

AUSTRALIAN OIL COMPANY LIMITED

ANNUAL REPORT

2010

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Corporate Directory

Company

Australian Oil Company Limited
ACN 114 061 433

Directors

Andrew Childs	Chairman
Grant Jagelman	Managing Director
Peter Cockcroft	Non-Executive Director
Ian Tchacos	Non-Executive Director

Company Secretary

Mark Ohlsson

Registered Office and Head Office

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139 Macquarie Street
Sydney NSW 2000
Telephone: 61 2 8231 7000
Facsimile: 61 2 9251 5778
Email: jjagelman@email.com
Website: www.australianoilcompany.com

Auditor

Ernst and Young
680 George Street
Sydney NSW 2000

Share Registry

Registries Limited
Level 7
207 Kent Street
Sydney NSW 2000
Telephone: 61 2 9290 9600
Facsimile: 61 2 9279 0664

Australian Stock Exchange Ltd

	ASX Code
Shares	AOC
Options	AOCOA

CHAIRMAN'S LETTER

Dear Shareholder

Your Company's main asset is the Huasna Valley Mankins Ranch project located onshore California. The operator for this project is Excelaron LLC which is 35% owned by AOC and 65% owned by our new joint venture partner Calgary based United Hunter Oil and Gas Corp.

United Hunter has during the last financial year provided funding for the project and all additional costs relating to the permitting, leasing, administration and other ancillary expenses have been met by previous joint venture partners. In addition we have received approximately \$400,000 in management fees over the last 3 years with approximately US\$2,500,000 having been spent on this project to date.

Every effort has been made to expedite the permitting approval process for this project however the administrative requirements in the San Luis Obispo County are highly prescriptive and very time consuming. The permitting hearing should take place in the first half of 2011.

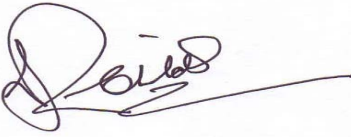
I would like to take the opportunity to thank our highly committed Californian based employees and consultants who have worked tirelessly during the year assisting us with this complex approval process.

After a mid year strategic review it has been decided by the Board to focus on onshore United States opportunities. Accordingly we continue to rationalise our Australian portfolio.

I am delighted to welcome Mr Ian Tchacos to the Board. Ian's considerable technical and commercial expertise will be an invaluable asset to the Company.

On behalf of the Board of AOC I would like to thank shareholders for their continued support as we build on our Californian asset base.

Yours faithfully

A handwritten signature in dark ink, appearing to read 'Andrew Childs', with a long horizontal flourish extending to the right.

Andrew Childs
Chairman

Operations Review

HUASNA VALLEY MANKINS RANCH PROJECT

CALIFORNIA UNITED STATES

Excelaron LLC has made a Permit Application pursuant to which an Environmental Impact Report (EIR) has been commissioned by the County of San Luis Obispo relating to the right to evaluate, test, and produce oil on approximately 260 acres on the western edge of the Huasna Valley which is an existing oilfield designated by the California Department of Oil, Gas and Geothermal Resources (DOGGR). See following page for the general location of the project. The project site is located in the foothills on the western edge of the valley. Excelaron LLC has leased approximately 1200 additional adjoining acres

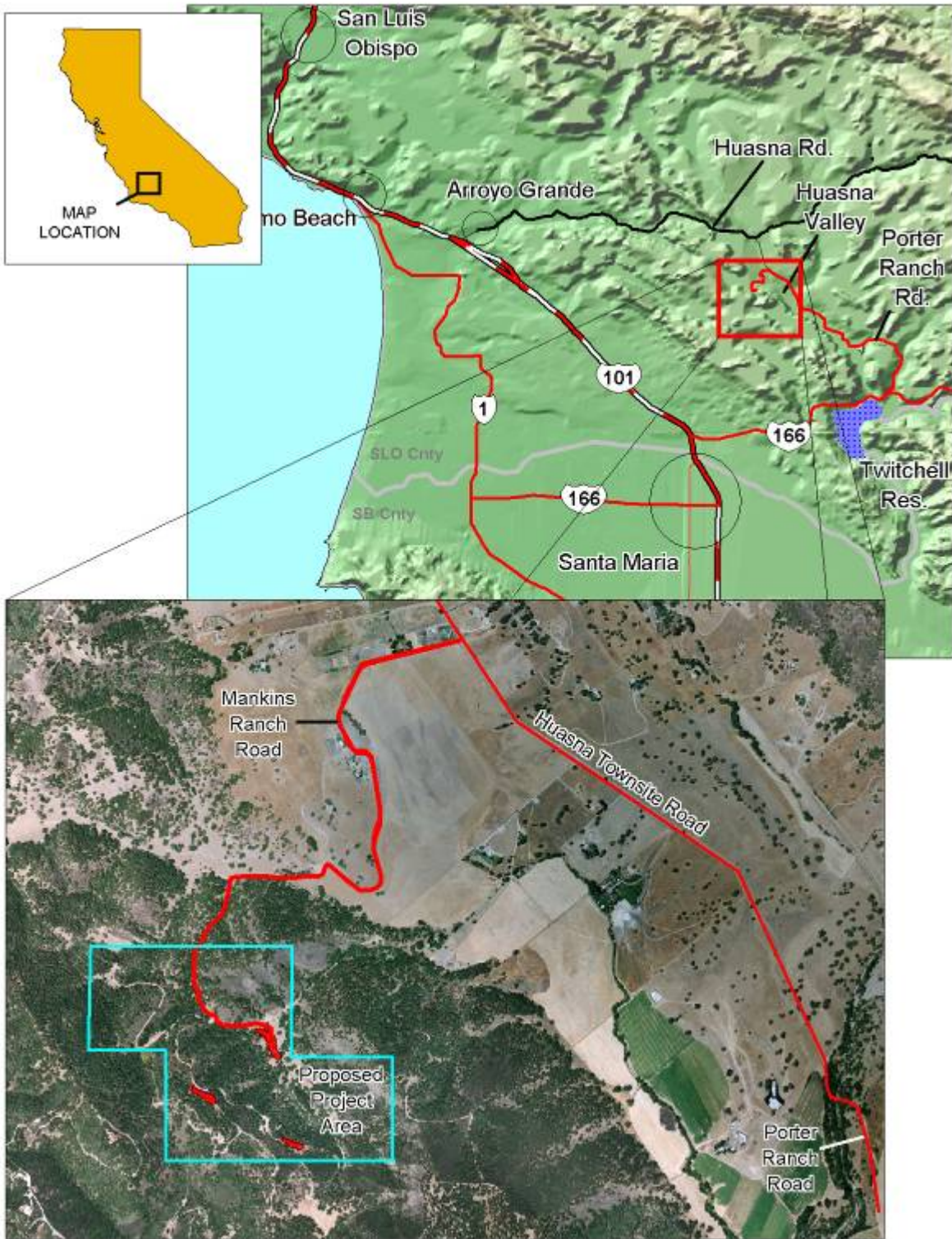
The primary purpose of this project is to quantify the existing reserves. However, to assure that the (EIR) addresses the impacts of the entire project, the project description covers the full field development.

There are a series of potential steps being planned including:

Evaluation and testing which includes the drilling of up to four oil wells, one produced water disposal well and the installation and operation of test equipment. This would also include improvements to the existing access roads and three pads. The drilling of four wells is expected to take two months to complete and well testing would last about six months.

Production phase with the establishment of up to four production wells, one produced water disposal well, and constructing related permanent oil, gas and produced water recovery and production facilities on site which would be designed to handle the full development.

Future field development which would involve the full development of the oil resources from the Huasna Oil Field, and could involve the drilling of an additional eight production wells.



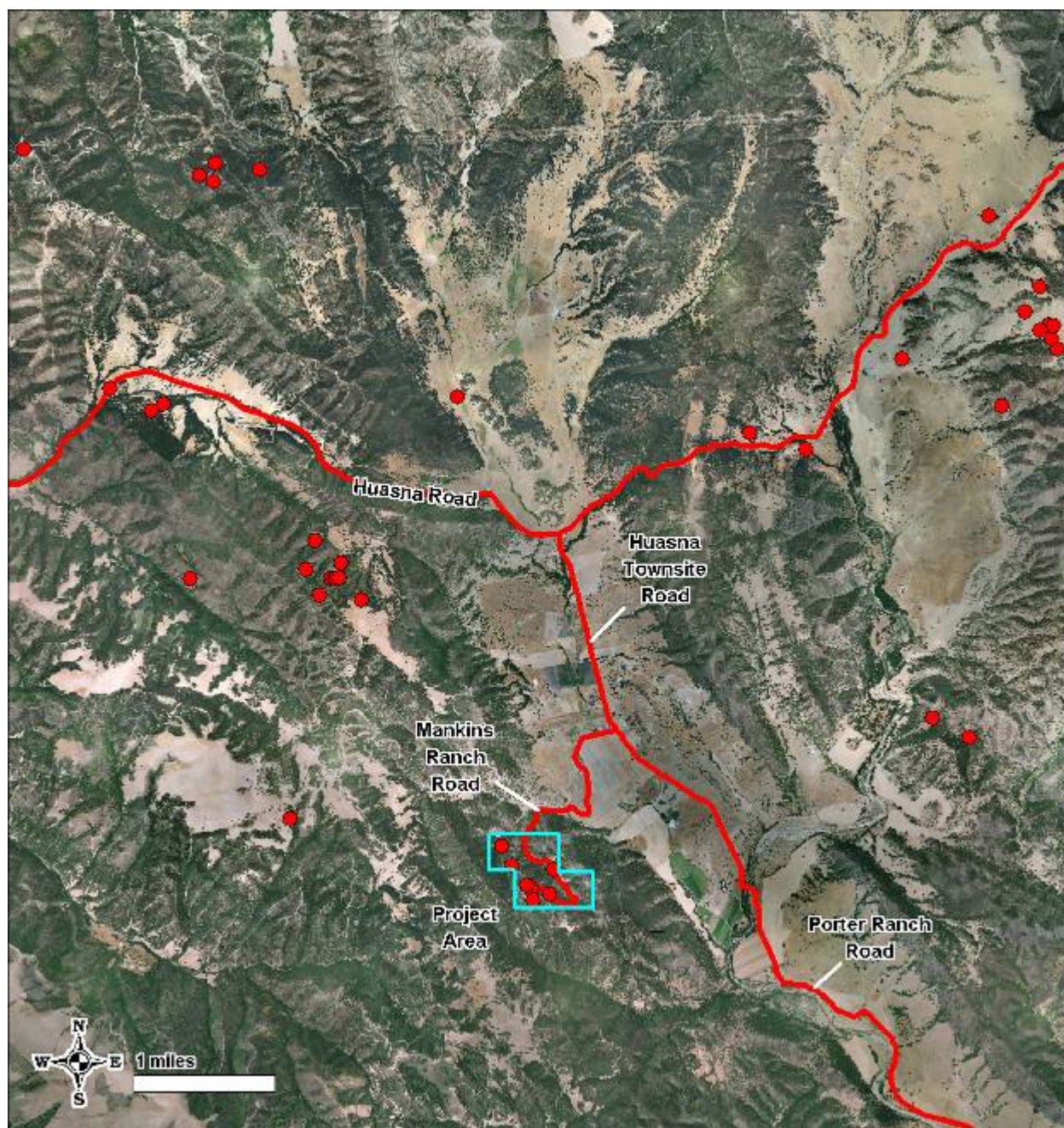
Background

The Huasna Valley has been the site of oil exploration activities dating back to the late 1800's. As oil exploration moved beyond the newly discovered Santa Maria Valley field, small crews hand drilled wildcat wells throughout the valley. The location of these wildcat wells was dependent upon an interpretation of the surrounding topography and surface geology.

Most explorers were searching for shallow, free-flowing oil that could be easily recovered without the use of enhanced recovery methods (EORM).

Over the course of the twentieth century, the Huasna Valley experienced oil exploration activities in the 1930's, 50's, 60's, 70's, and 80's. The exploration took place in the eastern and western hills bordering the Huasna Valley. Figure 2 shows the location of previous wells that have been drilled in the vicinity of Huasna Valley. The location of these wells was based upon information in the California Department of Oil, Gas and Geothermal Resources ("DOGGR") database. The figure shows that at least seven (7) wells have previously been drilled in the area of the project site.

The project site is located on private property. Excelaron has obtained an exclusive access easement over the Mankins Ranch that starts at Huasna Townsite Road and ends at the project site. A second access easement has been obtained across the Porter Ranch that would allow the majority of the project related traffic to access the valley via Hwy 166, Alamo Creek Road to Huasna Townsite Road. Figure 2-1 shows the access roads for the site.



