



Australian Oil Company Limited

Level 8, 139 Macquarie Street, Sydney NSW 2000 Australia
Tel: (02) 8231 7000 Fax: (02) 9251 5778 Email: reception@ozibox.com.au
ABN 83 114 061 433

Managing Directors Report to Shareholders at AGM 14 November 2011

It has been a very productive period for our company with three new projects being instigated in California in addition to our existing Mankens Ranch heavy oil joint venture.

The North Franklin, Sacramento County, gas well was drilled and we were unable to reach the primary objective due to extremely high gas pressure. Planning is underway to design a well program to control the high pressures in an optimal updip location and to introduce an additional joint venture party to assist in the funding of the venture going forward.

The next well to be drilled early in 2012 is located on 3,100 leased acres in Los Alamos, Santa Barbara County. The well is to be situated 12,000 feet updip from an existing well drilled in 1986 which encountered extensive oil shows and a thin oil column in the primary objective being the Monterey Shale. It is intended to seek a joint venture partner to assist in funding.

We finalised the leasing of 9,100 acres known as the Porter Ranch, San Luis Obispo. Philips Petroleum drilled the only well on the Porter Ranch in 1984 which tested oil from 3 zones before encountering drilling problems and was subsequently abandoned. A work program is being carried out which includes acquiring all well details, seismic data and other geological information for review and analysis.

The Mankens Ranch project has been delayed due to the protracted permitting processes and we expect resolution of these issues to take place next year.

Since the inception of the company we have introduced joint venture parties to our various projects which has resulted in providing additional funding in excess of \$6,750,000. This has enabled the company to participate over the period in 7 wells and expensive permitting process without significantly increasing the issued capital.

We continue to review numerous oil and gas projects and have developed a sound operating base in the US.

Grant Jagelman

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