

AUSTRALIAN OIL & GAS CORP  
Form 10-K  
March 29, 2011

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

Form 10-K

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

For the fiscal year ended December 31, 2010

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

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

Commission file number 000-26721

AUSTRALIAN OIL & GAS CORPORATION  
(Name of small business issuer in its charter)

Delaware  
(State or other jurisdiction of  
incorporation or organization)

84-1379164  
(I.R.S. Employer  
Identification No.)

Level 21, 500 Collins Street  
Melbourne Victoria Australia  
(Address of principal executive offices)

3000  
(Zip Code)

Issuer's telephone number (61-3) 8610 4700

Website: [www.ausoil.com](http://www.ausoil.com)

Securities registered under Section 12(b) of the Exchange Act: None

Securities registered under Section 12(g) of the Exchange Act:

Common stock - \$0.001 par value  
(Title of class)

Indicate by check mark if the registrant is a well-known seasoned issuer, as defined in Rule 405 of the Securities Act. Yes  No

Indicate by check mark if the registrant is not required to file reports pursuant to Section 13 or Section 15(d) of the Exchange Act. Yes  No

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

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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  No

Indicate by checkmark if disclosure of delinquent filers pursuant to Item 405 of Regulation S-K (§229.405 of this chapter) is not contained herein, and will not be contained, to the best of registrant's knowledge, in definitive proxy or information statements incorporated by reference in Part III of this Form 10-K or any amendment to this Form 10-K.

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

Large accelerated filer  Accelerated filer

Non-accelerated filer  Smaller reporting company

Indicate by check mark whether the registrant is a shell company (as defined in Rule 12b-2 of the Exchange Act).

Yes  No

The aggregate market value of the voting shares of the registrant (based on the closing price reported by the OTC Bulletin Board on or before December 31, 2009), held by non-affiliates was \$616,937. For purposes of this disclosure, shares of common stock held by persons who own 5% or more of the outstanding common stock and shares of common stock held by each officer and director have been excluded in that such persons may be deemed to be "affiliates" as that term is defined under the Rules and Regulations of the Securities Exchange Act of 1934, as amended. This determination of affiliate status is not necessarily conclusive.

Check whether the issuer has filed all documents and reports required to be filed by Section 12, 13 or 15(d) of the Exchange Act after the distribution of securities under a plan confirmed by a court. Yes  No

As at March 29, 2011, 47,650,531 shares of common stock were outstanding.

Documents incorporated by reference: None

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## Forward Looking Statements

References in this report to “the Company”, “we”, “us”, “AOGC”, or “our” are intended to refer to Australian Oil & Gas Corporation. This annual report contains certain statements that may be deemed forward-looking statements within the meaning of Section 27A of the Securities Act of 1933, as amended (Securities Act), and Section 21E of the U.S. Securities Exchange Act of 1934, as amended (Exchange Act). Readers of this annual 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 annual 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 the Company’s business strategy, plans and objectives and statements expressing beliefs and expectations regarding the ability of the Company to successfully raise the additional capital necessary to meet its obligations, the ability of the Company to secure the permits, licenses and leases necessary to facilitate anticipated drilling activities and the ability of the Company to attract additional working interest owners to participate in the exploration and development of oil and gas reserves, are forward-looking statements within the meaning of the Securities Act and the Exchange Act. These forward-looking statements are and will be based on management's then-current views and assumptions regarding future events.

## PART I

### ITEM 1. BUSINESS

Australian Oil & Gas Corporation, a Delaware corporation formed on 6th August 2003, is an energy company that explores for natural gas, crude oil and natural gas liquids. Our common stock, par value \$0.001 per share, has been traded on the OTC BB since 2003.

The Company seeks oil and gas exploration opportunities in offshore waters within the territorial boundaries of Australia. Once acquired, our strategy is to carry out preliminary geological assessments, including the acquisition of pre-existing data, the formulation and undertaking of new 2D and 3D seismic programs and, if supported by geological rationale and appropriate funding, the drilling of wells to determining whether any viable resource may exist.

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

Nations Natural Gas Pty Ltd disposed of its wholly owned, but unused, dormant Australian subsidiary, Napoleon Nations Gas Pty Ltd, being surplus to its needs.

AOGC's goal is to grow a profitable oil and gas company for the long-term benefit of our shareholders. Our strategy is to build a portfolio of core exploration acreage which provide growth opportunities through grass-roots exploration activity, including the acquisition of seismic surveys and subsequent drilling.

