



AUSTRALIAN OIL COMPANY LIMITED

**ANNUAL REPORT
2008**

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CORPORATE DIRECTORY

Company

Australian Oil Company Limited

ACN 114 061 433

Directors

Ian Ferrier
Grant Jagelman
John Blumer
Peter Cockcroft

Chairman
Managing Director
Non-Executive Director
Non-Executive Director

Company Secretary

Mark Ohlsson

Registered Office and Head Office

Level 8
139 Macquarie Street
Sydney NSW 2000

Telephone: 61 2 8231 7000
Facsimile: 61 2 9251 5778
Email: [jjagelman@email.com](mailto:jgjagelman@email.com)
Website: www.australianoilcompany.com

Auditor

WHK Horwath
Level 15
309 Kent Street
Sydney NSW 2000

Share Registry

Registries Limited
Level 2
28 Margaret Street
Sydney NSW 2000
Telephone: 61 2 9290 9600
Facsimile: 61 2 9279 0664

Australian Stock Exchange Ltd

ASX Code
Shares AOC
Options AOCO

CHAIRMAN'S LETTER

Dear Shareholder

Since listing three years ago on the Australian Stock Exchange we have spent approximately \$6 million on exploration and raised \$3 million through joint ventures to offset this exploration cost.

We are now concentrating our efforts on the Huasna project in California USA (See page 3 of this report). We have been delayed in our permitting application to redrill 4 existing wells primarily due to concerns from the neighbours relating to our proposed transport route for oil from the project site. As a result we have organised an alternative route by obtaining an easement over a nearby property which mitigates this issue. This has resulted in 5 additional consultant reports being submitted to the local authorities and the consequent deferment in the permit application hearing.

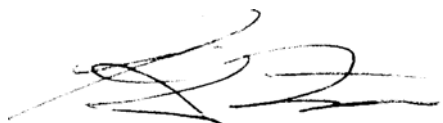
The majority of the exploration expenditure, \$4 million compared with the estimate at time of our prospectus of \$1.6 million, has been spent in the Cooper Basin project PEL 182 in South Australia and whilst there have been 2 wells completed as producers the cost of exploration was significantly greater than budgeted and we were in disagreement with the operator on the implementation of the exploration program. Accordingly we have reduced our involvement and were instrumental in the appointment of the new operator Audax Resources Limited. The future exploration program in this permit is now being re-evaluated by the new operator.

John Blumer is not standing for re-election at our AGM. John has made a very substantial contribution to the Board since the Company's inception. We will continue to have the benefit of his counsel on an informal basis.

Andrew Childs who has extensive background and qualifications in the oil industry will be standing for election to the Board at the AGM and we look forward to the benefits of his expertise and experience.

We are conscious of the volatility of the current economic climate and have sufficient cash reserves for the two financial years ending 30 June of 2009 and 2010.

