercial feasibility is established in compliance with Securities Act Industry Guide 7. After an area of interest has been assessed as commercially feasible, expenditures specific to that area of interest for further development are capitalised.

The effect of complying with US-GAAP results in additional expense of A\$7,044 (2004: A\$24,935). The financial statements under US-GAAP are shown below:

F-24

NATIONS NATURAL GAS PTY LTD

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2005

| | 2005 | 2004 | |
|-------------------------------------|-------------|-------------|--------|
| | A\$ | A\$ | |
| | ----- | ----- | |
| (i) Income Statement | | | |
| Revenues | -- | - | |
| Expenses | 13,583 | 1,446,055 | |
| | ----- | ----- | |
| Loss before income tax | 13,583 | 1,446,055 | |
| Income tax expense relating to loss | -- | -- | |
| | ----- | ----- | |
| Loss after income tax | 13,583 | 1,446,055 | |
| | ----- | ----- | |
| ii) Statement of Changes in Equity | | | |
| | Contributed | Accumulated | Total |
| | Equity | Losses | Equity |
| | A\$ | A\$ | A\$ |

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| | | | |
|-----------------------------|-----------|-------------|-------------|
| Balance at 1 January 2004 | 1,600,000 | -- | 1,600,000 |
| Loss after income tax | -- | (1,446,055) | (1,446,055) |
| | ----- | ----- | ----- |
| Balance at 31 December 2004 | 1,600,000 | (1,446,055) | 153,945 |
| Loss after income tax | -- | (13,583) | (13,583) |
| | ----- | ----- | ----- |
| Balance at 31 December 2005 | 1,600,000 | (1,459,638) | 140,362 |
| | ===== | ===== | ===== |

2005
A\$

(iii) Balance Sheet

| | |
|---------------------------|-------------|
| Current Assets | |
| Receivables | 185,002 |
| | ----- |
| TOTAL CURRENT ASSETS | 185,002 |
| | ----- |
| TOTAL ASSETS | 185,002 |
| | ----- |
| Current Liabilities | |
| Payables | 44,640 |
| | ----- |
| TOTAL CURRENT LIABILITIES | 44,640 |
| | ----- |
| TOTAL LIABILITIES | 44,640 |
| | ----- |
| NET ASSETS | 140,362 |
| | ----- |
| Shareholders' Equity | |
| Contributed equity | 1,600,000 |
| Accumulated losses | (1,459,638) |
| | ----- |
| TOTAL EQUITY | 140,362 |
| | ----- |

F-25

NATIONS NATURAL GAS PTY LTD

NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 DECEMBER 2005

| | | |
|----------------------------|-------------|-------------|
| (iv) Cash flow Statement | 2005 A\$ | 2004 A\$ |
| | ----- | ----- |
| CASH FLOWS FROM ACTIVITIES | -- | -- |

RECONCILIATION OF LOSS AFTER INCOME TAX TO NET CASH USED IN
OPERATING ACTIVITIES

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| | | |
|---|----------|-------------|
| Loss after income tax | (13,583) | (1,446,055) |
| Write down of Investments to recoverable amount | -- | 1,414,998 |
| Movements in liabilities | | |
| Increase in payables | 13,583 | 31,057 |
| | ----- | ----- |
| Net cash used in operating activities | -- | -- |
| | ----- | ----- |

F-26

AUSTRALIAN OIL & GAS CORPORATION

UNAUDITED PRO FORMA CONDENSED CONSOLIDATED STATEMENT OF OPERATIONS
FOR THE YEAR ENDED 31 DECEMBER 2005

| | AOGC \$ | Alpha \$ | Nations \$ | Pro Forma Combined \$ |
|--|------------|-------------|---------------|-----------------------------|
| Revenues | - | - | - | - |
| Expenses | 320,997 | 8,631 | 4,758 | 334,386 |
| | ----- | ----- | ----- | ----- |
| Profit (loss) before income tax expense | (320,997) | (8,631) | (4,758) | (334,386) |
| Income tax expense | - | - | - | - |
| | ----- | ----- | ----- | ----- |
| Net profit (loss) from after income tax expense | (320,997) | (8,631) | (4,758) | (334,386) |
| | ----- | ----- | ----- | ----- |
| Loss per common share | (0.01) | | | (0.01) |
| | ----- | | | ----- |
| Weighted average number of Shares outstanding | 29,800,528 | | | 29,800,528 |
| | ----- | | | ----- |

See notes to Pro-forma consolidated financial statements (unaudited)

F-27

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AUSTRALIAN OIL & GAS CORPORATION