When acquisition opportunities are identified, small operational and technical teams participate in the evaluation process, enabling our Company to move quickly to execute exploration strategies. Over time we plan to build a team that will have the technical knowledge and sense of urgency to maximize value. Our local knowledge of Australian producing basins and our proactive culture provide a potential platform for growth through our strategy of acreage acquisition, prospect development and farmout. An integral part of our plan is to actively evaluate our assets to determine whether farmout or sales of these assets might provide opportunities to reduce commitments, to spread risk and to redeploy our capital resources, so as to constantly rebalance our portfolio and generate new prospects.

We regard Australia as a relatively immature oil and gas country, with particular prospectivity for natural gas, so that our exploration strategy provides the potential exposure to larger gas/liquids targets which may ultimately establish significant production and reserves through successful drilling. Our technological experts are encouraged to develop strategies for rapid and cost-effective acquisition, processing and interpretation of seismic data, enabling our technical teams to analyse large areas of acreage, to acquire new seismic data, to generate drilling prospects and to relinquish acreage when it is found to be insufficiently prospective to warrant further exploration or where we are unable to raise capital for its exploration.

Industry experts project declines in natural gas production from traditional sources and significant increases in U.S. and Asian natural gas demand over the next 20 years. Liquefied Natural Gas "LNG" sourced natural gas may provide a significantly larger share of the natural gas market. We target potential natural gas supply sources suitable not only for LNG processing and export, but also for domestic Australian consumption, subject to successful exploration and exploiting of our exploration acreage.

We consider that we are now well positioned to pursue these oil and natural gas exploration objectives for the following reasons:

- Our success in acquiring gas prospective acreage is expected to provide opportunities to farmout and joint venture with other established oil and gas companies, as well as the possibility to joint venture with them in additional exploratory prospects;
- We possess a significant exploration acreage portfolio in the Browse Basin and Bonaparte Basin region, including the Vulcan Sub-basin, offshore Australia (see "Oil and Gas Interests and Properties" below);
- We are intent on building a broad-based team with significant experience in the use of structural geology, augmented by 3D seismic technology, and in drilling prospects.
- We own or have rights to an extensive seismic database, including 6,500 km<sup>2</sup> of new 2D seismic and some 3,500 km<sup>2</sup> of 3D seismic data;
- We are conducting intensive evaluations of our acreage and are in the process of identifying exploration prospects, some of which are high-risk, high-potential, gas and oil prospects.

We have focused on the Bonaparte Basin and Browse Basin region because:

- We have acquired a significant permit portfolio in these regions;
- We have developed significant expertise and have an extensive database of information about the geology and geophysics of these regions;
  - We believe there is potential for resources in these regions that have not yet been discovered; and
- The construction of infrastructure for efficiently developing, producing, transporting and processing natural gas is being actively promoted or has been initiated in each region by others.

#### Background to Australian Offshore Permits

To gain control of offshore exploration areas in Australia, a Petroleum Exploration Permit (“Permit”) must be tendered for and subsequently granted by the Designated Authority, acting pursuant to the Offshore Petroleum and Greenhouse Gas Storage Act 2006 of the Commonwealth of Australia (“the Act”). A Permit provides rights to the holder to undertake exploration, including seismic surveys and drilling, in the defined area of a Permit. A Permit is granted for an initial six year period. Under the terms of a Permit, the exploration work program nominated for the first three years must be met. The Permit holder may withdraw from the Permit after the third permit year, or at the end of any subsequent Permit year, provided that all the exploration work obligations up to the date of withdrawal have been met.

It should be noted that (provided all work commitments are carried out) Australian petroleum exploration permits may be renewed for two further 5-year terms, upon relinquishment of 50% of the area of a permit at the end of the first 6-year term, and again at the end of the second 5-year permit term. Any Retention Lease or Production License is excluded from the calculation of the area to be relinquished. Permits therefore, have a potential 16-year life, subject to these requirements.

The holder of a Permit may not construct any installation in the Permit or abandon, suspend or complete any well without the written approval of the Designated Authority. A Permit requires the holder to comply with the Act, the regulations and all directions made there under and to carry out operations with adequate measures for the protection of the environment and to carry insurance as directed by the Designated Authority. A Permit incurs a modest yearly rental figure.

A Permit is granted by the Designated Authority following a competitive tender program, based on the best work program offered. The experience of the directors and the technical and financial resources of the applicant are taken into consideration before a decision is made. The Company considers that it satisfies the Designated Authority’s requirements and believes that in the future it will be able to secure acreage. We have already acquired interests in a number of Permits (See Item 2 – Properties). Our President, Mr. Ernest Geoffrey Albers, has a track record in successfully bidding for exploration permits, and of subsequently progressing through farmout and exploration with major international companies.