Yours faithfully

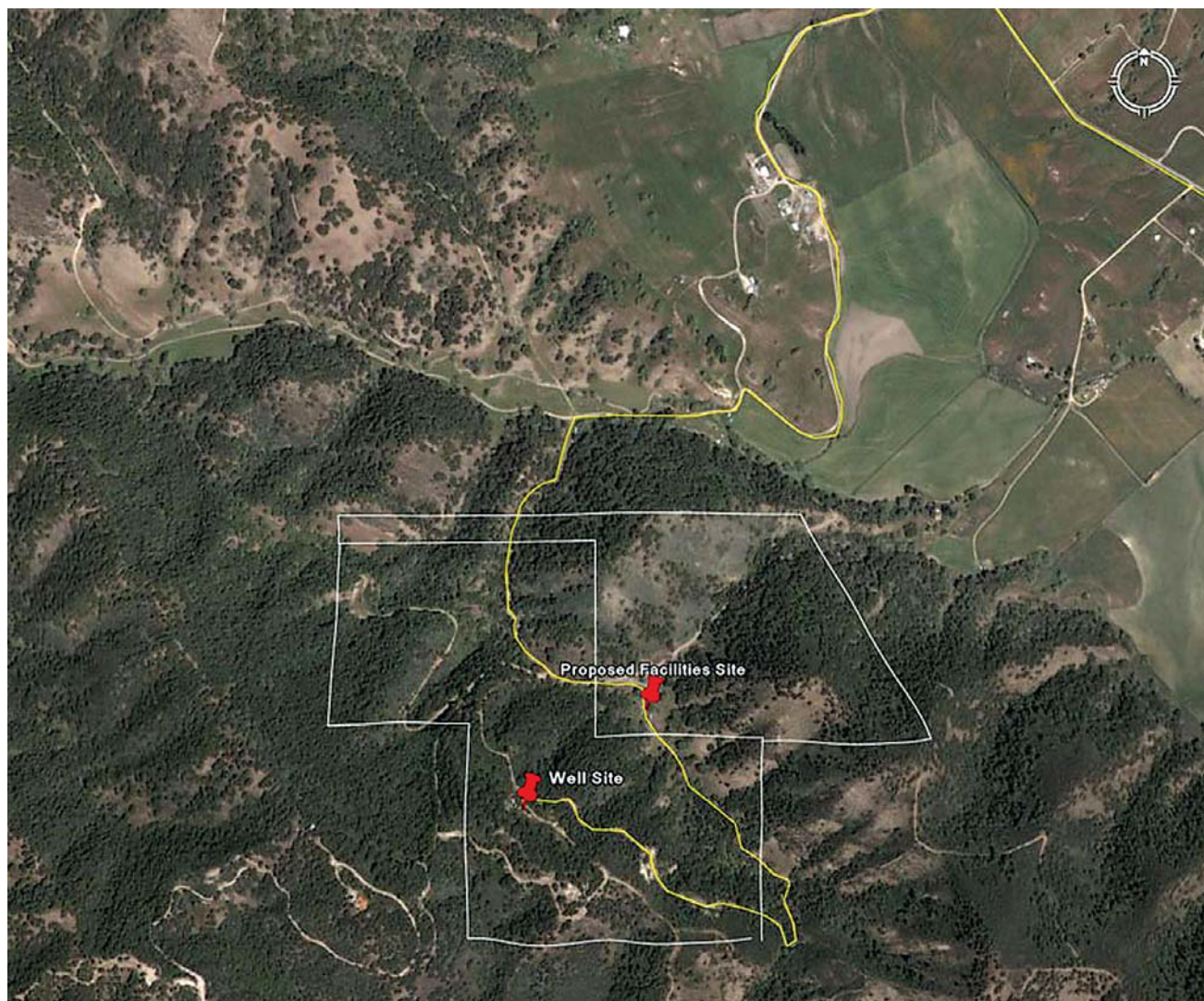


Ian Ferrier
Chairman

14 October 2008

OPERATIONS REVIEW

Huasna Oil Project - US



Excelaron LLC is the operator of the project and is 46% owned and managed by Australian Oil Company Limited. We are seeking a Conditional Use Permit from the County of San Luis Obispo for the establishment of four production oil wells and transportation of produced crude oil to a refining facility outside of the county. The project includes three phases: construction, exploration, and production.

The construction phase includes improvements to existing well pads and the shipping area as well as rehabilitation of existing roads accessing those sites.

The exploratory phase includes reactivation of one existing idle well and an evaluation of the quantity and quality of produced crude, replacement well if the existing idle well does not meet production standards, and the drilling of three additional wells. If excess water is encountered, an existing well will be rehabilitated for injection purposes only. When the exploration phase is complete, the production phase could include the incorporation of a shipping/staging area for operations facilities and storage and above ground piping from production wells to shipping area.



Location

The project is located in California on the west side of Huasna Townsite Road, approximately one mile south of Huasna Road, approximately 12 miles east of the City of Arroyo Grande.

The development will take place over two parcels of land totalling 260 acres. An additional 1200 acres has been leased adjacent to the area where this exploration and development program is planned to take place



Operations

The heavy oil in this area averages 9° API. Based on historical evidence and operational practice, hot water injection has been the most effective method of an enhanced oil recovery. In order to effectively test the production possibilities an operating system including hot water injection facilities will be constructed on the site. The operational plan calls for replacing existing equipment such as stock and wash tanks, boiler, pumps, pipes, and generators. Due to the viscosity of the crude oil, all pipelines, tanks, and storage facilities will be heated and insulated.

Crude oil will be delivered to an onsite shipping point for truck transportation to a nearby refinery. Wastewater will be re-heated and used for enhanced oil recovery and any natural gas will be fed into the operating system's heater.

Geological Information

A number of wells in this area have been drilled into the Monterey Formation, which is the producing horizon for a number of oilfields in the Santa Maria Basin, just south of the project site. The Monterey Formation is composed of diatomite, siliceous shales, dolostone, porcellanite and chert. Reservoir development is associated with fractures and porosity within sandstones of the formation.

There are two seismic lines and six wells in the vicinity of the site. Of these wells, five are very shallow.

The geology of the area is structurally complex, so the seismic lines are of limited utility. Seismic Ventures International of Houston was contracted to reprocess the existing data and achieved significant quality improvement. Our consultants have used this seismic information, well data, surface geological maps and all other available data to generate a structural map on the top Monterey Formation. The map indicates that the field continues at depth and extends beyond the existing well control. There is potential to trap in excess of 2000 feet of oil bearing Monterey Formation on the Huasna anticline.

The Union-Dickies 01 well located on the Huasna anticline recovered 32 + API oil in the section below the Monterey. This show offers potential for conventional oil production at depth within the Huasna structure.