Potential Reservoirs

The primary objective of the project would be investigation of the upper and lower geologic members of the Monterey Formation, which is a known source of heavy 8-12° crude. This project has been designed to test the Monterey Formation for its commercial production capabilities. The top of the Monterey formation is at a depth of approximately 500 feet below ground surface (bgs). Combined, the upper and lower Monterey Formation may have up to 2,500 vertical feet of fractured shale that contains commercially viable oil. This means that the Monterey formation could range from a depth of 500 feet to 3,500 feet bgs.

A secondary objective of the project would be investigation of the Vaqueros Formation. California Division of Oil Gas and Geothermal Resources (DOGGR) records indicate some light oil was found at 4,500 feet bgs in a previous well test at the site. The Vaqueros sands may have up to 150 feet of depth that contains commercially viable oil.

Potential Oil and Gas Production

Although wells have been drilled in the past on this site, very little is known about the true potential for recovering economically viable quantities of oil. Over the past ten years the technology for logging and evaluating reservoir potential has changed substantially. Sophisticated computer models are now available that allow one to better understand and develop potential oil reservoirs.

Enhanced Oil Recovery Methods (EORM)

As the oil in the Monterey formation is expected to be heavy crude, enhanced oil recovery methods would be required. Hot water flooding would be utilized to increase the production of crude oil from the wells drilled into the Monterey formation. Hot water flood requires heated water, to approximately 150° F, to be reinjected down the wells. The efficiency and effectiveness of a hot water flood in the Huasna Oil Field is unknown at this time.

The heat from the hot water flood can have an effective radius up to 150 feet from the well bore. It is estimated that using a hot water flood as an EORM is effective up to a depth of approximately 2,000 feet, due to heat loss. Any oil deposits existing beyond the depth of 2,000 feet would need to be produced with primary recovery methods .

EP 435 Carnarvon Basin Western Australia – 17% Equity Interest

We are awaiting the drilling of the Bee-Eater well on the adjacent permit and following this well the participants will consider whether to drill a well on the structure which may extend into EP 435.

PEL 182 Cooper Basin South Australia – 5% Equity Interest

We retain in addition to our 5% interest in the permit, a 12.5% interest in the Emily 1 exclusion area adjacent to the Emily 1 well which was completed as a production well.

Victoria Petroleum NL has acquired the Audax Energy interest in the permit and has been appointed operator.

Negotiations are taking place for the sale of our interest but no agreement has been reached

Timor Oil Limited 50% equity interest

A joint study, evaluation and application agreement has been finalized with a potential joint venture party to carry out an initial work program incorporating gravity and magnetic studies and a technical review of certain onshore areas in East Timor which Timor Oil Limited previously had leased prior to 1976.

There is currently no legislation in place in respect of the onshore oil exploration or production in East Timor so it is not possible to predict if or when any negotiation can take place with the government of Timor Leste for a contract.

Australian Oil Company Limited

ABN 83 114 061 433

Directors Report

The directors present their report on Australian Oil Company Limited and its controlled entities ("the Group") for the year ended 30 June 2010 and the state of affairs of the Group at that date.

Directors

The names of the directors in office during the financial year and at the date of this report are as follows:

Andrew Childs *Chairman*

Andrew Childs is the Managing Director of Petroleum Ventures Pty Ltd and also sits on the Boards of Orion Energy Pty Limited, Stratic Energy Corporation, ADX Energy Ltd and Jupiter Energy Limited. Andrew graduated from the University of Otago, New Zealand in 1980 with a Bachelor of Science in Geology and Zoology. Having started his career as an exploration geologist he subsequently gained experience in petroleum geology and geophysics. He is a former Non-Executive Director of Cougar Metals NL. (appointed a director 25 November 2008 – appointed Chairman 7 January 2009)

Grant Jagelman *Managing Director*

Joseph Grant Jagelman is a non-practising lawyer who has previously been chief executive officer, chairman or a director of a number of public and private oil and gas exploration and producing companies over a period of 30 years. He is a director of Timor Oil Limited, which is not ASX-listed. (appointed 2 May 2005)

Peter Cockcroft *Non-Executive Director*

Peter John William Cockcroft, is a graduate of the University of Sydney with qualifications in geology and geophysics. He holds postgraduate qualifications in business administration from the Edinburgh Business School. He has had commercial and management roles with BHP, Shell, Premier Oil and Fletcher Challenge. He is Chairman of Blue Energy Limited, President-Commissioner P.T. Cipendawa (an Indonesian listed company) and Managing Director of European Gas Limited. (appointed 2 May 2005)

Ian Tchacos *Director (appointed 12 April 2010)*

Ian Tchacos is an energy professional with over 25 years international experience in corporate development and strategy, mergers and acquisitions, petroleum exploration, development and production operations, commercial negotiation, oil and gas marketing and energy finance. He has a proven management track record in a range of international oil company environments. Formerly Managing Director of Nexus Energy he is currently Chairman of ADX Energy Ltd.

Australian Oil Company Limited ABN 83 114 061 433

Directors Report (Continued)

Company Secretary

The following person held the position of Company Secretary during and at the end of the financial year:

Mark Ohlsson FCPA has performed the role of Company Secretary since incorporation on 2 May 2005. He has over 30 years experience as a business consultant and as a director and secretary of a number of private companies and is also a Registered Tax Agent.

Directors Meetings

The number of director's meetings attended by each of the directors of Australian Oil Company Limited ("the Company") during the financial year are:

	Number of Meetings	Number of Meetings attended
Andrew Childs	3	3
Grant Jagelman	3	3
Peter Cockcroft	3	3
Ian Tchacos	-	-

The audit, finance, nomination, risk management and environmental functions are handled by the full board of the Company. As set out in the Governance Statement the Company is not of a size, nor are its financial affairs of such complexity to justify separate committees of the board of directors.

Directors Shareholdings

Particulars of director's interests in the shares of the Company as at the date of this report are as follows:

	Number of shares held directly	Number of shares held indirectly	Number of options held directly	Number of options held indirectly
Andrew Childs	2,440,000	20,000	1,272,500	10,000
Ian Tchacos	-	357,385	-	-
Grant Jagelman	1	6,650,000	-	6,650,000
Peter Cockcroft	662,501	-	506,250	-

Employee Options

At the time of this report there are no employee options.

Remuneration Report (Audited)

The remuneration report is set out under the following main headings:

- A Principles used to determine the nature and amount of remuneration
- B Details of remuneration
- C Service agreements
- D Shareholding and options

Australian Oil Company Limited ABN 83 114 061 433

Directors Report (Continued)

The directors of the Company prepared the Remuneration Report in accordance with Section 300A of the Corporation Act 2001 for the Company and the consolidated entity for the year ended 30 June 2010. The information provided in this Remuneration Report has been audited as required by section 308(3C) of the Corporations Act 2001.

A Principles used to determine the nature and amount of remuneration

The remuneration policy of Australian Oil Company Limited has been designed to align director and executive objectives with shareholder and business objectives. The Board believes the remuneration policy to be appropriate and effective in its ability to attract and retain the best executives and directors to run and manage the consolidated entity. The Board reviews executive packages annually by reference to executive performance and comparable information from industry sectors. All remuneration paid to directors and executives is valued at the cost to the company and expensed.

B Details of remuneration

Amounts of remuneration

Details of the remuneration of the directors and the key management personnel (as defined by AASB 124 *Related Party Disclosures*) of the Company are set out in the following tables:

The key management personnel of the Company include the directors of the company being:

Andrew Childs

Ian Tchacos

Grant Jagelman

Peter Cockcroft

Details of remuneration provided to directors during the financial period are as follows:

2010	Short term benefits			Post-employment benefits		Long term benefits	Share based payments	Total
	Cash salary and fees \$	Cash bonus \$	Non-monetary benefits \$	Super-annuation \$	Retirement benefits \$	Long service leave \$	Options \$	
Andrew Childs	60,000	-	-	-	-	-	-	60,000
Grant Jagelman	215,080	-	-	49,920	-	-	-	265,000
Ian Tchacos	-	-	-	-	-	-	-	-
Peter Cockcroft	30,000	-	-	-	-	-	-	30,000
Total	305,080	-	-	49,920	-	-	-	355,000

2009	Short term benefits			Post-employment benefits		Long term benefits	Share based payments	Total
	Cash salary and fees \$	Cash bonus \$	Non-monetary benefits \$	Super-annuation \$	Retirement benefits \$	Long service leave \$	Options \$	
Andrew Childs	30,000	-	-	-	-	-	-	30,000
Ian Ferrier	-	-	-	25,000	-	-	-	25,000
Grant Jagelman	115,320	-	-	99,600	-	-	-	214,920
John Blumer	-	-	-	15,000	-	-	-	15,000
Peter Cockcroft	30,000	-	-	-	-	-	-	30,000
Total	175,320	-	-	139,600	-	-	-	314,920

None of the remuneration is performance based. - 10 -

Australian Oil Company Limited ABN 83 114 061 433

Directors Report (Continued)

C Service agreements

There are no service agreements.

D Shareholding and options

Options

Details of options held by key management personnel are as follows:

	Balance 1.7.2009	Expired 31.12.2009	Options Granted	Balance 30.6.2010
Andrew Childs	2,545,000	2,545,000	1,272,500	1,272,500
Ian Tchacos	-	-	-	-
Peter Cockcroft	1,012,500	1,012,500	506,250	506,250
Total	3,557,500	3,557,500	1,778,750	1,778,750

Options were originally granted to shareholders on purchase of ordinary shares at the time of the initial public offering in 2005. All options were granted for nil consideration. The original options expired on 31 December 2009. Following the passing of a resolution at the Annual General Meeting of shareholders on 14 December 2009, 26,015,625 new options were issued on the basis of one new option for every 2 old options. The exercise price of each new option is \$0.20 per share. The new options expire on 31 December 2011.

Shareholdings

Number of shares held by Key Management Personnel

Key Management Person	Balance 1.7.2009	Received as Compensation	Purchased	Balance 30.6.2010
Grant Jagelman	6,650,001	-	-	6,650,001
Peter Cockcroft	662,501	-	-	662,501
Andrew Childs	2,130,000	-	310,000	2,440,000
Ian Tchacos	357,385	-	-	357,385

Dividends

No dividends were paid or declared by the Group during the financial year. The directors do not recommend the payment of a dividend.

Directors Report (Continued)

Principal Activities

The principal activity of the Group is the exploration for oil and gas in Australia and overseas.

Operating Results

The consolidated loss of the Group after providing for income tax for the financial year amounted to \$527,470 (2009 loss \$1,746,667).

Review of Operations

During the year the Group continued its evaluation of prospects in Australia. In the USA the permitting phase of Excelaron operations progressed and 65% of the Excelaron project was farmed out. A full review of operations during the year and the results of those operations appear in the foregoing "Operations Review" section of the Annual Report.

Indemnity of Directors

The Company has entered into a deed of indemnity with each of the Directors. Under the terms of the Deed the Company must indemnify the Director against any liability incurred by the Director as a director of the Company; and pay reasonable and necessary defence costs incurred by the Director with the written consent (such consent not to be unreasonably withheld) of the Company, in defending proceedings alleging such liability.

However, under the Deed the Company is not liable to either indemnify the Director or make defence costs payment if to do so would be prohibited by the Corporations Act, other statutory provisions, or judge-made law; or if the Director fails to comply with the Director's obligations under the Deed.

After Balance Date Events

No matters or circumstances have arisen since the end of the financial period which significantly affected or may significantly affect the operations of the economic entity, the results of those operations, or the state of affairs of the economic entity in subsequent financial years.

Environmental Issues

The economic entity's operations are regulated by the relevant Commonwealth and State legislation. The nature of the Company's business does not give rise to any significant environmental issues.

Significant Changes in State of Affairs

There were no significant changes in the state of affairs of the economic entity during the financial period.

Australian Oil Company Limited ABN 83 114 061 433

Directors Report (Continued)

Future Developments

The likely developments in the operations of the Company and the expected results of those operations in financial years subsequent to the year ended 30 June 2010 are included in greater detail in the "Chairman's Letter" and "Operations Review" section of the Annual Report.

Non-Audit Services

There were no non-audit services provided to the Company by the Company's independent external auditor.

Auditor's Declaration

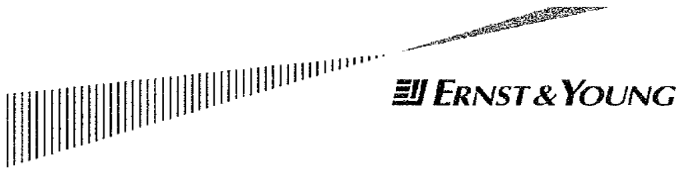
The auditor's independence declaration under section 307C of the *Corporations Act 2001* is set out on page 7 for the year ended 30 June 2010.