For the most part, major companies have dominated the offshore exploration industry in Australia. More recently, new and independent international operators have become increasingly active. The Company is encouraged by this increased activity and by the diversity of geological concepts being developed.

Increasing availability of sophisticated off-the-shelf technologies from service companies and of expert technical advice from consultants, all aided by the latest computing power, allow companies such as ours to operate in this environment. There is a worldwide pool of rig operators, seismic service companies and technical consultants upon which we can draw for products and specialist expertise, allowing us to participate at a high level of expertise.





A significant element of our strategy includes the acquisition and control of strategic areas which have potential to be farmed-out, sold or developed in conjunction with industry players: it being recognised that the Company lacks the resources to fully explore and develop areas on its own behalf. The funding of our programs by others in return for a percentage interest in our exploration permits (farm-out) is a vital part of our strategy and not only spreads risk but, importantly, conserves our capital. We sponsor or assist in the sponsorship of companies for the express purpose of assisting with the funding of costs of our exploration program.

When we require further funds for our programs, it is our 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, interest of industry in co-participation in our programs and share market conditions. It is our intention to meet our funding obligations by either partial sale of our interests or farm-out, either to third parties or to entities sponsored by the Company, farmout being a vital part of management's overall strategy. It is also part of our plan that funds could be raised by further issues of stock or the promotion of new companies for this purpose. Should funds be required for appraisal or development purposes we would, in addition, look to project loan finance.

#### Oil and Gas Interests

The Company holds interests in 9 petroleum exploration permits in the offshore areas adjacent to Australia.

Permit	Geological Basin/Sub Basin	Percentage Held	Joint Venture Name
AC/P35	Vulcan	15%	Vulcan
AC/P39	Vulcan	15%	Nome
WA-322-P	Browse	17%	Braveheart
WA-342-P	Browse	17%	Cornea
NT/P62	Bonaparte	21%	National Gas Consortium
NT/P65	Bonaparte	21%	National Gas Consortium
NT/P71	Bonaparte	21%	National Gas Consortium
NT/P72	Bonaparte	21%	National Gas Consortium
NT/P73	Bonaparte	65%	Stillwater

See Item 2 "Properties" of this report for more information concerning our intentions and our past and recent exploration activities with respect to our oil and gas interests.

#### Reserve Estimates

The Company has no oil and gas reserves at the present time.

## Production

The Company has had no oil and gas production to date.

## Productive Wells and Acreage

The Company has no productive wells or productive acreage at the present time.

## Underdeveloped Acreage

See Item 2 “Properties” of this report for further information concerning our oil and gas interests.

## Drilling Activity

We and our joint venturers drilled Cornea-3 in WA-342-P in December 2009 and Braveheart-1 in WA-333-P in January 2010. See item 2 “Properties” of the report.

## Current Activities and Plans

Our current activities relate solely to our participation in oil and gas exploration in the offshore areas of Australia, as described above. (For more information with respect to our current activities and plans see also Item 2 - “Properties”).

## Competitive Factors

The acquisition of oil and gas interests is highly competitive. We anticipate that we will continue to encounter strong competition from many established companies with far greater financial, personnel and informational resources. Competition from such companies may escalate the cost of acquiring properties beyond the range of prices we can afford. Even if valuable oil and gas deposits are discovered on our properties, our ability to develop and exploit and their marketability will depend on numerous factors, including available equipment and personnel for which there is strong demand, and other competing supplies of oil and gas.

## Environmental Compliance and Risk

Since the Company is engaged in the natural resources industry, environmental regulation has a significant impact upon our operations and may necessitate significant capital outlays, which, in turn, may materially affect the earning power of the Company. Certain operations in the exploratory and production phase of oil and gas exploration are potentially hazardous to the environment. Exploratory drilling in natural areas are sources of significant environmental prescription and regulation. Further, if recovery methods are utilized which involve the construction of a plant or similar hardware to implement the recovery system, the environmental impact of such a system must be disclosed in an Environmental Impact Statement; and compliance could adversely affect future operations and revenues. Although we do not have immediate plans to be the operator on any oil and gas drilling operations, others who may drill and operate such properties will face possible environmental regulations, which could affect our liabilities. Should we operate, then we would directly be responsible for environmental and project management, and liability in the event of mishap.

## Employees

As of December 31, 2010, we employed four persons, namely the three directors, and one other person, each on a part time basis. Additionally, we retain consultant geologists and other geo-scientists, as well as administrative, accounting and financial support on a contract or fee basis, as and when their services are required.