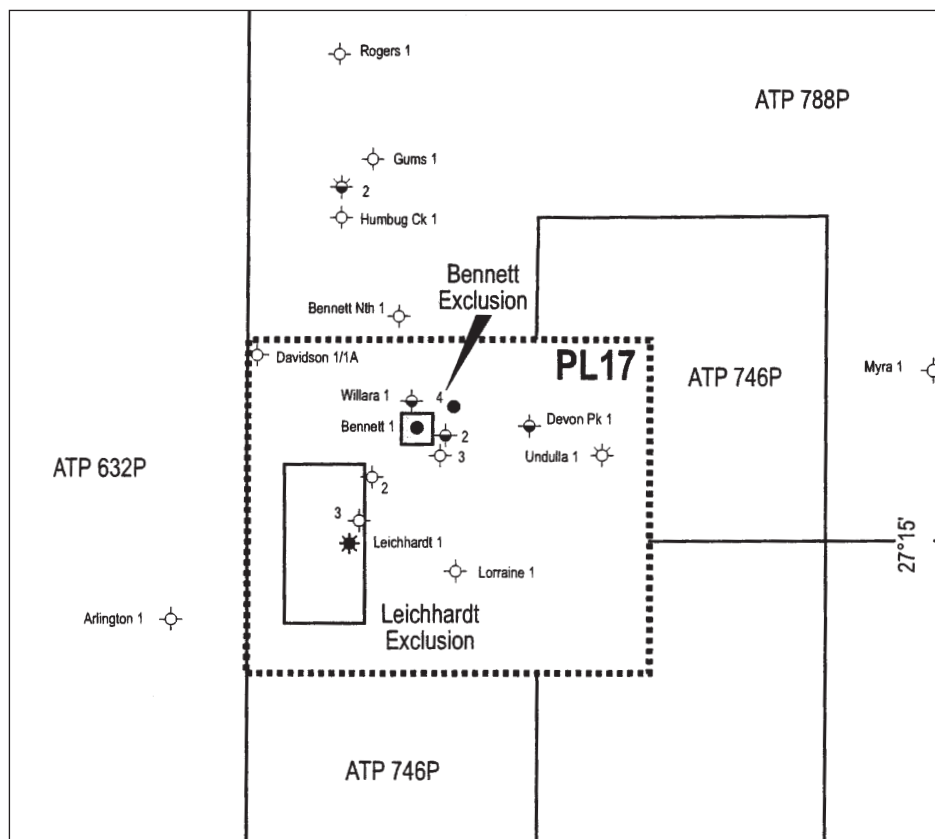


Well Site

PL 17 Surat Basin Queensland - 40% Equity Interest

AOC has a 40% interest in PL 17 situated in the Surat Basin in Queensland and a 30% interest in the Leichhardt Exclusion Zone located within this licence. Excluded from the interest are the Bennett 1 well and Leichhardt 1 well which are separately owned by the Operator of PL 17, Southern Cross Petroleum & Exploration Pty Ltd .

We conducted a detailed evaluation of historical technical data which we provided to the operator. We are awaiting advice from the operator regarding the feasibility of re-entering the Bennett 4 well which is located north east of the Bennett 1 well



EP 435 Carnarvon Basin Western Australia - 17 % Equity Interest

We are awaiting the drilling of the Bee-Eater well in EP 435 which is expected to take place in early 2009 and following this well the participants will evaluate whether to drill a further adjacent well.

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 Emily 1 exclusion area adjacent to the Emily 1 well which was completed as a production well.

Audax Resources Limited which holds a majority interest in the permit has taken over as operator and is completing a detailed evaluation of the technical information and the ongoing exploration program.

The Vanessa well which was completed as a gas producer is also being evaluated by the operator regarding additional development wells, transport and gas pricing.

DIRECTORS REPORT

The directors present their report on Australian Oil Company Limited and its controlled entities ("the Group") for the year ended 30 June 2008 and the state of affairs of the Group at that date.

Directors

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

Ian Ferrier *Chairman*

Ian Douglas Ferrier is the Chairman of Ferrier Green Krejci Silvia. He is a Fellow of The Institute of Chartered Accountants in Australia and has over 40 years experience in corporate management. He is a director of a number of private and public companies. He is chairman of InvoCare Limited and Energy One Limited and a director of Australian Vintage Limited, Goodman International Limited, Reckon Limited and Timor Oil Limited. (appointed 2 May 2005)

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)

John Blumer *Non-Executive Director*

John Maxwell Blumer has over 30 years experience as an independent petroleum geologist. Following 12 years working for Australian and international oil exploration companies he founded in 1975 his own consulting firm. Since 1990 he has been the managing director and major shareholder in RobSearch Australia Pty Ltd which specialised in oil and gas exploration and management. He is a director of Blue Ensign Technologies Limited and Timor Oil Limited. (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. (appointed 2 May 2005)

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
Ian Ferrier	3	3
Grant Jagelman	3	3
John Blumer	3	3
Peter Cockcroft	3	3

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
Ian Ferrier	500,000	412,500	1,000,000	512,500
Grant Jagelman	1	6,650,000	-	13,300,000
John Blumer	1	375,000	1	625,000
Peter Cockcroft	662,501	-	1,012,500	-

Employee Options

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

Remuneration Report

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

The information provided under headings A-D includes remuneration disclosures that are required under Accounting Standard AASB 124 *Related Party Disclosures*. These disclosures have been transferred from the financial report and have been audited.

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 including:

Ian Ferrier

Grant Jagelman

John Blumer

Peter Cockcroft

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

2008	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 \$	
Ian Ferrier	-	-	-	50,000	-	-	-	50,000
Grant Jagelman	98,000	-	-	102,000	-	-	-	200,000
John Blumer	-	-	-	30,000	-	-	-	30,000
Peter Cockcroft	30,000	-	-	-	-	-	-	30,000
Total	128,000	-	-	182,000	-	-	-	310,000

2007	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 \$	
Ian Ferrier	-	-	-	50,000	-	-	-	50,000
Grant Jagelman	98,000	-	-	102,000	-	-	-	200,000
John Blumer	-	-	-	30,000	-	-	-	30,000
Peter Cockcroft	30,000	-	-	-	-	-	-	30,000
Total	128,000	-	-	182,000	-	-	-	310,000

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 1.7.2007	Granted as Compensation	Options Exercised	Balance 30.6.2008
Ian Ferrier	1,000,000	-	-	1,000,000
Peter Cockcroft	1,012,500	-	-	1,012,500
Total	2,012,500	-	-	2,012,500

Options were 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 exercise price of each option is \$0.20 per share. All options expire on 31 December 2009.

Shareholdings

Number of shares held by Key Management Personnel

Key management person	Balance 1.7.2007	Received as Compensation	Options Exercised	Balance 30.6.2008
Ian Ferrier	500,001	-	-	500,001
Grant Jagelman	1	-	-	1
Peter Cockcroft	662,501	-	-	662,501
John Blumer	1	-	-	1
Total	1,162,504	-	-	1,162,504

Dividends

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

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 \$943,219 (2007 loss \$1,004,822).