UNAUDITED PRO FORMA CONDENSED CONSOLIDATED BALANCE SHEET
AT 31 MARCH 2006

| | AOGC \$ | Alpha \$ | Nations \$ | Pro Forma Adjustment \$ |
|---|----------------|------------------|----------------|-------------------------------|
| CURRENT ASSETS | | | | |
| Cash and cash equivalents | 8,634 | 1,091,806 | - | - |
| Trade and other receivables | 359 | - | - | - |
| | ----- | ----- | ----- | ----- |
| TOTAL CURRENT ASSETS | 8,993 | 1,091,806 | - | - |
| | ----- | ----- | ----- | ----- |
| NON-CURRENT ASSETS | | | | |
| Receivables | 1050 | 17,773 | 131,010 | (71,640) b |
| Investments | 596,770 | - | - | (596,770) a |
| Interests in Joint Venture | - | 296,243 | 22,732 | (153,146) c |
| | ----- | ----- | ----- | ----- |
| TOTAL NON-CURRENT ASSETS | 597,820 | 314,016 | 153,742 | (821,556) |
| | ----- | ----- | ----- | ----- |
| TOTAL ASSETS | 606,813 | 1,405,822 | 153,742 | (821,556) |
| | ===== | ===== | ===== | ===== |
| CURRENT LIABILITIES | | | | |
| Trade and Other Payables | 201,378 | 6,042 | 6,042 | - |
| | ----- | ----- | ----- | ----- |
| TOTAL CURRENT LIABILITIES | 201,378 | 6,042 | 6,042 | - |
| | ----- | ----- | ----- | ----- |
| NON-CURRENT LIABILITIES | | | | |
| Payables | 100,293 | 202,605 | 25,195 | (71,640) b |
| Convertible Notes | 256,000 | - | - | - |
| | ----- | ----- | ----- | ----- |
| TOTAL NON-CURRENT LIABILITIES | 356,293 | 202,605 | 25,195 | (71,640) |
| | ----- | ----- | ----- | ----- |
| TOTAL LIABILITIES | 557,671 | 208,647 | 31,237 | (71,640) |
| | ----- | ----- | ----- | ----- |
| SHAREHOLDERS' EQUITY/ DEFICIENCY | | | | |
| Common Stock | 26,100 | 710,834 | 1,137,333 | (1,848,167) a |
| Capital in excess of par value | 708,900 | - | - | - |
| Retained Earnings/(Accumulated losses) | (685,858) | 486,341 | (1,014,828) | 1,098,251 b, |
| | ----- | ----- | ----- | ----- |
| TOTAL SHAREHOLDERS' EQUITY / (DEFICIENCY) | 49,142 | 1,197,175 | 122,505 | (749,916) |
| | ----- | ----- | ----- | ----- |
| TOTAL LIABILITIES AND SHAREHOLDERS' EQUITY | 606,813 | 1,405,822 | 153,742 | (821,556) |
| | ===== | ===== | ===== | ===== |

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See notes to Pro-forma consolidated financial statements (unaudited)

F-28

AUSTRALIAN OIL & GAS CORPORATION

UNAUDITED PRO FORMA CONDENSED CONSOLIDATED STATEMENT OF OPERATIONS
FOR THE THREE MONTHS ENDED 31 MARCH 2006

| | AOGC \$ | Alpha \$ | Nations \$ | Pro Forma Adjustment \$ | Pro Forma Combine |
|--|------------|-------------|---------------|-------------------------------|----------------------|
| Revenues | 18 | 1,091,800 | - | 1,251,397 | 1,091,81 |
| Expenses | 74,768 | 32 | 2 | - | 74,80 |
| | ----- | ----- | ----- | ----- | ----- |
| Profit (loss) before income tax expense | (74,750) | 1,091,768 | (2) | 1,251,397 | 1,017,01 |
| Income tax expense | - | - | - | - | - |
| | ----- | ----- | ----- | ----- | ----- |
| Net profit (loss) from after income tax expense | (74,750) | 1,091,768 | (2) | 1,251,397 | 1,017,01 |
| | ----- | ----- | ----- | ----- | ----- |
| (Loss)/Earnings per common share | (*) | | | | 0.0 |
| | ----- | | | | ----- |
| Weighted average number of shares outstanding | 29,800,528 | | | | 29,800,52 |
| | ----- | | | | ----- |

* Less than \$0.01 per share

F-29

AUSTRALIAN OIL & GAS CORPORATION

NOTES TO UNAUDITED PRO FORMA CONDENSED COMBINED FINANCIAL STATEMENTS

NOTE 1 - ACQUISITION

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On April 12, 2006 Australian Oil and Gas Corporation completed its acquisition of a hundred percent acquisition of the shares of Alpha Oil and Natural Gas Pty Limited and Nations Natural Gas Pty Limited. Both companies are incorporated and domiciled in Australia. Each of the pro-forma consolidated financial statements on F-27 to F-29 have been presented as if the acquisition of the subsidiaries had occurred by the date of the financial statement.

NOTE 2 - PRO FORMA ADJUSTMENTS

The pro-forma adjustments arising from the consolidation of Alpha Oil and Natural Gas Pty Limited and Nations Natural Gas Pty Limited are explained below.

(a) Eliminations of investment in subsidiaries

Australian Oil and Gas Corporation paid a total of \$596,770 to acquire all the shares in its subsidiaries. This investment is eliminated against the fair value of the net assets acquired in Nations Natural Gas Pty Limited and Alpha Oil and Natural Gas Pty Limited resulting in an extraordinary gain of \$1,251,397.

(b) Eliminations of intercompany receivable and payables.

At 31 March, 2006 Australian Oil and Gas Corporation owed Nations Natural Gas Pty Limited \$70,590 and was owed \$523 by Alpha Oil and Natural Gas Pty Limited and \$526 Nations Natural Gas Pty Limited.

(c) Compliance with US GAAP

The financial statements of Alpha Oil and Natural Gas Pty Limited and Nations Natural Gas Pty Limited have been prepared in accordance with accounting principles generally accepted in Australia ("A-GAAP"), which differ in certain significant respects from accounting principles generally accepted in the United States of America ("US-GAAP").

Under A-GAAP, the Company capitalized exploration and evaluation expenditure for each separate area of interest.

Under US-GAAP, exploration and evaluation expenditure (including the cost of feasibility studies) is expensed as incurred for an area of interest until commercial feasibility is established in compliance with Securities Act Industry Guide 7. After an area of interest has been assessed as commercially feasible, expenditures specific to that area of interest for further development are capitalized.

The effect of complying with US-GAAP results in additional expense of \$130,414 for Alpha Oil and Natural Gas Pty Limited and \$22,732 for Nations Natural Gas Pty Limited