



MANAGEMENT'S DISCUSSION AND ANALYSIS

For the three months ended March 31, 2006

This discussion and analysis of financial condition and results of operations for the three months ended March 31, 2006 should be read in conjunction with the interim unaudited financial statements for the three months ended March 31, 2006, the audited financial statements of Ausam Energy Corporation ("the Company" or "Ausam") and notes thereto and the Management Discussion and Analysis of the Company for the year ended December 31, 2005. The 2006 interim financial statements include the accounts of the Company and the accounts of its wholly owned subsidiary, Ausam Resources Limited ("ARL"). The accompanying financial statements have been prepared in accordance with Canadian generally accepted accounting principles for interim financial statements and are expressed in Canadian Dollars.

Date: This Management's Discussion and Analysis is dated as of May 27, 2006

OVERVIEW

Ausam is a public oil and gas exploration and production company trading on the TSX Venture Exchange, with operations in Australia. On July 30, 2004, Ausam, through a reverse takeover (the "RTO"), acquired all of the outstanding shares of ARL, an Australian public unlisted oil and gas company. This acquisition of ARL has been accounted for as a reverse takeover of Ausam by ARL effective July 30, 2004, and, as a result, the financial statements of Ausam treat ARL as the acquiring entity and, therefore, the results reflected in the financial statements prior to the RTO are for the operations of ARL only.

OVERVIEW OF GAS MARKET CONDITIONS IN AUSTRALIA

Australia has abundant sources of natural gas resources, but approximately 92% of the estimated reserves are located in northwestern Australia, far from the principal population centres and markets of the east coast. There is currently no transcontinental pipeline from Western Australia to transport gas from the offshore gas fields of the Northwest Shelf or the Browse/Bonaparte Basins to the eastern markets. The construction of such a pipeline would not be commercial at this time and would face significant environmental and legal hurdles. The traditional primary sources of gas supply for the eastern states include the offshore Gippsland and Otway Basins and the onshore Cooper and Surat/Bowen Basins, along with other smaller producing areas in eastern Australia.

Ausam is focused on the immediate opportunity to supply gas into the growing, but more mature markets of the eastern states. The Company's core area in the Surat/Bowen Basin in Queensland, Australia is in close proximity to existing infield gathering systems and gas processing infrastructure, which is connected to two of Queensland's principal transport pipelines.

The Australian gas industry has undergone significant restructuring since the mid-1990s with pipeline access undergoing deregulation, traditional basins experiencing increasing decline in production, the development and growth of coal bed methane production, and the strong growth in demand. The market for natural gas in Australia has a relatively small number of producers, a few principal consumers, limited depth in consumption and diversity in end users, and legacy agreements that limit competition. This lack of liquidity in Australian gas markets is the greatest impediment to the development of transparent spot markets.

RESULTS OF OPERATIONS

Operational overview

Kyeen Creek-1 exploration/commitment well (ATP470P)

In January and February 2006, the Kyeen Creek-1 well was drilled (Ausam 35.0%, Santos Ltd 6.5%, Origin Energy Ltd 58.5% and operator) in ATP 470P, which is a 68,500 acre (107 section) permit located in the Surat/Bowen Basin. The well was a commitment/exploration well and consequently was drilled conventionally using standard drilling fluids to test hydrocarbon charge, seal, reservoir presence and closure of a potentially large prospect adjacent to the Parknook-Namarah fields and infrastructure in PL 71. The Kyeen Creek-1 well confirmed structural closure as well as gas in the Triassic Basal Rewan reservoir, which produced on test, and oil shows in the deeper Timbury Hills formation. The Kyeen Creek prospect is mapped as a large stratigraphic structure located adjacent to fields which produce from the same reservoirs that were present in the Kyeen Creek-1 well. The well indicates that there are additional opportunities to apply underbalanced drilling in the Kyeen Creek prospect which may overcome the damage to the Triassic reservoirs caused by conventional drilling muds. However, the Permian reservoirs were deemed to be non-commercial at the Kyeen Creek-1 well location.