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 8% of the Excelaron project was farmed out. The Group also incorporated a new US company, Huasna Oil LLC, to be used for future US expansion. 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.

Proceedings on Behalf of Company

No person has applied for leave of Court under section 237 of the *Corporations Act 2001* for leave to bring proceedings on behalf of the company, or to intervene in any proceeding to which the company is a party for the purpose of taking responsibility on behalf of the company for all or part of those proceedings.

No proceedings have been brought or intervened in on behalf of the company with leave of the Court under section 237 of the *Corporations Act 2001*.

Future Developments

The likely developments in the operations of the economic entity and the expected results of those operations in financial years subsequent to the year ended 30 June 2008 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 lead auditor's independence declaration under section 307C of the *Corporations Act 2001* is set out on page 6 for the year ended 30 June 2008

Signed in accordance with a resolution of the Board of Directors



Managing Director
Grant Jagelman
30th September 2008



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

**AUDITOR'S INDEPENDENCE DECLARATION UNDER SECTION 307C OF THE
CORPORATIONS ACT 2001 TO THE DIRECTORS OF AUSTRALIAN OIL COMPANY
LIMITED**

I declare that, to the best of my knowledge and belief, during the period ended 30 June 2008 there have been:

- i. no contraventions of the auditor independence requirements of the *Corporations Act 2001* in relation to the audit; and
- ii. no contraventions of any applicable code of professional conduct in relation to the audit.

WHK Horwath Sydney

WHK HORWATH SYDNEY

DAVID SINCLAIR
Principal

Dated this 30th day of September 2008

Total Financial Solutions



Liability limited by a scheme approved under Professional Standards Legislation

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A WHK Group Firm

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

Income Statement

for the period ended 30th June 2008

	Note	Consolidated Entity		Parent Entity	
		Year ended 30 June 2008 \$	Year ended 30 June 2007 \$	Year ended 30 June 2008 \$	Year ended 30 June 2007 \$
Revenue	2	83,240	179,147	83,135	179,147
Profit on sale of shares	2	1,608	5,365	1,608	5,365
Gain on deconsolidation of subsidiary	12	350,583	-	-	-
Share of net profit of associate		2,913	-	-	-
Depreciation and amortisation expense		(1,101)	(1,013)	(1,101)	(1,013)
Administration expenses		(837,671)	(465,073)	(549,185)	(459,546)
Impairment of receivables	3	-	-	-	(203,383)
Loss on sale of shares		(40,746)	-	(40,746)	-
Write down shares to market		(45,115)	-	(45,115)	-
Exploration expenses	3	(599,162)	(903,818)	-	-
Profit (loss) before income tax		(1,085,451)	(1,185,392)	(551,404)	(479,430)
Income tax expense	4	-	-	-	-
Profit (loss) from continuing operations		(1,085,451)	(1,185,392)	(551,404)	(479,430)
Profit (loss) for the year		(1,085,451)	(1,185,392)	(551,404)	(479,430)
Profit (loss) attributable to minority equity interest		142,232	180,570	-	-
Profit (loss) attributable to members of the parent entity		(943,219)	(1,004,822)	(551,404)	(479,430)
Basic earnings per share (cents per share)	8	(2.2) cents	(2.4) cents		
Diluted earnings per share (cents per share)	8	(2.2) cents	(2.4) cents		

The accompanying notes form part of these financial statements

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

Balance Sheet

As at 30th June 2008

	Note	Consolidated Entity		Parent Entity	
		Year ended 30 June 2008 \$	Year ended 30 June 2007 \$	Year ended 30 June 2008 \$	Year ended 30 June 2007 \$
ASSETS					
CURRENT ASSETS					
Cash and cash equivalents	9	967,964	2,011,653	964,241	2,005,082
Trade and other receivables	10	81,779	13,775	31,018	10,837
Financial assets	11	24,000	-	24,000	-
TOTAL CURRENT ASSETS		1,073,743	2,025,428	1,019,259	2,015,919
NON-CURRENT ASSETS					
Trade and other receivables	10	-	-	2,500,079	2,027,823
Financial assets	11	-	2,000	117,260	119,260
Investment accounted for using the equity method	11	70,170	-	-	-
Plant and equipment	13	2,057	17,392	2,057	1,973
Inventory	14	122,195	179,841	-	-
Formation expense		1,024	-	-	-
Exploration expenditure	15	1,325,302	1,025,494	-	-
TOTAL NON-CURRENT ASSETS		1,520,748	1,224,727	2,619,396	2,149,056
TOTAL ASSETS		2,594,491	3,250,155	3,638,655	4,164,975
CURRENT LIABILITIES					
Trade and other payables	16	45,286	3,040	36,979	3,040
TOTAL CURRENT LIABILITIES		45,286	3,040	36,979	3,040
TOTAL LIABILITIES		45,286	3,040	36,979	3,040
NET ASSETS		2,549,205	3,247,115	3,601,676	4,161,935
EQUITY					
Issued capital	17	5,714,659	5,723,514	5,714,659	5,723,514
Retained earnings		(3,108,164)	(2,164,945)	(2,112,983)	(1,561,579)
Foreign currency translation reserve		(244)	(50,057)	-	-
Minority equity interest	18	(57,046)	(261,397)	-	-
TOTAL EQUITY		2,549,205	3,247,115	3,601,676	4,161,935