Signed in accordance with a resolution of the Board of Directors

A handwritten signature in black ink, appearing to read 'Jagelman', with a large, stylized initial 'J'.

Managing Director
Grant Jagelman

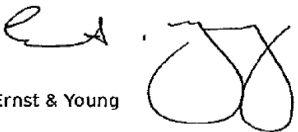
Dated this 22nd day of September 2010

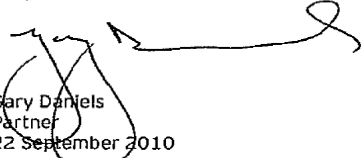


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Auditor's Independence Declaration to the Directors of Australian Oil Company Limited

In relation to our audit of the financial report of Australian Oil Company Limited for the financial year ended 30 June 2010, to the best of my knowledge and belief, there have been no contraventions of the auditor independence requirements of the *Corporations Act 2001* or any applicable code of professional conduct.


Ernst & Young


Gary Daniels
Partner
22 September 2010

Liability limited by a scheme approved
under Professional Standards Legislation

AUSTRALIAN OIL COMPANY LIMITED
ABN 83 114 061 433
AND CONTROLLED ENTITIES

Statement of Comprehensive Income
for the year ended 30 June 2010

	Note	Consolidated Entity	
		Year ended 30 June	Year ended 30 June
		2010	2009
		\$	\$
Other revenue	3	144,648	268,460
Profit on sale of shares	3	78,829	54,596
Gain on equity in associate		470,654	9,050
Share of net (loss)/profit of associate		(352,877)	994
Depreciation and amortisation expense		(469)	(1,235)
Administration expenses		(614,197)	(520,413)
Impairment of financial assets /equity investment		(233,738)	(67,535)
Exploration expenditure written off	4	-	(1,343,963)
Inventory written off		-	(122,195)
Foreign exchange loss		(20,320)	(24,426)
Loss before income tax		(527,470)	(1,746,667)
Income tax expense	5	-	-
Loss for the year		(527,470)	(1,746,667)
Other comprehensive income			
Investment revaluation reserve		9,076	1,000
Foreign currency translation reserve		(44,302)	28,643
Income tax on items of comprehensive income		-	-
Other comprehensive income, net of tax		(35,226)	29,643
Total comprehensive income for the period		(562,696)	(1,717,024)
Loss for the period is attributable to:			
Owners of the parent		(523,664)	(1,742,961)
Non-controlling interest		(3,806)	(3,706)
		(527,470)	(1,746,667)
Total comprehensive income for the period is attributable to:			
Owners of the parent		(558,890)	(1,713,318)
Non-controlling interest		(3,806)	(3,706)
		(562,696)	(1,717,024)
Basic loss per share (cents per share)	9	(1.1) cents	(4.1) cents
Diluted loss per share (cents per share)	9	(1.1) cents	(4.1) cents

The accompanying notes form part of these financial statements

AUSTRALIAN OIL COMPANY LIMITED
ABN 83 114 061 433
AND CONTROLLED ENTITIES

Statement of Financial Position

As at 30 June 2010

	Note	Consolidated Entity	
		30 June	30 June
		2010	2009
		\$	\$
ASSETS			
CURRENT ASSETS			
Cash and cash equivalents	10	1,259,740	1,123,074
Other receivables	11	79,490	340,258
Financial assets	12	10,277	7,465
TOTAL CURRENT ASSETS		1,349,507	1,470,797
NON-CURRENT ASSETS			
Exploration expenditure	16	-	-
Investment accounted for using the equity method	13	-	155,589
Plant and equipment	15	2,535	822
TOTAL NON-CURRENT ASSETS		2,535	156,411
TOTAL ASSETS		1,352,042	1,627,208
CURRENT LIABILITIES			
Trade and other payables	17	87,754	77,224
TOTAL CURRENT LIABILITIES		87,754	77,224
TOTAL LIABILITIES		87,754	77,224
NET ASSETS		1,264,288	1,549,984
EQUITY			
Issued capital	18	6,492,159	6,215,159
Accumulated losses		(5,207,486)	(4,683,822)
Reserves	19	(5,827)	29,399
Minority equity interest	20	(14,558)	(10,752)
TOTAL EQUITY		1,264,288	1,549,984

The accompanying notes form part of these financial statements.

AUSTRALIAN OIL COMPANY LIMITED
ABN 83 114 061 433
AND CONTROLLED ENTITIES

Statement of Changes in Equity

For the year ended 30 June 2010

	Note	Share Capital	Retained losses	Investment Revaluation Reserve	Foreign Currency Translation Reserve	Non controlling Interest	Total
Consolidated Entity		\$	\$	\$	\$	\$	\$
Balance at 1 July 2009		6,215,159	(4,683,822)	756	28,643	(10,752)	1,549,984
Loss for the period		-	(523,664)	-	-	(3,806)	(527,470)
Other comprehensive income		-	-	9,076	(44,302)	-	(35,226)
Total comprehensive income for the period		-	(523,664)	9,076	(44,302)	(14,558)	(562,696)
Transactions with owners in their capacity as owners:							
Share issue		277,000	-	-	-	-	277,000
Share issue costs		-	-	-	-	-	-
Balance at 30 June 2010	18	6,492,159	(5,207,486)	9,832	(15,659)	(14,558)	1,264,288

For the year ended 30 June 2009

	Note	Share Capital	Retained losses	Investment Revaluation Reserve	Foreign Currency Translation Reserve	Non controlling Interest	Total
Consolidated Entity		\$	\$	\$	\$	\$	\$
Balance at 1 July 2008		5,714,659	(2,940,861)	(244)	-	(7,046)	2,766,508
Loss for the period		-	(1,742,961)	-	-	(3,706)	(1,746,667)
Other comprehensive income		-	-	1,000	28,643	-	29,643
Total comprehensive income/(loss) for the period		-	(1,742,961)	1,000	28,643	(3,706)	(1,717,024)
Transactions with owners in their capacity as owners:							
Share issue		501,500	-	-	-	-	501,500
Share issue costs		(1,000)	-	-	-	-	(1,000)
Balance at 30 June 2009	18	6,215,159	(4,683,822)	756	28,643	(10,752)	1,549,984

The accompanying notes form part of these financial statements.

AUSTRALIAN OIL COMPANY LIMITED
ABN 83 114 061 433
AND CONTROLLED ENTITIES

Statement of Cash Flows

For the year ended 30 June 2010

	Note	Consolidated Entity	
		Year ended 30 June	Year ended 30 June
		2010	2009
		\$	\$
CASH FLOWS FROM OPERATING ACTIVITIES			
Payments to suppliers and employees		(606,119)	(486,289)
Payments for exploration expenditure		-	(18,661)
Management fees received		85,969	-
Interest received		34,502	34,411
Net cash (used in) operating activities	23	<u>(485,648)</u>	<u>(470,539)</u>
CASH FLOWS FROM INVESTING ACTIVITIES			
Purchase of property, plant and equipment		(2,182)	-
Purchase of investments		(345,747)	(95,000)
Proceeds from sale of shares		366,612	99,596
Proceeds from sale of tenements		-	50,000
Loans to associate		(532,336)	-
Repayment from associate		858,967	-
Repayment from sundry debtor		-	50,671
Net cash provided by investing activities		<u>345,314</u>	<u>105,357</u>
CASH FLOWS FROM FINANCING ACTIVITIES			
Proceeds from issue of shares		277,000	501,500
Payment of share issue costs		-	(1,000)
Receipts from related parties		-	19,792
Net cash provided by financing activities		<u>277,000</u>	<u>520,292</u>
Net (decrease)/increase in cash held		136,666	155,110
Cash at beginning of period		<u>1,123,074</u>	<u>967,964</u>
Cash at end of period	10	<u>1,259,740</u>	<u>1,123,074</u>

The accompanying notes form part of these financial statements.

AUSTRALIAN OIL COMPANY LIMITED
ABN 83 114 061 433
AND CONTROLLED ENTITIES

Notes to the Financial Statements
for the year ended 30 June 2010

NOTE 1: STATEMENT OF SIGNIFICANT ACCOUNTING POLICIES

Corporate Information

Australian Oil Company Limited was incorporated on 2 May 2005. The comparative figures in this Report relate to the year ended 30 June 2009. The consolidated financial statements comprise the financial statements of Australian Oil Company Limited (the "Company") and its controlled entities (collectively, the "consolidated entity") as at 30 June 2010. Australian Oil Company Limited is a listed public company, incorporated and domiciled in Australia.

The following is a summary of the material accounting policies adopted by the consolidated entity in the preparation of the financial report. The accounting policies have been consistently applied, unless otherwise stated.

Basis of Preparation

The financial report is a general purpose financial report that has been prepared in accordance with Australian Accounting Standards, Australian Accounting Interpretations, other authoritative pronouncements of the Australian Accounting Standards Board and the *Corporations Act 2001*.

The financial report has been prepared on an accruals basis and is based on historical costs modified by the revaluation of selected non-current assets, financial assets and financial liabilities for which the fair value basis of accounting has been applied.

Statement of Compliance

The financial statements of Australian Oil Company Limited and its controlled entities, and Australian Oil Company Limited as the individual parent entity comply with Australian Accounting Standards and International Financial Reporting Standards (IFRS), as issued by the International Accounting Standards Board.

Accounting Policies

a. **Principles of Consolidation**

A controlled entity is any entity Australian Oil Company Limited has the power to control the financial and operating policies of so as to obtain benefits from its activities.

A list of controlled entities is contained in Note 14 to the financial statements. All controlled entities have a June financial year-end.

All inter-company balances and transactions between entities in the consolidated entity, including any unrealised profits or losses, have been eliminated on consolidation. Accounting policies of subsidiaries have been changed where necessary to ensure consistency with those policies applied by the parent entity.

Where controlled entities have entered or left the consolidated entity during the year, their operating results have been included/excluded from the date control was obtained or until the date control ceased.

Minority interests not held by the consolidated entity are allocated their share of net profit after tax in the income statement and are presented within equity in the consolidated balance sheet, separately from parent shareholders' equity. Minority interests are allowed to enter into a loss balance as the minority interest has a binding obligation and are able to cover the losses.

b. **Income Tax**

The charge for current income tax expense is based on the profit for the year adjusted for any non-assessable or disallowed items. It is calculated using the tax rates that have been enacted or are substantially enacted by the balance sheet date.

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Notes to the Financial Statements
for the year ended 30 June 2010

NOTE 1: STATEMENT OF SIGNIFICANT ACCOUNTING POLICIES

Income Tax (cont)

Deferred tax is accounted for using the balance sheet liability method in respect of temporary differences arising between the tax bases of assets and liabilities and their carrying amounts in the financial statements. No deferred income tax will be recognised from the initial recognition of an asset or liability, excluding a business combination, where there is no effect on accounting or taxable profit or loss.

Deferred tax is calculated at the tax rates that are expected to apply to the period when the asset is realised or liability is settled. Deferred tax is credited in the income statement except where it relates to items that may be credited directly to equity, in which case the deferred tax is adjusted directly against equity.

Deferred income tax assets are recognised to the extent that it is probable that future tax profits will be available against which deductible temporary differences can be utilised.

The amount of benefits brought to account or which may be realised in the future is based on the assumption that no adverse change will occur in income taxation legislation and the anticipation that the consolidated entity will derive sufficient future assessable income to enable the benefit to be realised and comply with the conditions of deductibility imposed by the law.

c. Exploration, Evaluation and Development Expenditure

Exploration, evaluation and development expenditure incurred is accumulated in respect of each identifiable area of interest. These costs are only carried forward to the extent that they are expected to be recouped through a successful development of the area or where activities in the area have not yet reached a stage that permits reasonable assessment of the existence of economically recoverable reserves.

Accumulated costs in relation to an abandoned area are written off in full against profit in the year in which the decision to abandon the area is made.

When production commences, the accumulated costs for the relevant area of interest are amortised over the life of the area according to the rate of depletion of the economically recoverable reserves.

A regular review is undertaken of each area of interest to determine the appropriateness of continuing to carry forward costs in relation to that area of interest.

Costs of site restoration are provided over the life of the facility from when exploration commences and are included in the costs of that stage. Site restoration costs include the dismantling and removal of mining plant, equipment and building structures, waste removal, and rehabilitation of the site in accordance with clauses of the mining permits. Such costs have been determined using estimates of future costs, current legal requirements and technology on an undiscounted basis.

Any changes in the estimates for the costs are accounted on a prospective basis. In determining the costs of site restoration, there is uncertainty regarding the nature and extent of the restoration due to community expectations and future legislation. Accordingly the costs have been determined on the basis that the restoration will be completed within one year of abandoning the site.