The Kyeen Creek-1 well was logged and sidewall cores were taken from the Triassic Basal Rewan, Permian Upper and Lower Tinowon, and Timbury Hills formations. The well was plugged back to the casing shoe allowing access to the surface casing for an underbalanced re-drill of the gas charged Basal Rewan. Although the Kyeen Creek-1 well was not commercial, it provided additional evidence that drilling these reservoirs underbalanced could produce commercial results and that there is potential along this trend in general.

As a result of drilling Kyeen Creek-1, the ownership interests in ATP 470P are Ausam 45.0%, Origin and subsidiaries 49.5% and Santos 5.5%.

Ungabilla-1 exploration/commitment well (ATP 754P)

Ausam and Origin Energy Ltd each hold 50% interest in permit ATP754P, which covers approximately 1.1 million gross acres (550,000 net acres) and contains 19 additional prospects and leads. The Ungabilla-1 well drilled one of the prospects as identified in Ausam's regional geophysical and geological study of its Queensland permits. Ausam and Origin Energy Ltd funded their respective 50% interests of the well.

During 2005 the Ungabilla-1 well was drilled conventionally to a depth of 2,895 metres in order to test initially the Permian Upper and Lower Tinowon sands. The Ungabilla-1 well encountered strong gas shows in the Upper and Lower Tinowon sands and, prior to reaching the primary objectives, gas shows were encountered in the secondary objective, the Triassic Basal Rewan sands. The well was cased to bottom and suspended.

During late April 2006 a workover rig was mobilized to perforate the Lower Tinowon sands in order to test the well's potential to produce conventionally. Petrophysical and rock typing analysis indicated that the Upper and Lower Tinowon formations could respond positively to hydraulic fracturing. Testing is currently still in progress. Depending on the results of the perforation and subsequent testing, the joint venture partners will consider options going forward, including: (i) perforation and testing of the Upper Tinowon formation; (ii) hydraulic fracturing of either the Upper or Lower Tinowon, or both; and (iii) horizontal or high-angle underbalanced re-entry into either the Upper or Lower Tinowon, or both. Additionally, the ATP 754P joint venture is considering milling a window out of the casing and using a coiled tubing unit to perform a horizontal underbalanced test of the Permian Upper and Lower Tinowon sands and potentially the Triassic Basal Rewan.

Seismic Acquisition (ATP 754P)

In addition to testing at Ungabilla-1, the new 240-km 2D seismic acquisition programme in ATP 754P has been completed and the data is currently being processed and interpreted. The seismic data was acquired over seven current leads as well as extensions of pre-existing seismic lines to improve understanding of the permit's geology. Interpretation and evaluation of this new 2D data is expected to be completed in June 2006.

Loy Yang-2 exploration/commitment well (PEP 166)

During February 2006, the Loy Yang – 2 exploration/commitment well was drilled in PEP 166, which is in the Onshore Gippsland Basin, Victoria. The operator was Petro Tech, a subsidiary of Lakes Oil NL (“Lakes”). Ausam has a 50% interest in PEP 166, an 877,000 acre permit. Ausam elected to reduce its percentage interest from 50% to 25% in an 8,650-acre envelope (the “Loy Yang Block”) covering the Loy Yang Dome prospect in exchange for Lakes funding 100% of the costs to drill, frac, test and complete the well. Ausam will retain its 50% interest in the remainder of PEP 166. Lakes announced the results of the well, the total depth of 1,443 metres, and that the well was cased and suspended. Lakes is evaluating the possibility of hydraulically fracturing the Loy Yang-2 well, which recorded numerous gas and oil shows in the Strzelecki Group. A DST recovered only small amounts of gas accompanied by water. Lakes also announced plans to drill a deeper well when equipment becomes available. The next well in PEP 166 is expected to test the lower Strzelecki Group as well as the deeper Rintouls sandstone.