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 2008

	Note	Issued Capital \$	Retained Earnings \$	Reserves \$	Minority Interest \$	Total \$
Consolidated Entity						
Balance at 1 July 2007		5,723,514	(2,164,945)	(50,057)	(261,397)	3,247,115
Recognition of minority interest in accumulated losses and reserves		-	-	-	346,583	346,583
Shares issued during the period		-	-	-	-	-
Loss attributable to members of the parent entity		-	(943,219)	-	-	(943,219)
Loss attributable to minority shareholders		-	-	-	(142,232)	(142,232)
Movement in Exchange reserve		-	-	49,813	-	49,813
Share Issue costs		(8,855)	-	-	-	(8,855)
Balance at 30 June 2008	17	5,714,659	(3,108,164)	(244)	(57,046)	2,549,205
Parent Entity						
Balance at 1 July 2007		5,723,514	(1,561,579)	-	-	4,161,935
Share Issued during the year		-	-	-	-	-
Profit attributable to members of parent entity		-	(551,404)	-	-	(551,404)
Share Issue costs		(8,855)	-	-	-	(8,855)
Balance at 30 June 2008	17	5,714,659	(2,112,983)	-	-	3,601,676

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 2007

	Note	Issued Capital \$	Retained Earnings \$	Reserves \$	Minority Interest \$	Total \$
Consolidated Entity						
Balance at 1 July 2006		5,723,514	(1,160,123)	-	(38,105)	4,525,286
Loss attributable to members of the parent entity		-	(1,004,822)	-	-	(1,004,822)
Loss attributable to minority shareholders		-	-	-	(180,570)	(180,570)
Transfer of reserves		-	-	-	(42,722)	(42,722)
Movement in Foreign Currency Reserve		-		(50,057)	-	(50,057)
Share Issue costs		-	-	-	-	-
Balance at 30 June 2007		5,723,514	(2,164,945)	(50,057)	(261,397)	3,247,115
Parent Entity						
Balance at 1 July 2006		5,723,514	(1,082,149)	-	-	4,641,365
Share Issued during the year		-	-	-	-	-
Profit attributable to members of parent entity		-	(479,430)	-	-	(479,430)
Share Issue costs		-	-	-	-	-
Balance at 30 June 2007		5,723,514	(1,561,579)	-	-	4,161,935

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 30th June 2008

	Note	Consolidated Entity		Parent Entity	
		Year ended 30 June 2008 \$	Year ended 30 June 2007 \$	Year ended 30 June 2008 \$	Year ended 30 June 2007 \$
CASH FLOWS FROM OPERATING ACTIVITIES					
Payments to suppliers and employees		(792,921)	(799,148)	(521,682)	(465,098)
Exploration expenditure		(898,991)	(903,818)	-	-
Interest Received		83,135	184,512	83,135	184,512
Net cash (used in) operating activities	21	(1,608,777)	(1,518,454)	(438,547)	(280,586)
CASH FLOWS FROM INVESTING ACTIVITIES					
Purchase of property, plant and equipment		(1,186)	(15,419)	(1,186)	-
Rental Bond		-	(7,500)	-	(7,500)
Purchase of investments		(132,302)	2,000	(132,302)	2,000
Proceeds from sale of investments		26,048	-	26,048	-
Purchase of Option		-	-	-	(50,000)
Loans to associate		(13,743)	-	(1,181,125)	(1,209,858)
Repayment of loans		695,126	-	695,126	-
Net cash provided by investing activities		573,943	(20,919)	(593,439)	(1,265,358)
CASH FLOWS FROM FINANCING ACTIVITIES					
Proceeds from issue of shares		-	-	-	-
Costs of Share Issue		(8,855)	-	(8,855)	-
Net cash provided by financing activities		(8,855)	-	(8,855)	-
Net (decrease)/increase in cash held		(1,043,689)	(1,539,373)	(1,040,841)	(1,545,944)
Cash at beginning of period		2,011,653	3,551,026	2,005,082	3,551,026
Cash at end of period	9	967,964	2,011,653	964,241	2,005,082

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 30th June 2008

NOTE 1: STATEMENT OF SIGNIFICANT ACCOUNTING POLICIES

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.

Australian Oil Company Limited was incorporated on 2 May 2005. The directors elected for the first financial year to cover the period 2 May 2005 to 30 June 2006. The comparative figures in this Report relate to the year ended 30 June 2007. The financial report covers the Consolidated entity of Australian Oil Company Limited and controlled entities, and Australian Oil Company Limited as an individual parent entity. Australian Oil Company Limited is a listed public company, incorporated and domiciled in Australia.

The financial report of Australian Oil Company Limited and controlled entities, and Australian Oil Company Limited as an individual parent entity comply with Australian Accounting Standards which ensures compliance with all International Financial Reporting Standards (IFRS).

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

Reporting Basis and Conventions

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.

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 12 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 equity interests in the equity and results of the entities that are controlled are shown as a separate item in the consolidated financial report.

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.

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 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.

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.

Financial assets at fair value through profit and loss

A financial asset is classified in this category if acquired principally for the purpose of selling in the short term or if so designated by management and within the requirements of AASB 139: Recognition and Measurement of Financial Instruments. Derivatives are also categorised as held for trading unless they are designated as hedges. Realised and unrealised gains and losses arising from changes in the fair value of these assets are included in the income statement in the period in which they arise.

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.