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Notes to the Financial Statements
for the year ended 30 June 2010

NOTE 1: STATEMENT OF SIGNIFICANT ACCOUNTING POLICIES

d. **Financial Instruments**

Recognition

Financial instruments are initially measured at cost on trade date, which includes transaction costs, when the related contractual rights or obligations exist. Subsequent to initial recognition these instruments are measured as set out below.

Loans and receivables

Loans and receivables are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market and are stated at amortised cost using the effective interest rate method.

Financial liabilities

Non-derivative financial liabilities are recognised at amortised cost, comprising original debt less principal payments and amortisation.

Available-for-sale financial assets

Available-for-sale financial assets include any financial assets not included in the above categories. Available-for-sale financial assets are reflected at fair value. Unrealised gains and losses arising from changes in fair value are taken directly to equity.

Fair value

Fair value is determined based on current bid prices for all quoted investments. Valuation techniques are applied to determine the fair value for all unlisted securities, including recent arm's length transactions, reference to similar instruments and option pricing models.

e. **Impairment of Assets**

The consolidated entity assesses at each reporting date whether there is an indication that an asset may be impaired. If any such indication exists, or when annual impairment testing for an asset is required, the consolidated entity makes an estimate of the asset's recoverable amount. An asset's recoverable amount is the higher of its fair value less costs to sell and its value in use and is determined for an individual asset, unless the asset does not generate cash inflows that are largely independent of those from other assets or groups of assets and the asset's value in use cannot be estimated to be close to its fair value. In such cases the asset is tested for impairment as part of the cash-generating unit to which it belongs. When the carrying amount of an asset or cash-generating unit exceeds its recoverable amount, the asset or cash-generating unit is considered impaired and is written down to its recoverable amount.

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. Impairment losses relating to continuing operations are recognised in those expense categories consistent with the function of the impaired asset unless the asset is carried at revalued amount (in which case the impairment loss is treated as a revaluation decrease).

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Notes to the Financial Statements
for the year ended 30 June 2010

NOTE 1: STATEMENT OF SIGNIFICANT ACCOUNTING POLICIES

Financial Instruments

Impairment of assets (continued)

An assessment is also made at each reporting date as to whether there is any indication that previously recognised impairment losses may no longer exist or may have decreased. If such indication exists, the recoverable amount is estimated. A previously recognised impairment loss is reversed only if there has been a change in the estimates used to determine the asset's recoverable amount since the last impairment loss was recognised. If that is the case the carrying amount of the asset is increased to its recoverable amount. The increased amount cannot exceed the carrying amount that would have been determined, net of depreciation, had no impairment loss been recognised for the asset in prior years. Such reversal is recognised in profit or loss unless the asset is carried at revalued amount, in which case the reversal is treated as a revaluation increase. After such a reversal the depreciation charge is adjusted in future periods to allocate the asset's revised carrying amount, less any residual value, on a systematic basis over its remaining useful life.

f. **Foreign Currency Transactions and Balances**

Functional and presentation currency

The functional currency of each of the consolidated entities is measured using the currency of the primary economic environment which is the same as the country in which that entity operates. The consolidated financial statements are presented in Australian dollars which is the parent entity's functional and presentation currency.

Transaction and balances

Foreign currency transactions are translated into functional currency using the exchange rates prevailing at the date of the transaction. Foreign currency monetary items are translated at the year-end exchange rate. Non-monetary items measured at historical cost continue to be carried at the exchange rate at the date of the transaction. Non-monetary items measured at fair value are reported at the exchange rate at the date when fair values were determined.

Exchange differences arising on the translation of monetary items are recognised in the income statement, except where deferred in equity as a qualifying cash flow hedge or net investment hedge.

Exchange differences arising on the translation of non-monetary items are recognised directly in equity to the extent that the gain or loss is directly recognised in equity, otherwise the exchange difference is recognised in the income statement.

Group companies

The financial results and position of foreign operations whose functional currency is different from the consolidated entity's presentation currency are translated as follows:

- assets and liabilities are translated at year-end exchange rates prevailing at that reporting date;
- income and expenses are translated at average exchange rates for the period; and
- retained earnings are translated at the exchange rates prevailing at the date of the transaction.

Exchange differences arising on translation of foreign operations are transferred directly to the consolidated entity's foreign currency translation reserve in the balance sheet. These differences are recognised in the income statement in the period in which the operation is disposed.

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Notes to the Financial Statements

for the year ended 30 June 2010

g. Cash and Cash Equivalents

Cash and cash equivalents include cash on hand, deposits held at call with banks, other short-term highly liquid investments with original maturities of three months or less, and bank overdrafts. Bank overdrafts are shown within short-term borrowings in current liabilities on the balance sheet.

h. Revenue

Interest revenue is recognised on a proportional basis taking into account the interest rates applicable to the financial assets.

i. 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 Australian Tax Office. In these circumstances the GST is recognised as part of the cost of acquisition of the asset or as part of an item of the expense. Receivables and payables in the balance sheet are shown inclusive of GST.

Cash flows are presented in the cash flow statement on a gross basis, except for the GST component of investing and financing activities, which are disclosed as operating cash flows.

j. Property, Plant and Equipment

Property, plant and equipment is carried at cost less, where applicable, any accumulated depreciation and impairment losses.

The carrying amount of property, plant and equipment is reviewed annually by directors to ensure it is not in excess of the recoverable amount from these assets. The recoverable amount is assessed on the basis of the expected net cash flows that will be received from the assets employment and subsequent disposal. The expected net cash flows have been discounted to their present values in determining recoverable amounts.

The cost of fixed assets constructed within the consolidated entity includes the cost of materials, direct labour, borrowing costs and an appropriate proportion of fixed and variable overheads.

Subsequent costs are included in the asset's carrying amount or recognised as a separate asset, as appropriate, only when it is probable that future economic benefits associated with the item will flow to the group and the cost of the item can be measured reliably. All other repairs and maintenance are charged to the income statement during the financial period in which they are incurred.

Depreciation

The depreciable amount of all fixed assets including building and capitalised lease assets, but excluding freehold land, is depreciated on a straight-line basis over their useful lives to the consolidated entity commencing from the time the asset is held ready for use. Leasehold improvements are depreciated over the shorter of either the unexpired period of the lease or the estimated useful lives of the improvements.

The depreciation rates used for each class of depreciable assets are:

Class of Fixed Asset	Depreciation Rate
Property, plant and equipment	33%

The assets' residual values and useful lives are reviewed, and adjusted if appropriate, at each balance sheet date. An asset's carrying amount is written down immediately to its recoverable amount if the asset's carrying amount is greater than its estimated recoverable amount.

Gains and losses on disposals are determined by comparing proceeds with the carrying amount. These gains and losses are included in the income statement. When revalued assets are sold, amounts included in the revaluation reserve relating to that asset are transferred to retained earnings.

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Notes to the Financial Statements
for the year ended 30 June 2010

NOTE 1: STATEMENT OF SIGNIFICANT ACCOUNTING POLICIES

k. Inventory

Inventory represents casing supplies that are used in the drilling process by the consolidated entity. Inventory is recognised at the lower of cost and its net realisable value.

l. Trade and other payables

Trade and other payables are recorded at their fair values. The consolidated entity generally has terms of 30 days with its trade and other payables.

m. Contributed equity

Ordinary shares are classified as equity. Incremental costs directly attributable to the issue of new shares are shown as a deduction, net of tax, from the proceeds of the equity issue.

n. Earnings per share

(i) Basic earnings per share

Basic earnings per share is calculated by dividing the profit attributable to equity holders of the company by the weighted average number of ordinary shares outstanding during the financial year.

(ii) Diluted earnings per share

Diluted earnings per share adjusts the figures used in the determination of basic earnings per share to take into account the income tax effect of interest and other financing costs associated with dilutive potential ordinary shares and the weighted average number of shares assumed to have been issued for no consideration in relation to dilutive potential ordinary shares.

o. Going concern

The financial statements are presented on a going concern basis. The directors are not aware of any uncertainties which would cast doubt on the consolidated entity's ability to continue as a going concern.

p. New accounting standards and interpretations

(i) Changes in accounting policy and disclosures

The accounting policies adopted are consistent with those of the previous financial year except as follows:

The Group has adopted the new and amended Australian Accounting Standards and AASB interpretations as at 1 July 2010. Where the adoption of the Standard or Interpretation is deemed to have an impact on the financial statements or performance of the Group, its impact is described below:

• **AASB 8 Operating Segments**

AASB 8 replaced AASB 114 Segment Reporting upon its effective date. The operating segments determined in accordance with AASB 8 are based on the internal reports that are reviewed by the chief operating decision makers in the Group. AASB 8 disclosures are reported in note 28, including the related revised comparative information.

• **AASB 101 Presentation of Financial Statements**

The revised Standard separates owner and non-owner changes in equity. The statement of changes in equity includes only details of transactions with owners, with non-owner changes in equity presented in a reconciliation of each component of equity and included in the new statement of comprehensive income. The statement of comprehensive income presents all items of recognised income and expense, either in one single statement, or in two linked statements. The Group has elected to present one statement.

• **AASB 7 Financial Instruments: Disclosures**

Effective from 1 January 2009 the revisions to AASB 7 *Financial Instruments: Disclosures* has been adopted. The revised standard requires disclosures that categorise assets and liabilities measured at fair value into one of three different levels depending on the observability of the inputs employed in the measurement. Level 1 inputs are quoted prices in active markets, Level 2 inputs are observable inputs other than quoted prices, and level 3 inputs are unobservable inputs for the asset or liability. There were no material assets or liabilities measured at fair value as at 30 June 2010.

AUSTRALIAN OIL COMPANY LIMITED
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1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONT'D)

New accounting standards and interpretations (cont'd)

(ii) Accounting Standards and Interpretations issued but not yet effective

Australian Accounting Standards and Interpretations that have recently been issued or amended but are not yet effective and have not been adopted by the Group for the annual reporting period ending 30 June 2010 are outlined below:

• **AASB 2009-5 Further Amendments to Australian Accounting Standards arising from the Annual Improvements Project**

The Improvements to IFRS project is an annual process that the IASB has adopted to deal with non-urgent but necessary amendments to IFRS. The amendments result in various accounting changes and terminology or editorial amendments. The amendments become effective for the consolidated entity's 30 June 2011 financial statements. The consolidated entity has not yet determined the potential impact of the amendments on the consolidated entity's financial report.

• **AASB 2009-8 Amendments to Australian Accounting Standards – Group Cash-settled Share-based Payment Transactions**

The amendment clarifies that if an entity receives goods or services that are cash settled by shareholders not within the group, they are outside the scope of IFRS 2. The amendments become effective for the consolidated entity's 30 June 2011 financial statements. The consolidated entity has not yet determined the potential impact of the amendments on the consolidated entity's financial report.

• **AASB 2009-10 Amendments to Australian Accounting Standards – Classification of Rights Issues [AASB132]**

The amendment will provide relief to entities that issue rights (fixed in a currency other than their functional currency), from treating the rights as derivatives with fair value changes recorded in profit or loss. The amendments become effective for the consolidated entity's 30 June 2011 financial statements. The consolidated entity has not yet determined the potential impact of the amendments on the consolidated entity's financial report.

AASB 9 Financial Instruments

AASB9 becomes effective for the consolidated entity's 30 June 2014 financial statements. The consolidated entity has not yet determined the potential impact of the amendments on the consolidated entity's financial report.

AASB 124 Related Party Disclosures (Revised)

The definition of a related party has been clarified to simplify the identification of related party relationships, particularly in relation to significant influence and joint control. The amendments become effective for the consolidated entity's 30 June 2012 financial statements. The consolidated entity has not yet determined the potential impact of the amendments on the consolidated entity's financial report.

All other new Australian Accounting Standards that have been issued but are not yet effective are not expected to have a material impact on the Group.

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NOTE 2: SIGNIFICANT ACCOUNTING JUDGEMENTS, ESTIMATES AND ASSUMPTIONS

a. Impairment of non-financial assets

The group assesses impairment of all assets (including capitalised exploration costs) at each reporting date by evaluating conditions specific to the group and to the particular asset that may lead to impairment.

NOTE 3: OTHER REVENUE

	Consolidated Entity	
	Year ended 30 June	Year ended 30 June
	2010	2009
	\$	\$
Operating activities		
Interest received – Bank	34,502	34,411
Management fees (i)	110,146	234,049
Other revenue	144,648	268,460

(i): Management fees are payable by Excelaron LLC for services provided by the parent company.

NOTE 4: LOSS FOR THE YEAR

	Consolidated Entity	
	Year ended 30 June	Year ended 30 June
	2010	2009
	\$	\$
The loss for the year includes the following expense items:		
Exploration expenditure (i)	-	1,325,302
Other exploration expenditure	-	18,661

(i) relates to exploration expenditure written off during the year in relation to PEL182 as it was decided during the year that the capitalised drilling expenditure was of no further value.