SELECTED FINANCIAL INFORMATION

	<u>March 31, 2006</u>	<u>March 31, 2005</u>
Revenue	\$ 82,077	\$ 41,106
Net loss	\$ 543,939	\$ 824,546
Net loss per share (basic and fully diluted)	\$ 0.01	\$ 0.02
Cash	\$ 7,840,581	\$ 3,664,046
Total assets	\$ 13,506,878	\$ 13,837,969
Working capital	\$ 7,887,893	\$ 4,190,732
Shareholders' equity	\$ 12,892,422	\$ 13,514,787

RESULTS OF OPERATIONS

Ausam incurred a loss for the three month period ending March 31, 2006 of \$543,939 compared to a loss of \$824,546 a year ago. The 2006 loss includes \$139,172 (2005 - \$220,544) of non cash stock option expense.

Interest and other income

Interest and other income was \$82,077 for the 3 months ended March 31, 2006, compared to \$41,106 for the 3 months ended March 31, 2005. This increase relates to Ausam having larger cash balances in 2006, following its financings in 2004 and June 2005.

General and administrative

General and administrative expenses were \$477,663 for the three months ended March 31, 2006 compared to \$637,409 during 2005. The reduction compared to 2005 is principally due to reduced financing and professional fees, where in 2005 expenditures were incurred with respect to the investigation of a potential corporate acquisition.

The major components of general and administrative expenses are as follows:

	<u>March 31, 2006</u>	<u>March 31, 2005</u>
Salaries, consulting fees and benefits	\$197,416	\$ 170,839
Financing and professional fees	\$ 11,012	\$ 137,259
Travel	\$ 70,809	\$ 90,106
Geological and geophysical expenses written off	\$ 50,369	-

Stock option expense

During 2006, stock option expense of \$139,172 was recorded relating to stock granted during 2005 and 2004. No options have been granted in 2006.

QUARTERLY COMPARISON

The following table summarizes financial results for the stated quarters:

	<u>2006</u>	<u>2005</u>	<u>2005</u>	<u>2005</u>	<u>2005</u>	<u>2004</u>	<u>2004</u>	<u>2004</u>
	Q1	Q4	Q3	Q2	Q1	Q4	Q3	Q2
	(\$)	(\$)	(\$)	(\$)	(\$)	(\$)	(\$)	(\$)
Revenue	82,077	104,312	163,953	28,483	41,106	31,524	10,102	1,169
Net loss	543,939	7,304,901	2,526,034	702,932	824,546	987,470	771,767	354,559
Net loss per share (basic and fully diluted)	0.01	0.16	0.05	0.02	0.02	0.03	0.03	0.02

The \$7.3 million loss in the fourth quarter of 2005 reflects a write down of assets of \$6,605,948 as a result of a rigorous impairment review conducted on all of the Company's properties following the drilling results during 2005 in ATP 682P and PL 71 as well as the results of the attempted farm-out of EP 23, EP 321, and EP 407 in Western Australia during 2005.

LIQUIDITY AND CAPITAL RESOURCES

Ausam does not currently generate sufficient cash flow from operations to fund its acquisitions and exploration and development activities. The Company is actively engaged in evaluating several potential acquisition targets. Ausam has therefore relied and will continue to rely upon the sale of equity and debt securities to provide additional financings. It follows that there can be no assurance that financings, whether debt or equity, will always be available to the Company in the amount required at any particular time or for any period and, if available, that it can be obtained on terms satisfactory to the Company.

The working capital position at March 31, 2006 was \$7,387,893 compared to working capital of \$8,528,370 at December 31, 2005. The cash position at March 31, 2006 was \$7,840,581 compared to \$8,634,332 at December 31, 2005. The decrease in both working capital and cash is principally the result of cash disbursed on operating expenses and drilling activities in Australia.

Before changes in non-cash working capital, during the three month period ending March 31, 2006 there was a cash outflow from operations of \$395,586 compared to a cash outflow from operations of \$596,303 during three month period ending March 31, 2005. After changes in non-cash working capital, during the three month period there was a cash outflow from operations of \$571,496 compared to a cash outflow from operations of \$1,424,828 during three month period ending March 31, 2005. The change in non-cash working capital for the three month period ending March 31, 2006 was a decrease (outflow) of \$175,910, principally reflecting an

increase in prepaid expenses and a reduction in accounts payable. The change in non-cash working capital for the three month period ending March 31, 2005 was a decrease (outflow) of \$828,525, principally reflecting an increase in advances and funds advanced to an Australian drilling contractor as a deposit against future drilling expenses.