Impairment

At each reporting date, the Group assesses whether there is objective evidence that a financial instrument has been impaired. In the case of available-for-sale financial instruments, a prolonged decline in the value of the instrument is considered to determine whether an impairment has arisen. Impairment losses are recognised in the income statement.

Impairment of Assets

At each reporting date, the Group reviews the carrying values of its tangible and intangible assets to determine whether there is any indication that those assets have been impaired. If such an indication exists, the recoverable amount of the asset, being the higher of the asset's fair value less costs to sell and value in use, is compared to the asset's carrying value. Any excess of the asset's carrying value over its recoverable amount is expensed to the income statement.

Where it is not possible to estimate the recoverable amount of an individual asset, the group estimates the recoverable amount of the cash-generating unit to which the asset belongs.

e. Foreign Currency Transactions and Balances

Functional and presentation currency

The functional currency of each of the Group's entities is measured using the currency of the primary economic environment 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 Group'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 Group'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.

f. 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.

g. Revenue

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

h. 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.

i. Critical Accounting Estimates and Judgments

The directors evaluate estimates and judgments incorporated into the financial report based on historical knowledge and best available current information. Estimates assume a reasonable expectation of future events and are based on current trends and economic data, obtained both externally and within the group.

Key Estimates — Impairment

The Group assesses impairment at each reporting date by evaluating conditions specific to the Group that may lead to impairment of assets. Where an impairment trigger exists, the recoverable amount of the asset is determined. Value-in-use calculations performed in assessing recoverable amounts incorporate a number of key estimates. There were no impairment of assets as at 30th June 2008.

j. Property, Plant and Equipment

Each class of property, plant and equipment is carried at cost or fair value less, where applicable, any accumulated depreciation and impairment losses.

Plant and equipment

Plant and equipment are measured on the cost basis.

The carrying amount of 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.

Increases in the carrying amount arising on revaluation of land and buildings are credited to a revaluation reserve in shareholders' equity. Decreases that offset previous increases of the same asset are charged against fair value reserves directly in equity; all other decreases are charged to the income statement. Each year the difference between depreciation based on the revalued carrying amount of the asset charged to the income statement and depreciation based on the asset's original cost is transferred from the revaluation reserve to retained earnings

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
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.

k. Comparative Figures

When required by Accounting Standards, comparative figures have been adjusted to conform to changes in presentation for the current financial year.

l. Financial guarantee contracts

Financial guarantee contracts are recognised as a financial liability at the time the guarantee is issued. The liability is initially measured at fair value and subsequently at the higher of the amount determined in accordance with AASB 137 Provisions, Contingent Liabilities and Contingent Assets and the amount initially recognised less cumulative amortisation, where appropriate.

m. Inventory

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

n. Trade and other payables

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

o. 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.

p. 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.

q. 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.

r. New accounting standards and interpretations

Certain new accounting standards have been published that are not mandatory for 30 June 2008 reporting periods. The Group's and the parent entity's assessment of the impact of these new standards and interpretations is set out below.

(i) *AASB 8 Operating Segments* and *AASB 2007-3 Amendments to Accounting Standards arising from AASB 8*. AASB 8 and AASB 2007-3 are effective for annual reporting periods commencing on or after 1 January 2009. AASB 8 will result in a significant change in the approach to segment reporting, as it requires adoption of a 'management approach' to reporting financial performance. The information being reported will be based on what the key decision makers use internally for evaluating segment performance and deciding how to allocate resources to operating segments. The Group has not yet decided when to adopt AASB 8. Application of AASB 8 may result in different segments, segment results and different types of information being reported in the segment note of the financial report. However, at this stage, it is not expected to affect any of the amounts recognised in the financial statements.

(ii) *Revised AASB 123 Borrowing Costs* and *AASB 2007-6 Amendments to Australian Accounting Standards arising from AASB 123* [AASB 1, AASB 101, AASB 107, AASB 111, AASB 116 & AASB 138 and interpretations 1 & 12]

The revised AASB 123 is applicable to annual reporting periods commencing on or after 1 January 2009. It has removed the option to expense all borrowing costs and – when adopted – will require the capitalisation of all borrowing costs directly attributable to the acquisition, construction or production of a qualifying asset. There will be no impact on the financial report of the Group, as the Group already capitalises borrowing costs relating to qualifying assets.

(iii) *AASB -1 14 The Limit on a Defined Benefit asset, Minimum Funding Requirements and their interaction*. AASB-1 14 will be effective for annual reporting periods commencing on or after 1 January 2008. It provides guidance on the maximum amount that may be recognised as an asset in relation to a defined benefit plan and the impact of minimum funding requirements on such an asset. The Group will apply AASB-1 14 from 1 July 2008 but it is not expected to have any impact on the Group's financial statements.

(iv) *Revised AASB 8 Presentation of Financial Statements* and *AASB 2007-8 Amendments to Australian Accounting Standards arising from AASB 101*

A revised AASB 101 was issued in September 2007 and is applicable for reporting periods beginning on or after 1 January 2009. It required the presentation of a statement of comprehensive income and makes changes to the statement of changes in equity, but will not affect any of the amounts recognised in the financial statements. If an entity has made a prior period adjustment or has reclassified items in the financial statements, it will need to disclose a third balance sheet (statement of financial position), this one being as at the beginning of the comparative period. The Group intends to apply the revised standard from 1 July 2009.