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NOTE 5: INCOME TAX EXPENSE

		Consolidated Entity	
		Year ended 30 June	Year ended 30 June
		2010	2009
		\$	\$
a.	The prima facie tax on loss from ordinary activities before income tax is reconciled to the income tax as follows:		
	Loss before income tax	(527,470)	(1,746,667)
	Prima facie tax payable on loss before income tax at 30% (2009: 30%)	(158,241)	(524,000)
	Add:		
	Tax effect of:		
	— other non-allowable items	3,805	2,087
	— write-downs to recoverable amounts	45,378	24,575
	Current year tax benefits not recognised	109,058	497,338
	Income tax expense	-	-
Deferred tax asset			
b.	Deferred tax assets not brought to account, the benefits of which will only be realised if the conditions for deductibility set out in Note 1b occur		
	- temporary differences	-	27,588
	- tax losses	1,385,924	1,266,403
		1,385,924	1,293,991

AUSTRALIAN OIL COMPANY LIMITED
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NOTE 6: KEY MANAGEMENT PERSONNEL

Names and positions held of the consolidated entity and the parent entity key management personnel in office at any time during the financial period are:

<u>Key management person</u>	<u>Position</u>
Andrew Childs	Chairman
Grant Jagelman	Managing Director
Peter Cockcroft	Director
Ian Tchacos	Director (appointed 12 April 2010)

a. Compensation of Key Management Personnel

	Consolidated Entity	
	Year ended 30 June 2010 \$	Year ended 30 June 2009 \$
Short-term employee benefits	305,080	175,320
Post employment benefits	49,920	139,600
Total	355,000	314,920

Details of remuneration of key management personnel are set out in the Directors' Report.

b. Remuneration policy

The Board's policy for remuneration of Directors is included in the Remuneration Report in these financial statements.

c. Shareholdings

Number of shares held by Key Management Personnel

Key Management Personnel	Balance 1 July 2009	Received as Compensation	Purchased	Balance 30 June 2010
Grant Jagelman	6,650,001	-	-	6,650,001
Peter Cockcroft	662,501	-	-	662,501
Andrew Childs	2,130,000	-	310,000	2,440,000
Ian Tchacos	-	-	357,385	357,385
Total	9,442,502	-	667,385	10,109,887

d. Options

Details of options held by key management personnel are as follows:

	Balance 1 July 2009	Expired	Options Granted	Balance 30 June 2010
Andrew Childs	2,545,000	2,545,000	1,272,500	1,272,500
Peter Cockcroft	1,012,500	1,012,500	506,250	506,250
Grant Jagelman	-	-	-	-
Ian Tchacos	-	-	-	-
Total	3,557,500	3,557,500	1,778,750	1,778,750

AUSTRALIAN OIL COMPANY LIMITED
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NOTE 7: AUDITORS' REMUNERATION

	Consolidated Entity	
	Year ended	Year ended
	30 June 2010	30 June 2009
	\$	\$
Remuneration of the auditor of the parent entity and subsidiaries for:		
- Audit and review of financial statements	38,382	37,510
Total	38,382	37,510

NOTE 8: DIVIDENDS

No dividends were paid during the year.

The franking account balance at the end of the year was \$nil.

NOTE 9: LOSS PER SHARE

	Consolidated Entity	
	Year ended	Year ended
	30 June 2010	30 June 2009
	\$	\$
a. Reconciliation of loss		
Loss after tax	(527,470)	(1,746,667)
Loss attributable to minority equity interest	3,806	3,706
Loss used to calculate earnings per share	(523,664)	(1,742,961)
	No.	No.
b. Weighted average number of ordinary shares outstanding during the period used in calculating basic loss per share	51,762,500	42,477,796

The dilutive loss per share is the same as the basic loss per share as the consolidated entity is in a loss position

	(1.1)	(4.1)
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AUSTRALIAN OIL COMPANY LIMITED
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NOTE 10: CASH AND CASH EQUIVALENTS

	Consolidated Entity	
	Year ended 30 June	Year ended 30 June
	2010	2009
	\$	\$
Cash at bank and in hand	2,901	7,172
Short-term bank deposits	1,256,839	1,115,902
	1,259,740	1,123,074
	1,259,740	1,123,074

The effective interest rate on short-term bank deposits was 3.0% (2009: 3.0%); these deposits have an average maturity of 30 days.

NOTE 11: OTHER RECEIVABLES

Current

Other receivables

Amounts receivable from:

-	GST refund	11,065	8,613
-	Sundry debtors	60,925	-
-	Loan to associate	-	324,145
-	Rental deposit	7,500	7,500
		79,490	340,258
		79,490	340,258

Balances within other receivables do not contain impaired assets and are not past due. It is expected that these balances will be received in full. All other receivables are non-interest bearing.

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NOTE 12: FINANCIAL ASSETS

	Consolidated Entity	
	Year ended 30 June	Year ended 30 June
	2010	2009
	\$	\$
Current Assets		
Available-for-sale Financial Assets		
Listed investments, at market value		
- Shares in listed corporations	10,277	7,465
Total current available for sale financial assets	10,277	7,465

Available-for-sale financial assets comprise investments in the ordinary issued capital of various entities. There are no fixed returns or fixed maturity date attached to these investments.

NOTE 13: INVESTMENTS

Non-Current Assets

Investments, at cost		
- Equity accounted interests	-	155,589
Total investments	-	155,589

Investments In Associates

The parent entity holds 34% of the ordinary shares of Excelaron LLC.

In 2010 Excelaron recorded a loss of \$1,037,874 due to the write off in the current year of exploration costs. After recognising the Company's share of the Excelaron loss the investment held by the Company in Excelaron has now been written down to Nil as at 30 June 2010 due to the current uncertainty with ultimate recoverability through successfully development and commercial exploitation or the commercial sale of the underlying interest.

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NOTE 13: INVESTMENTS (Continued)

	Consolidated Entity	
	Year ended 30 June 2010 \$	Year ended 30 June 2009 \$
Movements in the carrying amounts of the consolidated entity's investment in associates		
Excelaron LLC		
At 1 July	155,589	237,473
Share of (loss)/profits after income tax	(352,877)	994
Increase in investment	63,983	-
Gain on equity in associate	470,654	9,050
Movement in foreign currency	(44,302)	28,643
Eliminate unrealised profits on management fees	(59,309)	(120,571)
Impairment of equity investment	(233,738)	-
At 30 June	-	155,589

Extract from Excelaron's balance sheet

Assets	1,938,827	1,781,704
Liabilities	(65,704)	(312,868)
Net assets	1,873,123	1,468,836

Extract from Excelaron's income statement

Revenue	-	-
Profit/(loss)	(1,037,874)	2,924

Contingent liabilities and commitments of Excelaron

Excelaron has no contingent liabilities nor any commitments outstanding as at 30 June 2010

Reserves attributable to Associates

Foreign currency translation reserve		
As at 1 July 2009	28,643	(244)
Effect of increase/(decrease) in reserve	(44,302)	28,887
As at 30 June 2010	(15,659)	28,643

AUSTRALIAN OIL COMPANY LIMITED
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NOTE 14: CONTROLLED ENTITIES

Controlled Entities Consolidated

	Country of Incorporation	Percentage Owned	
		Year ended	Year ended
		30 June	30 June
		2010	2009
Subsidiaries of Australian Oil Company Limited		%	%
Australian Oil Company No 2 Pty Limited	Australia	100	100
Australian Oil Company No 3 Pty Limited	Australia	100	100
Australian Oil Company Investments Pty Limited (formerly Australian Oil Company No 4 Pty Limited)	Australia	100	100
Huasna Oil LLC (b)	USA	-	100
Timor Oil Limited (a)	Australia	-	-

a. **Timor Oil Limited**

Timor Oil is consolidated as AOC has control over the entity by having the power to govern the financial and operating policies of the entity. AOC and Timor Oil Limited have 2 common directors. The parent entity has an option to acquire 50% of the issued shares of Timor Oil Limited.

b. **Disposal of Controlled Entities**

The consolidated entity did not dispose of any controlled entities during the year. Huasna Oil LLC was voluntarily deregistered in January 2010.

NOTE 15: PROPERTY, PLANT AND EQUIPMENT

	Consolidated Entity	
	Year ended 30 June	Year ended 30 June
	2010	2009
	\$	\$
Office equipment		
At cost	3,367	4,256
Accumulated depreciation	(832)	(3,434)
Total Property, Plant and Equipment	2,535	822

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NOTE 15: PROPERTY, PLANT AND EQUIPMENT (Continued)

Movements in Carrying Amounts

Movement in the carrying amounts for each class of property, plant and equipment between the beginning and the end of the year

	Consolidated Entity	
	Year ended 30 June	Year ended 30 June
	2010	2009
	\$	\$
Balance at the beginning of year	822	2,057
Additions	2,182	-
Disposals	-	-
Depreciation charge	(469)	(1,235)
Carrying amount at the end of the year	2,535	822

NOTE 16: EXPLORATION EXPENDITURE

	Consolidated Entity	
	Year ended 30 June	Year ended 30 June
	2010	2009
	\$	\$
NON-CURRENT		
Exploration expenditure capitalised		
- Exploration and evaluation phases	-	-
- Exploration tenement	-	-
Total exploration expenditure	-	-

Movements in Carrying Amounts

Movement in the carrying amount for Exploration Expenditure between the beginning and the end of the year were as follows:

	2010	2009
	\$	\$
Consolidated Entity:		
Balance at the beginning of year	-	1,375,302
Total expenditure during year	-	-
Sold	-	(50,000)
Expenditure written off	-	(1,325,302)
Carrying amount at the end of year	-	-

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NOTE 17: TRADE AND OTHER PAYABLES

	Consolidated Entity	
	Year ended 30 June	Year ended 30 June
	2010	2009
	\$	\$
Current		
Trade payables	36,254	54,724
Sundry payables and accrued expenses	51,500	22,500
	87,754	77,224

All trade and sundry payables are non interest bearing

NOTE 18: ISSUED CAPITAL

	Consolidated Entity	
	Year ended 30 June	Year ended 30 June
	2010	2009
	\$	\$
51,762,500 (2009: 48,300,000) fully paid ordinary shares	6,492,159	6,215,159

Ordinary shares participate in dividends and the proceeds on winding up of the parent entity in proportion to the number of shares held.

At the shareholders meetings each ordinary share is entitled to one vote when a poll is called, otherwise each shareholder has one vote on a show of hands.

Options

No. of Options at reporting date	26,015,625	52,031,250
----------------------------------	------------	------------

Options were originally granted to shareholders on purchase of ordinary shares at the time of the initial public offering in 2005. All options were granted for nil consideration. The original options expired on 31 December 2009. Following the passing of a resolution at the general meeting of shareholders on 14 December 2009, 26,015,625 new options were issued on the basis of one new option for every 2 old options. The exercise price of each new option is \$0.20 per share. The new options expire on December 2011.

AUSTRALIAN OIL COMPANY LIMITED
ABN 83 114 061 433
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NOTE 18: ISSUED CAPITAL (Continued)

Movements Issued Capital

	Consolidated Entity	
	Year ended 30 June	Year ended 30 June
	2010	2009
Number of Shares		
Balance at the beginning of year	48,300,000	42,031,255
Share placement at 8c per share	3,462,500	6,268,745
Balance at the end of the year	51,762,500	48,300,000
Issued Capital	\$	\$
Balance at the beginning of year	6,215,159	5,714,659
Share placement	277,000	501,500
Share issue costs	-	(1,000)
Balance at the end of the year	6,492,159	6,215,159

Capital Management

When managing capital, management's objective is to ensure the entity continues as a going concern as well as maintain optimal returns to shareholders and benefits for other stakeholders. Management also aims to maintain a capital structure that ensures the lowest cost of capital available to the entity.

As the market is constantly changing, management constantly reviews payments of dividends to shareholders, return of capital to shareholders, the issue of new shares and the sale of assets to reduce debt.

NOTE 19: RESERVES

	Consolidated Entity	
	Year ended 30 June	Year ended 30 June
	2010	2009
	\$	\$
Foreign currency translation reserve		
Balance at the beginning of year	28,643	(244)
Movement during year	(44,302)	28,887
Balance at the end of the year	(15,659)	28,643
Investment revaluation reserve		
Balance at the beginning of year	756	-
Movement during year	9,076	756
Balance at end of year	9,832	756
Total Reserves	(5,827)	29,399

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NOTE 19: RESERVES (Continued)

Nature and purpose of reserves

Foreign currency translation reserve

The foreign currency translation reserve is used to record exchange differences arising from the translation of the financial statements of foreign subsidiaries and associates.