ITEM 1A. RISK FACTORS

The business operations of the Company are subject to a high level of risks, which may impact adversely on its future performance. These risks may adversely affect the value of our assets and this may affect the value of our common stock.

The following are some of the important factors that could affect our financial performance or could cause actual results to differ materially from estimates contained in our forward-looking statements. The important factors are not exclusive.

Our future performance is difficult to evaluate because we have a limited operating history and do not own a developed oil and natural gas property or have development plans for any oil or natural gas properties.

We began operations in August 2003 and have a limited operating and financial history. As a result, there is little historical financial and operating information available to evaluate our performance or an investment in our common stock.

Potential conflicts of interest may cause us to enter into less favorable agreements than we might have obtained from third parties.

Some of our directors are also directors or executive officers of other oil and natural gas companies, which may from time to time compete with us for farm-ins, working interest partners, or property acquisitions. We also may seek to negotiate farm-in agreements or working interest agreements with companies whose boards of directors include individuals who are directors or executive officers of our company. Under Delaware law, a director that has an interest in a contract or proposed contract or agreement shall disclose his interest in such contract or agreement and shall refrain from voting on any matter in respect of such contract or agreement. Nevertheless, we may enter into agreements with such other companies that are not as favorable as that which we might have obtained from unrelated third parties.

We will require additional equity capital or debt financings in the future, which may not be available, or may only be available on unfavorable terms.

Our future capital requirements depend on many factors, including the prospectivity of our exploration property and our profitability. To the extent that available funds are insufficient to fund operating and capital requirements, we will need to fund our exploration commitments by farmout or sale of interests or by raising additional funds through debt financing or curtail our growth and reduce our exploration activities. Any farmout or sale activity or any equity or debt financing, if available at all, may be on terms that are not favorable to us. In the case of farmout, sale or equity financings, dilution to our stockholders could result, and in any case such securities may have rights, preferences and privileges that are senior to existing shares. If we cannot obtain adequate capital on favorable terms or at all, our business, operating results and financial condition could be adversely affected.

Estimates of future cash flows may prove to be inaccurate, resulting in a reduction of our working capital.

Estimates of future net cash flows from oil and gas interests we may wish to develop, prepared by independent consultants, will be based upon estimates by independent engineers of oil and natural gas reserves and the percentage of those reserves which can be recovered and produced with current technology. These estimates will include assumptions as to the cost of infrastructure, the amount of oil and natural gas capable of being recovered and prices received for the sale of oil and natural gas. Any one or all of those estimates may be inaccurate, which could materially affect resulting future net cash flows and working capital.

We depend on our executive officers for critical management decisions and industry contacts but have no key person insurance for these individuals.

We are dependent upon the continued services of our executive officers, in particular, our President, Mr.E. Geoffrey Albers. While we do have an employment contract with Mr.E. Geoffrey Albers, we do not carry key person insurance on his life. The loss of the services of any of our executive officers, through incapacity or otherwise, could have a material adverse effect on our business and would require us to seek and retain other qualified personnel.

Exploring for and producing oil and natural gas are high risk activities with many uncertainties that could adversely affect our business, financial condition or results of operations.

Oil and natural gas exploration activities are subject to numerous risks beyond our control, including the risk that drilling will not result in commercially viable oil or natural gas reserves. Our decisions to explore, assess, appraise or develop or otherwise exploit prospects or properties will depend in part on the evaluation of data obtained through geophysical and geological analyses, seismic and other data and engineering studies, the results of which are often inconclusive or subject to varying interpretations. Assessment of prospectivity and reserve estimates depend on many assumptions that may turn out to be inaccurate. Our cost of drilling, completing and operating wells will be uncertain until drilling concludes. Overruns in budgeted expenditures are common risks that can make a particular project uneconomic. Further, many factors may curtail, delay or cancel drilling, including the following:

- delays imposed by or resulting from compliance with regulatory requirements;
  - pressure or irregularities in geological formations;
    - equipment failures or accidents;
    - adverse weather conditions;
  - reductions in oil and natural gas prices;
    - title problems; and
- limitations in the market for oil and natural gas.

We may incur substantial losses and be subject to substantial liability claims as a result of oil and natural gas exploration activities.

We are not insured against risks. Losses and liabilities arising from uninsured and underinsured events could materially and adversely affect our business, financial condition or results of operations. Our oil and natural gas exploration activities are subject to all of the operating risks associated with exploring for oil and natural gas, including the possibility of:

- highly adverse weather conditions, including cyclones and hurricanes;
- environmental hazards, such as uncontrollable spills or flows of oil, natural gas, brine, well fluids, toxic gas or other pollution into the environment, including groundwater and shoreline contamination;
  - abnormally pressured formations;
- mechanical difficulties, such as stuck oilfield drilling and service tools and casing collapse;

- fires and explosions;
- personal injuries and death; and
  - natural disasters.