During the three month period ending March 31, 2006 cash inflows from financing activities consisted of \$22,636 of repayments on the loan receivable. During the three month period ending March 31, 2005 cash inflows from financing activities consisted of \$110,000 proceeds from the exercise of warrants in exchange for common shares at \$1.00 per share.

Investing activities during the three month period ending March 31, 2006 of \$448,114 comprised drilling costs, of which \$203,223 had been previously advanced to the Company's joint venture partner in Australia.

RELATED PARTY TRANSACTIONS

The following summarizes related party transactions during 2006 and 2005:

- a) The loan receivable comprises \$397,087 of advances to a director and officer. A new promissory note in the amount of \$397,087, secured by shares of the Company, was signed on March 31, 2006 for the indebtedness outstanding at that time, which specifies interest at bank prime, the maximum amount outstanding at June 15, 2006 to be \$160,000 and full repayment by September 20, 2006. During the three months ended March 31, 2006, \$13,037 of interest was charged and paid on this loan, which is included in interest income. As at May 30, 2006, the balance on the loan was \$356,227.
- b) During the quarter ended March 31, 2005, included in general and administrative costs were \$62,660 of management and consulting fees paid to companies where two directors and officers of the Company are the shareholders.

All related party transactions in the normal course of operations have been measured at the agreed to exchange amounts, which is the amount of consideration established and agreed to by the related parties and which is similar to those negotiated with third parties.

CONTRACTUAL OBLIGATIONS

There has been no significant change to Ausam's contractual obligations which were disclosed in the MD&A as at December 31, 2005.

EQUITY AND CONVERTIBLE SECURITIES

As at May 27, 2006 there were 50,322,764 common shares issued and outstanding. The following table summarizes broker/agent warrants and options outstanding as at March 31, 2006:

	Number	Exercise Price	Expiry Date
Unit warrants	4,447,642	\$1.20	December 1, 2006
Broker/agent options	611,477	\$0.75	May 8, 2006
Broker/agent options	276,888	\$1.20	December 1, 2006
Other warrants	500,000	\$0.75	July 30, 2006
Total	5,836,007		

Each option or warrant entitles the option or warrant holder to acquire one Common Share of the Company at the exercise price. The May 8, 2006 broker warrants expired unexercised.

Ausam has paid no dividends.

PROPOSED TRANSACTIONS AND SUBSEQUENT EVENTS

PL 119, PPL 58, and ATP 471P Farmin (the “Mosaic farmin”)

In May 2006 Ausam entered into an agreement with Mosaic Oil NL (“Mosaic”) and Santos Limited (“Santos”) under which Ausam can earn up to 35% interest in PL 119 (Downlands and Downlands East gas fields), the Bainbilla Block of ATP 471P (Brynog oil prospect) and PPL 58 (Downlands pipeline licence), all located in southeast Queensland’s Surat / Bowen Basin. Ausam interest is earned by spending up to approximately \$5.5 million (contract amount is AU\$6.5 million) in seismic acquisition and through drilling of up to four wells in two stages. Mosaic will operate the farm-in wells and remain the operator of these permits, although Ausam will have input on well design, well locations and the order of the wells to be drilled..

This farmin agreement is a significant step towards fulfilling Ausam’s strategic objectives of broadening our portfolio base to include more oil targets, diversifying our joint venture partners and greater operational control. The agreement also furthers the implementation of Ausam’s core strategy of applying North American drilling techniques in areas known to have hydrocarbons which also have infrastructure either in place or nearby. The permits that Ausam is farming into are prospective for oil as well as natural gas, and the partnership with Mosaic gives Ausam the opportunity to sell its portion of gas production into pre-existing contracts through infrastructure with available capacity.