NOTE 2: REVENUE

	Consolidated Entity		Parent Entity	
	Year ended 30 June 2008 \$	Year ended 30 June 2007 \$	Year ended 30 June 2008 \$	Year ended 30 June 2007 \$
Operating activities				
Interest received – Bank	83,240	179,147	83,135	179,147
Profit on sale of shares	1,608	5,365	1,608	5,365
Total Revenue	84,848	184,512	84,743	184,512

NOTE 3: PROFIT FOR THE YEAR

	Consolidated Entity		Parent Entity	
	Year ended 30 June 2008 \$	Year ended 30 June 2007 \$	Year ended 30 June 2008 \$	Year ended 30 June 2007 \$
Exploration expenditure (i) (i) relates to exploration expenditure written off during the year	599,162	903,818	-	-
Impairment of assets (ii) (ii) relates to provision for impair- ment of intercompany loans receiv- able at the end of the year	-	-	-	203,383

NOTE 4: INCOME TAX EXPENSE

- a. The prima facie tax on profit from ordinary activities before income tax is reconciled to the income tax as follows:

Prima facie tax payable on profit from ordinary activities before income tax at 30% (2007: 30%)

Add:

Tax effect of:

- other non-allowable items
- write-downs to recoverable amounts

Current year tax benefits not recognised

Income tax attributable to entity reported in the income statement

(325,635)	(301,448)	(165,421)	(143,829)
2,445	3,320	2,445	3,320
13,535	-	13,535	(61,015)
309,655	298,128	149,441	201,524
-	-	-	-

Deferred tax asset

- b. Deferred tax assets/ (liability) 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
- tax losses

13,535	(24,409)	13,535	243,042
769,065	660,916	372,548	466,474
782,600	636,507	386,083	709,516

NOTE 5: KEY MANAGEMENT PERSONNEL COMPENSATION

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

Key management person	Position
Ian Ferrier	Chairman
Grant Jagelman	Managing Director
John Blumer	Director
Peter Cockcroft	Director

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

- b. **Remuneration policy**

The board's policy for remuneration of executives and Directors is included in the Corporate Governance Statement in this Annual Report.

- c. **Shareholdings**

Number of shares held by Key Management Personnel

Key management person	Balance 1.7.2007	Received as Compensation	Options Exercised	Balance 30.6.2008
Ian Ferrier	500,001	-	-	500,001
Grant Jagelman	1	-	-	1
Peter Cockcroft	662,501	-	-	662,501
John Blumer	1	-	-	1
Total	1,162,504	-	-	1,162,504

- d. **Options**

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

	Balance 1.7.2007	Granted as Compensation	Options Exercised	Balance 30.6.2008
Ian Ferrier	1,000,000	-	-	1,000,000
Peter Cockcroft	1,012,500	-	-	1,012,500
Total	2,012,500	-	-	2,012,500

NOTE 6: AUDITORS' REMUNERATION

	Consolidated Entity		Parent Entity	
	Year ended 30 June 2008 \$	Year ended 30 June 2007 \$	Year ended 30 June 2008 \$	Year ended 30 June 2007 \$
Remuneration of the auditor of the parent entity and subsidiaries for:				
— auditing or reviewing the financial report	30,055	19,500	30,055	19,500
— Other services	-	-	-	-
Total	30,055	19,500	30,055	19,500

NOTE 7: DIVIDENDS

No dividends were paid during the year.

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

NOTE 8: EARNINGS PER SHARE

	Consolidated Entity	
	Year ended 30 June 2008 \$	Year ended 30 June 2007 \$
a. Reconciliation of earnings to profit or loss		
Profit/(loss)	(1,085,452)	(1,185,397)
Profit/(loss) attributable to minority equity interest	142,232	180,570
Earnings used to calculate EPS	(943,220)	(1,004,827)
	No.	No.
b. Weighted average number of ordinary shares outstanding during the period used in calculating basic EPS	42,031,255	42,031,255
The dilutive earnings per share is the same as the basic earnings per share as the consolidated entity is in a loss position	(2.2)	(2.4)

NOTE 9: CASH AND CASH EQUIVALENTS

	Consolidated Entity		Parent Entity	
	Year ended 30 June 2008 \$	Year ended 30 June 2007 \$	Year ended 30 June 2008 \$	Year ended 30 June 2007 \$
Cash at bank and in hand	30,037	175,424	26,314	168,853
Short-term bank deposits	937,927	1,836,229	937,927	1,836,229
	967,964	2,011,653	964,241	2,005,082

The effective interest rate on short-term bank deposits was 7.1% (2007: 6.3%); these deposits have an average maturity of 30 days.

NOTE 10: TRADE AND OTHER RECEIVABLES

	Consolidated Entity		Parent Entity	
	Year ended 30 June 2008	Year ended 30 June 2007	Year ended 30 June 2008	Year ended 30 June 2007
	\$	\$	\$	\$
CURRENT				
Other receivables				
Amounts receivable from:				
— GST refund	9,775	4,636	9,775	3,337
— Sundry Debtors	50,761	1,639	-	-
— Loan to associate	13,743	-	13,743	-
— Rental deposit	7,500	7,500	7,500	7,500
	81,779	13,775	31,018	10,837
NON-CURRENT				
Other receivables				
Amounts receivable from				
— Subsidiary companies	-	-	3,431,583	2,959,327
— less provision for impairment of receivables	-	-	(931,504)	(931,504)
— other companies	-	-	-	-
	-	-	2,500,079	2,027,823

NOTE 11: OTHER FINANCIAL ASSETS**Current Assets****Available-for-sale Financial Assets**

Listed investments, at market value

— shares in listed corporations	24,000	-	24,000	-
Total current available for sale financial assets	24,000	-	24,000	-

Non-Current Assets**Available-for-sale Financial Assets**

Listed investments, at market value

— shares in listed corporations	-	2,000	-	2,000
	-	2,000	-	2,000

Unlisted investments, at cost

— Option over controlled entity	-	-	50,000	50,000
— Shares in entity accounted for using equity method	70,170	-	67,257	-
— shares in controlled entities	-	-	3	67,260
	70,170	-	117,260	117,260

Total available for sale financial assets	70,170	2,000	117,260	119,260
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NOTE 11: OTHER FINANCIAL ASSETS (cont.)