Any of these risks could adversely affect our ability to operate or result in substantial losses to our company. We may elect not to obtain insurance if we believe that the cost of available insurance is excessive relative to the risks presented. In addition, pollution and environmental risks generally are not fully insurable. If a significant accident or other event occurs and is not fully covered by insurance, then it could adversely affect us.

Market conditions or operational impediments may hinder our access to oil and natural gas markets or delay any production.

Market conditions or the unavailability of satisfactory oil and natural gas transportation arrangements may hinder our access to oil and natural gas markets or delay any production. The availability of a ready market for any future oil and natural gas production will depend on a number of factors, including the demand for and supply of oil and natural gas and the proximity of reserves to pipelines and terminal facilities. Our ability to market production (when and if we have production) will depend in substantial part on the availability and capacity of gathering systems, pipelines and processing facilities owned and operated by third parties. Our failure to obtain such services on acceptable terms could materially harm our business. We may be required to shut-in wells for a lack of a market or because of inadequacy or unavailability of natural gas pipeline or gathering system capacity. If that were to occur, then we would be unable to realize revenue from those wells until production arrangements were made to deliver our production to market.

We are subject to complex laws that can affect the cost, manner or feasibility of doing business.

Exploration, production and sale of oil and natural gas are subject to extensive Australian laws and regulations, including both the Offshore Petroleum and Greenhouse Gas Storage Act 2006 (Commonwealth of Australia) and also the Environment Protection and Biodiversity Conservation Act (Commonwealth of Australia) and all regulations, directions and guidelines made thereunder. We may be required to make large expenditures to comply with our permit obligations and governmental regulations. Matters subject to such obligations and regulation include:

- permit work program requirements;
  - environmental approvals;
- seismic work program approvals
  - permits for drilling operations;
    - drilling insurance;
- development and production approvals; and
  - taxation.

Under these laws, we could be liable for personal injuries, property damage and other damages. Failure to comply with these laws may also result in the suspension or termination of our operations and subject us to administrative, civil and criminal penalties. Moreover, these laws could change in ways that substantially increase our costs of doing business. Any such liabilities, penalties, suspensions, terminations or regulatory changes could materially and adversely affect our financial condition and results of operations.



Our operations may incur substantial liabilities to comply with applicable environmental laws and regulations.

Our oil and natural gas operations are subject to stringent Australian laws and regulations relating to the release or disposal of materials into the environment or otherwise relating to environmental protection, both of the environment and of the living things within that environment. These laws and regulations, which include the Environment Protection and Biodiversity Conservation Act 1999, require the acquisition of approvals before seismic acquisition or drilling commences, restrict the types, quantities, and concentration of substances that can be released into the environment in connection with drilling and production activities, limit or prohibit seismic or drilling activities in protected areas, and impose substantial liabilities for pollution resulting from our operations. Failure to comply with these laws and regulations may result in the assessment of administrative, civil, and criminal penalties, incurrence of investigatory or remedial obligations, or the imposition of injunctive relief. Changes in environmental laws and regulations occur frequently, and any changes that result in more stringent or costly waste handling, storage, transport, disposal or cleanup requirements could require us to make significant expenditures to maintain compliance, and may otherwise have a material adverse effect on our results of operations, competitive position, or financial condition as well. Under these environmental laws and regulations, we could be held strictly liable for the removal or remediation of previously released materials or property contamination regardless of whether we were responsible for the release of such materials or if our operations were standard in the industry at the time they were performed.

Competition in the oil and natural gas industry is intense, which may adversely affect our ability to compete.

We operate in a highly competitive environment for the acquisition and exploration of properties, marketing of oil and natural gas and securing qualified and experienced personnel. Many of our competitors possess and employ financial, technical and personnel resources substantially greater than ours, which can be particularly important in the areas in which we operate. Those companies often are able to pay more for oil and natural gas properties and prospects and to evaluate, bid for and purchase a greater number of properties and prospects than our financial or personnel resources permit. Our ability to acquire additional prospects and to find and develop reserves in the future will depend on our ability to evaluate and select suitable properties, to fund exploration and to consummate transactions in a highly competitive environment. There is substantial competition for capital available for investment in the oil and natural gas industry. We may not be able to compete successfully in the future in acquiring prospective resources, carrying out seismic and drilling activities, developing reserves, marketing hydrocarbons, attracting and retaining personnel and raising capital.