Investment revaluation reserve

The investment revaluation reserve is used to record the unrealised gains and losses arising from the changes in fair value for available for sale financial assets.

NOTE 20: MINORITY INTEREST

	Consolidated Entity	
	Year ended 30 June	Year ended 30 June
	2010	2009
	\$	\$
Timor Oil (refer Note 14)	14,558	10,752
	14,558	10,752
	14,558	10,752

NOTE 21: CAPITAL COMMITMENTS

	Consolidated Entity	
	Year ended	Year ended 30 June
	30 June	2009
	2010	\$
	\$	
Capital Expenditure Commitments		
Exploration/drilling Expenditure Commitments	-	-
	-	-

The consolidated entity, through its subsidiary companies, has commitments under farm-in agreements and other agreements to contribute funding to the exploration activities as envisaged under those agreements. As continued drilling under those agreements is in most cases dependent upon reserves being found and/or the ongoing agreement with farm-in partners that drilling should continue, it is not possible to exactly set out the funds due to be contributed. The directors have used estimates based on the best information available at the time of preparation of the financial statements to determine current exploration commitments over the forthcoming years. In relation to the investment in Excelaron, the consolidated entity is not committed to any expenditure or capital commitments of the farm-in partners should they cease to continue as operators.

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NOTE 22: CONTINGENT LIABILITIES AND CONTINGENT ASSETS

During the year claims have been made against AOC No 2 Pty Limited by two joint venture partners in PEL182. At this stage these claims are at too early a stage to estimate any liability that may arise. The company has disclaimed any liability relating to these claims and the directors are confident that there are reasonable grounds for defence for both claims.

The consolidated entity and the company have no other contingent assets or contingent liabilities as at 30 June 2010.

NOTE 23: NOTE TO THE STATEMENT OF CASH FLOWS

	Consolidated Entity	
	Year ended	Year ended
	30 June 2010	30 June 2009
	\$	\$
Reconciliation of Cash Flow from Operations with Loss after Income Tax		
Loss after income tax	(527,470)	(1,746,667)
Non-cash flows		
Depreciation	469	1,235
Formation expenses written off	-	1,024
Impairment of financial assets	-	67,535
Accrual of management fees	(24,177)	-
Share of net (profit) loss of associate	352,877	(994)
Gain on equity in associate	(236,916)	(9,050)
Foreign exchange loss unrealised	-	24,426
Foreign exchange loss realised	20,320	-
Exploration costs written off	-	1,325,302
Inventory written off	-	122,195
Net (profit) loss on listed shares	(78,829)	(54,596)
Changes in assets and liabilities, net of the effects of purchase and disposal of subsidiaries		
(Increase)/decrease in other receivables	(2,452)	(232,887)
(Increase)/decrease in inventories	-	-
Increase/(decrease) in trade payables and accruals	10,530	31,938
Cashflow from operations	(485,648)	(470,539)

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NOTE 24: RELATED PARTY TRANSACTIONS

Transactions with related parties:

a. Other related parties

The company offices are rented for \$5,775 per month from a company fully owned by one of the directors (G Jagelman). The rent is paid at normal market rates.

The parent company receives management fees of US\$12,500 per month from Excelaron and from time to time provides loans to Excelaron. Total outstanding at 30 June 2010 was \$nil.

NOTE 25: FINANCIAL INSTRUMENTS

a. **Financial Risk Management**

The Group's financial instruments consist mainly of deposits with banks, local money market instruments, short-term investments, accounts receivable and payable, and loans to and from subsidiaries. The Group's activities expose it to a variety of financial risks.

i. Foreign exchange risk

Foreign exchange risk arises from future commercial transactions and recognised assets and liabilities denominated in a currency that is not the entity's functional currency and net investments in foreign operations.

The Group operates internationally through its shareholding in Excelaron LLC which exposes it to foreign exchange risk with respect to the US dollar.

Given the valuation of the Group's investment in Excelaron and the future commitments for funding of the US operation the exposure to foreign exchange risk is not significant.

Sensitivity Analysis

	Consolidated Entity	
	Year ended 30	Year ended 30
	June	June
	2010	2009
	\$	\$
Shares in foreign companies	7,677	2,465
Loans to foreign companies	-	324,145
Total	7,677	326,610
Effect of a 10% variance in the \$A/\$US exchange rate to post tax profit	+/- 767	+/- 32,661

ii Price risk

The Group is exposed to equity securities price risk. This arises from investments held by the group and classified on the balance sheet either as available for sale or at fair value through profit or loss. The Group's investments are not significantly large enough for the price risk to be of concern.

The Group is not exposed to commodity price risk at the present time. When and if any of the group's companies become involved in oil production the Group will implement processes to monitor the oil price risk.

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NOTE 25: FINANCIAL INSTRUMENTS (CONTINUED)

a. **Financial Risk Management (continued)**

iii Cash flow and fair value interest rate risk

The Group has exposure to interest rate risk, which is the risk that a financial instrument's value will fluctuate as a result of changes in market interest rates and the effective weighted average interest rates on those financial assets and the financial liabilities.

The Group policy is to ensure that market interest rate is received for the short-term deposits. The Group has no external borrowings.

Sensitivity Analysis

	Consolidated Entity	
	Year ended 30	Year ended 30
	June	June
	2010	2009
	\$	\$
Cash at the end of the year	1,259,740	1,123,074
Estimated interest for year based on interest rate of 5% (2009 – 3.0%)	62,987	33,692
Effect of an increase/decrease in Interest rates of 1% to post tax profit	<u>+/- 12,597</u>	<u>+/- 11,231</u>

iv Credit risk

Credit risk is managed on a Group basis. Credit risk arises from cash and cash equivalents, deposits with banks and financial institutions, as well as other receivables. The maximum exposure to credit risk, excluding the value of any collateral or other security, at balance date to recognised financial assets, is the carrying amount, net of any provisions for impairment of those assets, as disclosed in the balance sheet and notes to the financial statements. The Group currently has no exposure to customer receivables. Cash is deposited with major banks.

v Liquidity risk

The Group manages liquidity risk by monitoring forecast and actual cash flows and matching the maturity profiles of financial assets and liabilities.

AUSTRALIAN OIL COMPANY LIMITED
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NOTE 25: FINANCIAL INSTRUMENTS (CONTINUED)

b. Financial Instruments

Consolidated Entity

	Weighted average effective interest rate		Non interest bearing		Floating interest value		Total	
	2010	2009	2010	2009	2010	2009	2010	2009
	%	%	\$	\$	\$	\$	\$	\$
Financial Assets:								
Cash at bank	5.0	3.0	-	-	1,259,740	1,123,074	1,259,740	1,123,074
Other receivables	N/A	N/A	79,490	340,258	-	-	79,490	340,258
Total financial assets			79,490	340,258	1,259,740	1,123,074	1,339,230	1,463,332
Financial Liabilities:								
Accounts payable & accruals	N/A	N/A	87,754	77,224	-	-	87,754	77,224
Total financial liabilities			87,754	77,224	-	-	87,754	77,224

All liabilities are contractually payable within 6 months.

Net Fair Values

The net fair values of the financial assets and financial liabilities of the Group approximates their carrying amount.

NOTE 26: PARENT ENTITY REPORTING

Information relating to the Parent Entity

	Year ended 30 June	Year ended 30 June
	2010	2009
	\$	\$
ASSETS		
CURRENT ASSETS	1,341,361	1,470,268
TOTAL NON-CURRENT ASSETS	141,520	82,154
TOTAL ASSETS	1,482,881	1,552,422
TOTAL CURRENT LIABILITIES	55,254	74,724
TOTAL LIABILITIES	55,254	74,724
NET ASSETS	1,427,627	1,477,698
EQUITY		
Issued capital	6,492,159	6,215,159
Reserves	9,832	1,000
Accumulated losses	(5,074,364)	(4,738,461)
TOTAL EQUITY	1,427,627	1,477,698
Profit/(loss) for the year	(365,903)	(2,625,478)

AUSTRALIAN OIL COMPANY LIMITED
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NOTE 27: EVENTS AFTER THE BALANCE SHEET DATE

No significant events have occurred after the Balance Sheet date.

NOTE 28: SEGMENT REPORTING

The Consolidated Entity has identified its operating segments based on the internal reports that are reviewed and used by the Managing Director (the Consolidated Entity's chief operating decision maker) in assessing performance and in determining the allocation of resources. The operating segments identified by management are based on each individual exploration tenement which are:

- Excelaron (Associate)
- PEL 182 – South Australia
- EP 435 – Western Australia
- Onshore East Timor

The Consolidated Entity operates entirely in the industry of exploration for oil and gas. Financial information of the operating segments is reported to the Managing Director on a monthly basis. The key measure of segment result is the costs capitalised to each exploration tenement during the period. The main operations of the company at this time are carried on by way of the farm out of the Huasna Oil Project to Excelaron, an associate of the Consolidated Entity. Management fees have been received from the associate of \$110,146 (2009: 85,967) and share of losses from associate have been received of \$150,837 (2009: \$994 profit). AOC have no capitalised costs relating to each of their explorations tenements during the year and therefore no segment assets are currently being disclosed per segment.

No segment revenues or results are disclosed for the other segment as each exploration tenement is not at a stage where revenues have been earned.

Expenses included in the statement of comprehensive income which have not been capitalised to operating segments are unallocated as they are not considered part of the core operations of any segment

Financial information about each of these tenements is reported to the Managing Director on an ongoing basis. Corporate office activities are not allocated to operating segments as they are not considered part of the core operations of any segment and comprise of the following:

Interest revenue

Administration costs

Management fees

Gain on sale of shares

Consultation and professional fees

Foreign exchange loss realised

NOTE 29: COMPANY DETAILS

The registered office and the principal place of business of the company are:

Australian Oil Company Limited

Level 8

139 Macquarie Street

Sydney NSW 2000

AUSTRALIAN OIL COMPANY LIMITED
ABN 83 114 061 433
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DIRECTORS DECLARATION

In accordance with a resolution of the directors of Australian Oil Company Limited, I state that:

In the opinion of the directors:

(a) the financial statements and notes of the consolidated entity are in accordance with the *Corporations Act 2001*, including:

(i) giving a true and fair view of the consolidated entity's financial position as at 30 June 2010 and of its performance for the year ended on that date; and

(ii) complying with Australian Accounting Standards (including the Australian Accounting Interpretations) and the *Corporations Regulations 2001*;

(b) the financial statements and notes also comply with International Financial Reporting Standards as disclosed in note 1; and

(c) there are reasonable grounds to believe that the consolidated entity will be able to pay its debts as and when they become due and payable.

(d) this declaration has been made after receiving the declarations required to be made to the Directors in accordance with section 295A of the *Corporations Act 2001* for the financial year ended 30 June 2010.

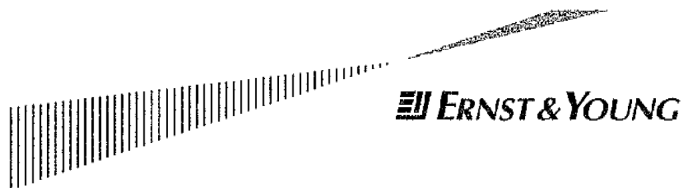
This declaration is made in accordance with a resolution of the Board of Directors.



Director

Grant Jagelman

Dated this 22nd day of September 2010



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www.ey.com/au

Independent auditor's report to the members of Australian Oil Company Limited

Report on the Financial Report

We have audited the accompanying financial report of Australian Oil Company Limited, which comprises the statement of financial position as at 30 June 2010, and the statement of comprehensive income, statement of changes in equity and statement of cash flows for the year ended on that date, a summary of significant accounting policies, other explanatory notes and the directors' declaration.

Directors' Responsibility for the Financial Report

The directors of the company are responsible for the preparation and fair presentation of the financial report in accordance with the Australian Accounting Standards (including the Australian Accounting Interpretations) and the *Corporations Act 2001*. This responsibility includes establishing and maintaining internal controls relevant to the preparation and fair presentation of the financial report that is free from material misstatement, whether due to fraud or error; selecting and applying appropriate accounting policies; and making accounting estimates that are reasonable in the circumstances. In Note 1, the directors also state that the financial report, comprising the financial statements and notes, complies with International Financial Reporting Standards as issued by the International Accounting Standards Board.