Under the farmin agreement, Stage 1 involves expenditure of up to approximately \$4.2 million (contract amount is AU\$5.0 million) to earn up to 26.9% interest in the farmin area. As part of Stage 1, Ausam will re-imburse Mosaic and Santos approximately CA\$0.4 million (AU\$0.5 million) for the cost of recently acquired 2D seismic data in the Bainbilla Block, which borders permit ATP 470P (Ausam 45%). Ausam will also fund up to approximately \$1.25 million (AU\$1.5 million) on each of three wells for drilling and testing, and if successful, completing and connecting for production. Stage 2 offers Ausam an option to fund an additional approximately \$1.25 million (AU\$1.5 million) for drilling, testing, and if successful, completing and connecting a well to earn a further 8.1% interest in the farmin area. In any case, Ausam will earn an interest in the permits based upon expenditure and up to a total 35% interest in the permits for a total expenditure of AU\$6.5 million.

PL 119 is situated just north of the Surat Township, Queensland and contains the Downlands-2 and Downlands East-1 gas producing wells and the Downlands-3 oil discovery. The Bainbilla Block of ATP 471P surrounds PL 119 on three sides and contains the Spring Grove-2 oil discovery and the Brynog oil prospect. PPL 58 includes the spur line connecting the Downlands gas fields to the market via the main north-south pipeline to the Wallumbilla gas plant.

Bellbird West-1 well (Farmin ATP 552P)

Ausam has entered into a farmin agreement with Rawson Resources Limited (“Rawson”) in ATP 552P in the Surat/Bowen Basin, Queensland. ATP 552P is a 42,600 acre (67 sections) permit along trend with the Fairymont and Alton oil fields. Ausam and Rawson will each fund 50% of the Bellbird West-1 well and will each earn a 25% interest in the permit. Ausam and Rawson have the option to farmout a portion of their interests in ATP 552P. Great Artesian Oil and Gas Limited, the beneficial owner of the permit, will retain the remaining 50% interest.

Ausam will be the operator of the Bellbird West-1 well, which will be drilled conventionally to test the shallower secondary objectives (the Showgrounds, Evergreen and Boxvale sands) and will then be drilled underbalanced to test the primary objective in the Permian. The Bellbird West-1 well is expected to be drilled in August 2006 to the proposed TD of 2,500-metres. Drilling is expected to take approximately 30 days.

The Bellbird-1 discovery well was conventionally drilled in this permit in 1984, recovering oil and gas from the Permian, but the field was never developed. Production testing indicated an estimated initial production rate of 15-35 bopd, which could be increased by installation of a pump. The nearest significant oil fields to the prospect are the Alton field (discovered in 1964) and the Fairymont field (discovered in 1985), which were both drilled conventionally and are located to the southwest of the Bellbird West prospect. The Alton field is estimated to have produced 1.2 million barrels of oil and the Fairymont field is estimated to have produced 1.0 million barrels

of oil to date, and both fields produced from the formations that are secondary objectives in the proposed Bellbird West-1 well.

In line with the Company's strategy of taking more operational control in Australia, Ausam will be operator of this well which is targeting oil in an area that is on trend with two other oil fields and is in an upthrown block adjacent to the Bellbird-1 discovery well. Ausam sees this well as a further opportunity to apply underbalanced drilling techniques in the Surat/Bowen Basin, which is expected to significantly reduce formation damage and thereby encourage increased flow rates. The Bellbird West-1 well furthers the Company's strategy of seeking lower risk targets that will yield either oil or liquids-rich gas.

Australian Drilling Services – Rig 6

The Bellbird West-1 well and the subsequent wells in the Mosaic farmin area will target oil and gas. The drilling is expected to begin in the second half of 2006, subject to rig availability. During the first quarter of 2006, Ausam was able to secure a commitment from Australian Drilling Services ("ADS") to relocate the ADS Rig 6 from Western Australia to the eastern states by coordinating the proposed drilling programs of a group of peer companies, including Mosaic, that are operating in Queensland, New South Wales and South Australia. Ausam signed a letter of intent for the use of Rig 6 with ADS in March 2006 and expects to finalize the drilling contract during June 2006.

Proposed Drilling Program

Ausam proposes to drill the Bellbird West-1 well (ATP 552P, farmin with Rawson Resources Ltd) during July 2006 and then begin drilling the first three wells under the Mosaic farmin agreement immediately after the Bellbird West-1 well. The first three wells in the Mosaic farmin are expected to be the Downlands-4, Brynog-1, and Downlands East-3. Each of the proposed four wells in this program is expected to require approximately 30 days to rig-up, drill, test, and complete. Each of the wells is to be drilled underbalanced through at least one objective, however only the Bellbird West-1 well is proposed to use a coil tubing unit at this time. Each of the proposed four wells will test a separate geologic structure. Ausam will evaluate the results of this four well program before drilling the proposed fourth well of the Mosaic farmin area.

Ungabilla-1 well (ATP 754P)

In late April 2006, Ausam commenced the re-entry, perforation and testing of the Ungabilla-1 well (Ausam 50%, Origin 50% and operator). The Ungabilla-1 well was drilled conventionally in 2005 and encountered strong gas shows in the primary objectives, the Permian Upper and Lower Tinowon sands. Prior to reaching the primary objectives, gas shows were encountered in the secondary objective, the Triassic Basal Rewan sands. Testing will continue during May, June and possibly July 2006.

Namarah-7 (PL 71)

Drilling operations on the Namarah-7 in PL 71 have been suspended pending geological and technical evaluation. Ausam has submitted a new ownership proposal to the PL 71 joint venture and is currently in discussions with the operator and other joint venture partners in the permit to determine the future operating plan and ownership for the permit. At this time there are no firm drilling plans for the permit.

Summary

The Mosaic farmin and the ATP 552P Rawson farmin, together with the farmout of a portion of PEP 166 is the first step in Ausam's program to reduce overall risk by increasing the Company's acreage position through judiciously selected farmin opportunities while farming out portions of acreage in which the Company has a large percentage interest. Additionally, the acquisition of 240-km of new 2D seismic in ATP 754P was completed in January 2006. Portions of the new 2D data are still being processed while the data processed first is being evaluated. Evaluation and interpretation of this new data set is expected to be completed during June 2006. Ausam expects to farmout certain prospects defined by the new 2D data. Drilling opportunities are also being evaluated at ATP 754P, ATP 682P and through farmin in permits outside the Surat/Bowen Basin.

Announcements will be made at the appropriate time. Ausam continues to evaluate other drilling opportunities in the Surat/Bowen Basin, its core area, as well as other basins in Australia.

The proposed capital commitments and timing of the drilling and exploration program for 2006 and into 2007 can be summarized as follows:

<u>Prospect/well/ expenditure</u>	<u>Permit</u>	<u>Ausam interest</u>	<u>Ausam capital commitment</u>	<u>Drilling/spend date</u>
Seismic program	ATP754P Qld	50%	\$402,000 (50%)	Jan-March 2006
Kyeen Creek - 1	ATP 470P Qld	45%	\$1,530,000 (100% of first \$1,300,000 to earn 45% of the permit; pro rata thereafter)	January/February 2006
Loy Yang -2	PEP 166 Victoria	25%	nil	February 2006
Ungabilla -1 (completion)	ATP 470P Qld	50%	\$153,000 (50%)	April-June 2006
Bellbird West - 1	ATP 552P Qld	25%	\$1,135,000 (50%)	June/July 2006
Mosaic farmin:				
Stage 1 - seismic	ATP471P Qld	26.9%	\$400,000 (100%)	June 2006
Stage 1 - 3 wells	PL119 Qld	26.9%	\$3,750,000 (100%)	August-December 2006
Total 2006			\$7,370,000	
Stage 2 – 1 well	PL119 Qld	35%	\$1,250,000 (100%)	Early 2007

As at March 31, 2006 the Company had \$7.8 million in cash, which is sufficient to finance the majority of the drilling and exploration program and operating expenses as outlined above. Actual drilling results as well as the evaluation of and participation in other drilling opportunities may change the scope and timing of the Company's plans. The Company intends to closely manage the timing and participation interest of its drilling program in order to optimize the use of existing funds. Additional funds would be required if the Company pursued the entire program at the Company's current participation interest as outlined above. The Company expects to raise additional funds as needed by way of equity, debt or a combination thereof.