Auditor's Responsibility

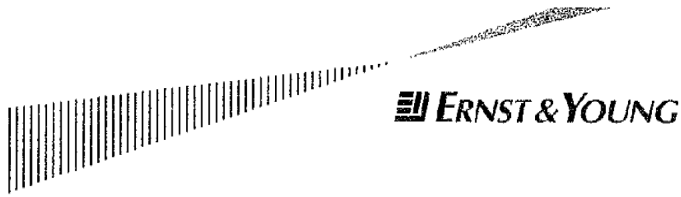
Our responsibility is to express an opinion on the financial report based on our audit. We conducted our audit in accordance with Australian Auditing Standards. These Auditing Standards require that we comply with relevant ethical requirements relating to audit engagements and plan and perform the audit to obtain reasonable assurance whether the financial report is free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial report. The procedures selected depend on our judgment, including the assessment of the risks of material misstatement of the financial report, whether due to fraud or error. In making those risk assessments, we consider internal controls relevant to the entity's preparation and fair presentation of the financial report in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal controls. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by the directors, as well as evaluating the overall presentation of the financial report.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

Independence

In conducting our audit we have met the independence requirements of the *Corporations Act 2001*. We have given to the directors of the company a written Auditor's Independence Declaration, a copy of which is included in the directors' report.



Auditor's Opinion

In our opinion:

1. the financial report of Australian Oil Company Limited is in accordance with the *Corporations Act 2001*, including:
 - (i) giving a true and fair view of the financial position of Australian Oil Company Limited at 30 June 2010 and of its performance for the year ended on that date; and
 - (ii) complying with Australian Accounting Standards (including the Australian Accounting Interpretations) and the *Corporations Regulations 2001*.
2. the financial report also complies with International Financial Reporting Standards as issued by the International Accounting Standards Board.

Report on the Remuneration Report

We have audited the Remuneration Report included in the directors' report for the year ended 30 June 2010. The directors of the company are responsible for the preparation and presentation of the Remuneration Report in accordance with section 300A of the *Corporations Act 2001*. Our responsibility is to express an opinion on the Remuneration Report, based on our audit conducted in accordance with Australian Auditing Standards.

Auditor's Opinion

In our opinion the Remuneration Report of Australian Oil Company Limited for the year ended 30 June 2010, complies with section 300A of the *Corporations Act 2001*.

Ernst & Young

A handwritten signature in black ink, appearing to read 'Gary Daniels', written over a faint circular stamp or watermark.

Gary Daniels
Partner
Sydney
22 September 2010

AUSTRALIAN OIL COMPANY LIMITED

Corporate Governance Policy Statement

The Board recognises that the implementation of a sound corporate governance system promotes superior corporate performance and as a consequence, the Board has adopted a comprehensive corporate governance framework to assist with the direction and management of the Company.

The Board supports and, where appropriate and practical, seeks to implement the ASX Corporate Governance Council's "Corporate Governance Principles and Recommendations – 2nd Edition" (ASX Recommendations). The Council accepts that there is no single model of good corporate governance and that each company must develop its own policies to meet the relevant circumstances of each company. Where a company considers that a recommendation of the Council is inappropriate, a company may decide not to adopt a particular recommendation but in doing so, its reasons should be explained and disclosed to Shareholders.

Generally, the Company's corporate governance framework satisfies the 8 core principles identified by the Council as those principles which underlie good corporate governance. Where the Company's corporate framework does not adopt a recommendation of the Council, it is disclosed and explained in this section.

The Board will review, at regular intervals, the Company's corporate governance framework in light of the Council's recommendations, having regard to the Company's size, development and operations.

The details of the Company's current and developing corporate governance practices as they relate to the eight key principles of the ASX Recommendations are explained below and set out in details on the Company's website at www.australianoilcompany.com.

Principle 1: Lay solid foundations for management and oversight

The Company has adopted this recommendation and formalised the functions reserved to the Board and those delegated to management. The Company has a small board, comprising four Directors, three of whom are non-executive (including the Chairman).

The Board is the governing body of the Company and its powers are set out in the Company's Constitution. The Board has overall responsibility for directing the business of the Company towards increasing Shareholder wealth and promoting the interests of the Company's other stakeholders such as its employees.

The Board is responsible for:

- (a) approving the strategic direction and financial objectives of the Company;
- (b) monitoring management's performance and progress against these objectives;
- (c) ensuring compliance with legal requirements and standards of performance;
- (d) implementing procedures and principles which ensure that the business is conducted ethically and with openness, honesty and integrity;
- (e) ensuring that the interests of all Shareholders are represented;
- (f) approving and monitoring the progress of major capital expenditure and acquisitions and divestitures;
- (g) appointing and reviewing the performance of the Managing Director/Chief Executive Officer and implementing appropriate succession planning for the Board and management;
- (h) ensuring that activities to improve performance are developed and undertaken in accordance with the essential principles of corporate governance and risk management; and
- (i) nominating new board members, reviewing remuneration policies and procedures and establishing remuneration levels for the Managing director/Chief Executive Officer and directors.

The Board has adopted a corporate governance framework which seeks to achieve these objectives. Responsibility for managing the business on a day-to-day basis has been delegated to the Managing Director and the Company Secretary. The Managing Director in consultation with the rest of the Board develops the business strategy and implements the strategy once approved by the Board. He is also responsible for the overall financial and operational management and control. The Managing Director's focus is on the management of exploration programmes, technical reporting and any future joint ventures or other commercial opportunities.

The Board as a whole acts as the remuneration committee which from time to time, as required, carries out informal performance evaluations. In view of its size and the resources available to the Company, the Board considers that there are no significant benefits to be gained at present through the implementation of a formal review process.

There are no senior executives other than the Directors of the Company and therefore there is no evaluation of senior executives as such, outside the evaluation of the Directors themselves.

Although, not required to hold shares in the Company, the Board believes the alignment of the interests of Directors with those of Shareholders as being the most efficient way to ensure Shareholders' interests are protected.

Principle 2 – Structure the Board to add value

The procedures for election and retirement of the Directors are governed by the Company's Constitution, the Corporations Act and the Listing Rules.

The number of Directors must not be less than 3 nor more than such numbers as the Directors determine. There is no requirement for any shareholding qualification. A minimum of half of the number of Directors should be independent non-executive directors. Currently, there is a majority of independent non-executive directors.

Given the Company's background, the nature and size of its business and the current stage of its development, the Board believes a board of this size is both appropriate and acceptable. It is considered that the Directors possess a broad range of skills, qualifications and industry experience encompassing the current and proposed activities of the Company. The details of the Directors, their experience, qualifications and term of office are set out in the Directors' Report.

If the Group's activities increase in size, nature and scope, the size of the Board will be reviewed periodically and the optimum number of Directors required to supervise adequately the Company's affairs determined within the limitations imposed by the Company's constitution and as circumstances demand. The membership of the Board, its activities and composition is subject to periodic review. The criteria for determining the identification and appointment of a suitable candidate for the Board shall include quality of the individual, background of experience and achievement, compatibility with other Board members, credibility within the Group's scope of activities, intellectual ability to contribute to Board duties and physical ability to undertake Board duties and responsibilities.

Under the Company's constitution the tenure of Directors (other than the managing director) is subject to reappointment by Shareholders not later than the 3rd anniversary following his or her last appointment. A managing director may be appointed for any period and on any terms the Board thinks fit and, subject to the terms of any agreement entered into, the Board may revoke any such appointment.

The Board considers that the Company is not currently of a size, nor are its affairs of such complexity, to justify the formation of separate or special committees at this time. The Board as a whole is able to address the governance aspects of the full scope of the Company's activities and to ensure that it adheres to appropriate ethical standards. As the Group's activities develop in size, nature and scope, the implementation of a formal corporate governance committee will be given further consideration.

Directors are required to take into consideration any conflicts when accepting appointment to other boards.

Independence of directors

The Board will review annually whether or not each director is independent. It believes that the best interests of the company, when it is of significant size and complexity, will be served by a majority of the directors being independent. This is in accordance with the terms of ASX Corporate Governance Guideline 2.1.

The Chairman is an independent director. The roles of the Chairman and the Chief Executive Officer are not exercised by the same individual.

This structure is considered appropriate by the Board having regard to what is most appropriate and cost-effective, the shareholding structure, the early stage of development of the company and the skills and experience of the incumbent.

The status of each director is as follows:

Andrew Childs - Chairman	Independent	(appointed November 2008)
Grant Jagelman - Managing Director	Non-Independent	(appointed May 2005)
Peter Cockcroft – Non-Executive Director	Independent	(appointed May 2005)
Ian Tchacos – Non-Executive Director	Independent	(appointed April 2010)

The Directors have been re-elected at Annual General Meetings as required by the Company's Constitution. The definition of director independence used by the company is as set out in the ASX Corporate Governance Guideline 2.1. Materiality levels used by the company for the purposes of this definition are as follows:

Professional advisers – Material if either:

- (a) Fees received by the adviser from the Company exceed 10% of the total fees received by the adviser/company in the last 12 months; or
- (b) Fees paid to the adviser exceed 10% of the total fees paid to all professional advisers by the Company in the last 12 months.

Suppliers/Customers – Material if either:

- (a) Purchases from the Company or sales to the Company exceed 10% of the Company's total revenue or total purchases (respectively) in the last 12 months; or
- (b) Purchases from the Company or sales to the Company exceed 10% of the customer's total purchases or supplier's total sales for the last 12 months.

Nomination Committee

The Board does not have a Nomination Committee. The Board considers that the Company is not currently of a size, nor are its affairs of such complexity, to justify the formation of separate or special committees at this time. The Board as a whole is able to address the governance aspects of the full scope of the Company's activities and to ensure that it adheres to appropriate ethical standards. As the Group's activities develop in size, nature and scope, the implementation of formal committees will be given further consideration.

Board Performance

The Board as a whole acts as the remuneration committee which from time to time, as required, carries out informal performance evaluations. In view of its size and the resources available to the Company, the Board considers that there are no significant benefits to be gained at present through the implementation of a formal review process.

The performance evaluation compares the performance of the Board, any committees, individual Directors and key executives within the requirements of this framework. It also sets the goals and objectives of the Board for the upcoming year; and considers developments in best practice corporate governance and any improvements to the Company's governance practices considered necessary or desirable.

A review of the remuneration of the Chief Executive Officer took place in June 2010 and will be carried out annually thereafter.

Independent professional advice

The Board has determined that individual Directors have the right, in connection with their duties and responsibilities as Directors, to seek independent professional advice at the Company's expense. With the exception of expenses for legal advice in relation to Director's rights and duties, the engagement of an outside adviser is subject to prior approval of the chair of the Board and this will not be withheld unreasonably.

Principle 3 – Promote ethical and responsible decision making

In performing their responsibilities, members of the Board must act at all times in a manner designed to create, and continue to build, sustainable value for Shareholders and in accordance with the duties and obligations imposed upon them by the Constitution, by law and the Listing Rules and by any codes of conduct adopted by the Board from time to time.

Non-executive Directors who sit on other Boards must ensure that they can dedicate a sufficient amount of time to effectively carry out their duties and responsibilities as Directors.

The Board will meet on a regular basis to consider the business of the Company. Directors who have a material personal interest in a matter being considered at a directors' meeting must not be present at that meeting or vote on the matter unless permitted by the Corporations Act.

All Directors are free to attend meetings of any Committee if they do not have an actual or perceived conflict of interest. Board Committees may only make recommendations to the Board and do not have any executive power to commit the Board to the implementation of their recommendations.

The Board has resolved to adopt a policy binding on all Directors from time to time, and their associates as defined in the Corporations Act 2001, relating to trading in the securities issued by the Company. This will enhance market confidence in the management of the Company and ensure the Directors and officers do not breach insider trading provisions of the Corporations Act.

That Policy prohibits Directors and their associates from trading in the securities issued by the Company as follows:-

- during a period where the Company or its joint venture parties are drilling.
- a period of 14 days before the publication of the annual accounts of the Company; and
- a period of 14 days before announcements made to ASX in accordance with the continuous disclosure obligations of the Company.

The policy further obliges each Director to discuss with the Chairman (or in the case of the Chairman himself), with a non-executive director of the Company, any trade in the securities of the Company contemplated by that Director or the Chairman.

The policy also provides that no Director may trade in the securities issued by the Company if he or she is in possession of information that may have a material impact on the price of the securities issued by the Company if it were publicly known.

All share trades must be advised to the Company Secretary when they occur so that the ASX can be advised in accordance with the Listing Rules.

The policy adopted by the Board, as described above, requires each Director to declare any conflict or potential conflict of interest in relation to any matter the subject of deliberation by the Board. A register of conflict declarations is to be maintained by the Secretary of the Company. In Board discussions concerning any item in which a Director has or may have a conflict, that Director may not participate in the discussion or resolution regarding that item.

The Board continues to review existing procedures over time to ensure adequate processes are in place. All Directors, employees and contractors are expected to act with the utmost integrity and objectivity in their dealings with other parties, striving at all times to enhance the reputation and performance of the Company.