RISKS

The Company is a development stage crude oil and natural gas exploration, development and production company that has incurred net losses since its inception. The Company's success depends on its being able to continue its ongoing and future operations. The Company's business is subject to a number of risks which are beyond the Company's control. These risks can be categorized as operational, financial and regulatory risks. In addition, certain directors and officers of the Company are involved with other firms, some of which may have interests that conflict with the interests of the Company.

Operational risks include successfully finding and developing oil and natural gas reserves economically, marketing the production from these reserves, product deliverability uncertainties (including as to having satisfactory transportation arrangements), hiring and retaining skilled employees and contractors necessary to continue the Company's ongoing and future operations and conducting these operations in a cost effective and safe manner. Failure to manage these operational risks may prevent the Company from pursuing its ongoing and future operations.

Financial risks include the Company being able to access equity and debt capital markets in order to satisfactorily fund its ongoing and future operations. Failure to satisfactorily finance its operations may cause the Company to reduce or cease its oil and natural gas exploration and development activities or to reduce its interests in its properties. Financial risks also arise from fluctuations in commodity prices, interest rates and

foreign exchange rates. The Company does not currently have a program in place that would hedge or otherwise mitigate the effect of these fluctuations.

Oil and natural gas exploration, development and production are subject to extensive environmental and other regulation. Changes in government regulation may be costly to the Company and may cause some or all of its ongoing or future operations to be impracticable.

The Company monitors and responds to changes in these risk factors and adheres to regulations governing its operations. Insurance is maintained at levels consistent with prudent industry practice in order to minimize risks to the Company, but the Company is not fully insured against all risks and not all risks are insurable. The Company does not maintain "key man" insurance.

CAUTION REGARDING ESTIMATES

The reader is further cautioned that the preparation of financial statements in accordance with GAAP requires management to make certain judgments that affect the reported amounts of assets, liabilities, revenues and expenses. Estimating reserves is also critical to several accounting estimates and requires judgments and decisions based upon available geological, geophysical, engineering and economic data. These estimates may change, having either a negative or positive effect on net earnings as further information becomes available, and as the economic environment changes.

CAUTION REGARDING FORWARD-LOOKING STATEMENTS

The Company's public communications include forward-looking statements, including those set out herein under "Proposed Transactions, Capital Resources and Subsequent Events". Forward-looking statements may involve, but are not limited to, comments with respect to the Company's objectives for 2006 and beyond, the Company's drilling plans, the Company's expectations for its financial condition and the results of, or outlook for, the Company's operations. All statements other than statements of historical fact contained herein are forward-looking statements, including, without limitation, statements regarding the future capital projects and commitments, the cost thereof, financial position, business strategy and objectives of or involving the Company.

By their nature, forward-looking statements require us to make assumptions and are subject to inherent risks and uncertainties including those discussed herein. There is significant risk that predictions and other forward-looking statements will not prove to be accurate. We caution readers to not place undue reliance on our forward-looking statements as a number of factors could cause actual future results, plans, conditions, actions or events to differ materially from the plans, targets, expectations, estimates or intentions expressed in the forward-looking statements. The Company does not undertake to update any forward-looking statements.

The information contained herein, including the information set forth under "Risks" herein, identifies factors that could affect the operating results and performance of the Company. We caution that the list of risk factors identified is not exhaustive and that when relying on forward-looking statements to make decisions with respect to the Company, investors and others should carefully consider these factors, as well as other uncertainties and potential events, and the inherent uncertainty of forward-looking statements. The forward-looking statements contained herein are made as of the date hereof and are expressly qualified in their entirety by this cautionary statement.

Assumptions are made in setting the Company's business plan. Key assumptions include that the oil and natural gas market remains stable, that the Company and its joint venture partners can secure access to drilling rigs and other service providers as required and that the Company will have adequate financing to carry out its business plans.

Additional information relating to the Company is available on SEDAR at www.sedar.com and on the Company's website at www.ausamenergy.com.