Principle 4 – Safeguard integrity in financial reporting

The Board considers that the Company is not currently of a size, nor are its affairs of such complexity, to justify the formation of a separate audit committee at this time. The Board as a whole is able to address the governance aspects of the full scope of the Company's activities and to ensure that it adheres to appropriate ethical standards. All other matters which might properly be dealt with by special committees are subject to regular scrutiny at full Board meetings. As the Group's activities develop in size, nature and scope, the implementation of a formal audit committee will be given further consideration.

The Board comprises members with sufficient industry expertise to ensure the establishment of and adherence with proper internal controls of the Company's accounting systems and financial reporting processes.

The Managing Director and the Company Secretary (in his capacity as Chief Financial Officer) each declare in writing to the Board that the Company's financial reports present a true and fair view, in all material respects, of the Company's financial condition and operational results, and have been prepared in accordance with the Corporations Act 2001 and the relevant Australian Accounting Standards.

Principle 5 – Make timely and balanced disclosures

The Company is aware of the legal and other responsibilities arising under the Corporations Act 2001 and the ASX Listing Rules to keep the market fully informed on a continuing basis. These rules mean that the Company is required to disclose to ASX any information concerning the Company which is not generally available and which a reasonable person would expect to have a material effect on the price or value of the securities of the Company unless certain exemptions from the obligation to disclose apply. To enable it to meet its obligations, the Company has adopted a continuous disclosure protocol.

The Board has adopted a policy which establishes procedures to ensure that each Director is aware of and fulfils his or her obligations in relation to the timely disclosure of price sensitive information.

All relevant information provided to the ASX will, apart from being published by the ASX, be posted promptly on to the website of the Company (www.australianoilcompany.com) in compliance with the continuous disclosure requirements. Other relevant information, such as Company presentations, radio and video broadcasts are also disclosed to shareholders via the Company's website and where relevant, to the ASX.

The Company has also instigated internal procedures designed to provide reasonable assurance as to the effectiveness and efficiency of operations, the reliability of financial reporting and compliance with relevant laws and regulations. The Board is acutely aware of the continuous disclosure regime and there are strong informal systems in place to ensure compliance, underpinned by experience.

The Company's continuous disclosure policy is designed to ensure that the Company complies with its legal obligations under the Corporations Act and the Listing Rules and to produce a high level of transparency in respect to the Company's operations. It is designed to ensure there are procedures in place so that share markets in which the company's shares are traded are properly informed of matters which may have a material impact on the price at which the shares are traded and to ensure compliance with the ASX listing rules and specifically Rule 3.1, 3.1A and 3.1B.

At a procedural level the Managing Director in consultation with the Company Secretary will decide whether a matter would have a material effect on the price the Company's shares and, therefore, should be disclosed. In the case of a matter being assessed as likely to have a material effect whether the matter qualified for exemption from disclosure by addressing whether the information falls within a category listed in Listing Rule 3.1A.3; whether the information is confidential (and ASX has not formed an alternative view), and then whether a reasonable person would not expect it to be disclosed.

If the matter does not qualify for an exemption the Chief Executive Office/Company Secretary will advise all directors and then make the disclosure to ASX, as appropriate.

If the matter is not likely to have a material effect on the price of the Company's, the Chief Executive Officer will assess whether a disclosure will, in any case, be made to keep the share market further informed.

Principle 6 – Respect the rights of shareholders

In line with adherence to continuous disclosure requirements of ASX all shareholders are kept informed of major developments affecting the Company. The disclosure is through the Company's continuous and periodic reporting obligations (annual, half yearly, quarterly announcements) as well as the Company's website and the distribution of specific releases covering major transactions or events.

Adherence to the Code of Conduct and the Company's desire to keep both shareholders and the wider investment community informed, ensure that shareholders and potential investors are provided with up-to-date information regarding the Company and its operations.

Shareholders are encouraged to attend and be heard at the Company's annual general meeting. Shareholders are also encouraged to exercise their right to vote, either by attending meetings, or by lodging a proxy. The external auditors are required to attend all Shareholders' meetings and are available to respond to specific questions from shareholders.

Principle 7 – Recognise and manage risk

The Board considers that proper risk and compliance management is a basic requirement for the success of the Company's operations and the Board takes seriously its obligations in this regard. The Company does not have a formalised policy on risk management. However the Board recognises its responsibility for identifying areas of significant business risk and for ensuring that consideration is given for adequately managing these risks. Risk matters are regularly reviewed at Board meetings.

Determined areas of risk that are regularly considered include the performance and funding of exploration activities, status of mineral exploration licences, compliance with government laws and regulations of other regulatory bodies, continuous disclosure obligations, exchange rate fluctuations and budget control and asset protection

Financial and legal risks are managed by the Managing Director and Company Secretary as part of the day-to-day management of the Company's affairs. These risks are managed with the support of relevant professional advisors. The Managing Director and Company Secretary have reported to the Board in relation to the management of these risks.

The Board has received assurance from the Managing Director and the Company Secretary that the declaration provided in accordance with section 259A of the Corporations Act is founded on a sound system of risk management and internal control and that the system is operating effectively in all material respects in relation to financial reporting risks.

In light of the current activities and size of the Company, it is not presently considered necessary for a separate Committee of Board Members to be formed, but this situation will be kept under constant review by the Board. If it is considered that the functioning of the Board will be assisted by the appointment of a Risk Committee, such a committee will then be established.

Principle 8 – Remunerate Fairly and Responsibly

The Company has not established a formal remuneration committee as such. The Board as a whole acts as the remuneration committee which from time to time, as required, carries out informal performance evaluations. In view of its size and the resources available to the Company, the Board considers that there are no significant benefits to be gained at present through the implementation of a formal review process.

Matters of remuneration of the Board and Managing Director considered by the Board and in the case of non-executive Directors, remuneration does not exceed the limit set by shareholders at annual general meeting. Remuneration levels of the Board and Managing Director are approved by the Board. In doing so, the Board seeks to retain the professional services of Directors as it requires, at reasonable market rates, and seeks external advice and market comparisons where necessary.

The remuneration policy of the Company has been designed to align director and executive objectives with shareholder and business objectives. The Board believes the remuneration policy to be appropriate and effective in its ability to attract and retain the best executives and directors to run and manage the consolidated entity. The Board reviews executive packages annually by reference to the economic entity's performance, executive performance and comparable information from industry sectors. All remuneration paid to directors and executives is valued at the cost to the company and expensed.

The Company discloses remuneration-related information in the Directors' Report section of the Annual Report to Shareholders in accordance with the Corporations Act 2001. Non-executive Directors are each paid \$30,000 per annum and the non-executive Chairman receives \$50,000 per annum. The non-executive directors are not entitled to any retirement benefit.

Shareholder Information

1. Distribution at 18 October 2010

Spread of Shares	Fully paid shares	Number of Holders	Options
1 - 1,000	41		1
1,001 - 5,000	29		73
5,001 - 10,000	87		28
10,001 - 100,000	168		92
100,001 and over	91		42
	416		241

2. Voting Rights

All fully paid shares in the Company are entitled to one vote each. Options do not have any voting rights.

3. Substantial Shareholder

The Company's substantial shareholders are

Jagelman Superannuation Fund – 4,350,001 shares (8.40%)
C E Harris & K W Harris – 3,700,000 shares (7.15%)

4. Interest in Mining Tenements

PEL 182	Cooper Basin, South Australia	5%
EP 435	Carnarvon Basin, Western Australia	15%
Huasna	California USA	35%

5. Use of funds available on ASX listing

The Company has used the cash and assets in a form readily convertible to cash that it had at the time of admission to the ASX in a way consistent with its business objectives

6. Statement of Quoted Securities

Quotation has been granted for all the ordinary shares of the Company on all Member Exchanges of the ASX under the code AOC, and the options under code AOCO.

7. Restricted Securities

The Company has no securities with restrictions.

8. Twenty Largest Shareholders – 18 October 2010

Shareholder	Fully paid shares	%
JAGELMAN SUPERFUND	4,350,000	8.404
MRS C HARRIS & MR K HARRIS	3,700,000	7.148
MR ANDREW CHILDS	2,010,000	3.883
HUMBOLDT CAPITAL CORP	2,000,000	3.864
WARRANGI NOMINEES PTY LTD	1,700,000	3.284
SCINTILLA STRATEGIC INVESTMENTS LIMITED	1,600,000	3.091
MRS ANN MCCALL PATRICK	1,441,907	2.786
MOUNT ROYAL PTY LTD	1,354,803	2.617
PASO HOLDINGS PTY LTD	1,318,879	2.548
PETROLEUM VENTURES PTY LTD	1,081,692	2.090
HARNBURY PTY LTD	1,000,000	1.932
CANDIDE INVESTMENTS PTY LTD	970,000	1.874
MR GRAEME CLATWORTHY	800,000	1.546
ALAN DAVIS PTY LTD	700,000	1.352
PERSAL & CO INVESTMENTS PTY LTD	700,000	1.352
MR PETER COCKCROFT	662,501	1.280
MR MICHAEL LEE	625,000	1.207
MR IAN FERRIER	500,001	0.966
MR JAMES A LINEN	500,000	0.966
RIVIERA SUPER FUND	500,000	0.966
ROYAL SUNSET PTY LTD	500,000	0.966
SYNCOPATED PTY LTD	500,000	0.966
	28,514,783	55.088

9. Twenty Largest Option holders - 18 October 2010

Optionholder	Options	%
GRANT JAGELMAN SUPERFUND	6,650,000	25.562
GOFFACAN PTY LTD	1,898,550	7.298
MR ANDREW CHILDS	1,062,500	4.084
MR JOSEPH PATRICK & MRS ANN PATRICK	1,006,060	3.867
BERENES NOMINEES PTY LTD	1,000,000	3.844
NATIONAL NOMINEES LIMITED	1,000,000	3.844
MR PETER COCKCROFT	506,250	1.946
MR IAN FERRIER	500,000	1.922
MR MICHAEL POPE	500,000	1.922
QUOTIDIAN NO 2 PTY LIMITED	500,000	1.922
MRS ANN PATRICK	425,000	1.634
TECHINVEST HOLDINGS PTY LTD	362,075	1.392
PANCHO (NSW) PTY LIMITED	336,500	1.293
MR JOSEPH PATRICK	325,739	1.252
UBS NOMINEES PTY LTD	325,000	1.249

ALAN DAVIS PTY LTD	300,000	1.153
MR ANDREW LEHMANN	300,000	1.153
MR ALAN BOND	256,250	0.985
POLDING PTY LTD	256,250	0.985
MR PATRICK CREMIN	250,000	0.961
J M BLUMER & ASSOCIATES PTY LTD	250,000	0.961
MR JAMES A LINEN	250,000	0.961
SCINTILLA CAPITAL PTY LTD	250,000	0.961
SCINTILLA CAPITAL PTY LTD	250,000	0.961
SCINTILLA STRATEGIC INVESTMENTS LIMITED	250,000	0.961
MR THOMAS SHARP	250,000	0.961
	19,260,174	74.033

10. Additional Information

The Company continues to comply with the ASX Listing rules disclosure requirements. The Company reports to ASX which makes available all reports to those who wish to access them. All ASX releases and other background information and posted regularly on the Company's website. The Company intends to post on its website its Annual Report and all other notices to its Shareholders.

The Board reviews and receives advice on areas of operational and financial risk. Business risk management strategies are developed as appropriate to mitigate all identified risks of the business. The Directors are aware of the guidelines for the content of a code of conduct to guide compliance with legal and other obligations to Shareholders but has not formally established such a code. Where applicable to its activities, the Directors ensure that the Company is responsible to its Shareholders, employees, contactors, advisers, individuals and the community.

General terms

“**AOC Group**” means AOC and its wholly-owned subsidiaries AOC No 2, AOC No 3, and AOC Investments.

“**AOC**” or “**Company**” means Australian Oil Company Limited (ACN 114 061 433).

“**AOC No 2**” means Australian Oil Company No 2 Pty Limited (ACN 114 298 556).

“**AOC No 3**” means Australian Oil Company No 3 Pty Limited (ACN 114 298 761).

“**AOC Investments**” means Australian Oil Company Investments Pty Limited (ACN 114 298 181).

“**Board**” means the board of Directors of the Company for the time being.

“**Company**” or “**AOC**” means Australian Oil Company Limited (ACN 114 061 433).

“**Corporations Act**” means the Corporations Act 2001 (Cth), as amended from time to time, as it applies to the Company for the time being.

“**EP 435**” means the exploration permit EP435 to explore for petroleum granted by the government of the State of Western Australia pursuant to the provisions of section 37A of the Petroleum Act, 1967.

“**PEL 182**” means the Petroleum Exploration Licence 182 granted on 10 August 2005 by the SA Minister.