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.

The fair value of unlisted available-for-sale financial assets cannot be reliably measured as variability in the range of reasonable fair value estimates is significant. As a result, all unlisted investments are reflected at cost. Unlisted available-for-sale financial assets exist within active markets and could be disposed of if required.

NOTE 12: CONTROLLED ENTITIES**a. Controlled Entities Consolidated**

	Country of Incorporation	Percentage Owned	
		Year ended 30 June 2008	Year ended 30 June 2007
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 No 4 Pty Limited	Australia	100	100
Excelaron LLC	USA	46	50
Huasna Oil LLC	USA	100	-
Timor Oil Limited	Australia	-	-

b. Acquisition of Controlled Entities

The parent entity has an option to acquire 50% of the issued shares of Timor Oil Limited. The reason for consolidating Timor Oil is that 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 3 common directors.

During the year the parent entity incorporated Huasna Oil LLC in the USA. The parent entity owns 100% of Huasna Oil LLC.

c. Disposal of Controlled Entities

The Consolidated entity did not dispose of any controlled entities during the year.

d. Controlled Entities with Ownership Interest of 50% or Less

The parent entity holds 46% of the ordinary shares of Excelaron LLC.

On 29 December 2007, as a result of a capital raising by Excelaron, the parent entity's interest has reduced to 46%. Accordingly whilst it was treated for accounting purposes as a controlled entity in 2007 it is treated as an associated entity in 2008. The parent entity recognised a gain on deconsolidation of \$350,583 at the time that it ceased to control Excelaron LLC.

NOTE 13: PROPERTY, PLANT AND EQUIPMENT

	Consolidated Entity		Parent Entity	
	Year ended 30 June 2008 \$	Year ended 30 June 2007 \$	Year ended 30 June 2008 \$	Year ended 30 June 2007 \$
PLANT AND EQUIPMENT				
Office equipment				
At cost	4,256	18,490	4,256	3,071
Accumulated depreciation	(2,199)	(1,098)	(2,199)	(1,098)
Total Property, Plant and Equipment	2,057	17,392	2,057	1,973

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

	Plant and Equipment 2008 \$	Plant and Equipment 2007 \$
Consolidated Entity:		
Balance at the beginning of year	17,392	2,986
Additions	1,185	15,419
Disposals	(15,419)	-
Depreciation charge	(1,101)	(1,013)
Carrying amount at the end of year	2,057	17,392
Parent Entity:		
Balance at the beginning of year	1,973	2,986
Additions	1,185	-
Depreciation charge	(1,101)	(1,013)
Disposals	-	-
Carrying amount at the end of year	2,057	1,973

NOTE 14: INVENTORIES

	Consolidated Entity		Parent Entity	
	Year ended 30 June 2008 \$	Year ended 30 June 2007 \$	Year ended 30 June 2008 \$	Year ended 30 June 2007 \$
Casing – PEL 182	122,195	179,841	-	-

Inventory held relates to casing purchased before the commencement of drilling the first well on PEL182. Sufficient casing was purchased by the operator for the estimated requirements to drill all 5 planned wells. As each well has been drilled the casing used has been expensed to that well. The casing that remains will be used for drilling the fifth well and expensed at that time. Any remaining casing will be sold.

NOTE 15: EXPLORATION EXPENDITURE**NON-CURRENT**

Exploration expenditure capitalised

— exploration and evaluation phases	1,325,302	1,025,493	-	-
Total exploration expenditure	1,325,302	1,025,493	-	-

During the year the consolidated entity has expended funds for exploration through its commitments under farm-in agreements with Eagle Bay Resources NL with respect to PEL 182 in the Cooper Basin. Some of the exploration expenditure in relation to the wells in PEL 182 has been capitalised as the partners in the farm-in agreement have determined that further drilling on some wells may lead to commercial reserves being identified. Expenditure in relation to two wells has been expensed as no reserves were discovered and the wells have been abandoned.

NOTE 15: EXPLORATION EXPENDITURE (cont.)**Movements in Carrying Amounts**

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

	\$
Consolidated Entity:	
Balance at the beginning of year	1,025,493
Total expenditure during year	898,971
Expenditure written off	(599,162)
	<hr/>
Carrying amount at the end of year	<u>1,325,302</u>

NOTE 16: TRADE AND OTHER PAYABLES

	Consolidated Entity		Parent Entity	
	Year ended 30 June 2008 \$	Year ended 30 June 2007 \$	Year ended 30 June 2008 \$	Year ended 30 June 2007 \$
CURRENT				
Trade payables	22,786	3,040	16,979	3,040
Sundry payables and accrued expenses	22,500	-	20,000	-
	<hr/>	<hr/>	<hr/>	<hr/>
	45,286	3,040	36,979	3,040

NOTE 17: ISSUED CAPITAL

42,031,255 (2007: 42,031,255)
fully paid ordinary shares

5,714,659	5,723,514	5,714,659	5,723,514
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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.

b. Options

	No.	No.	No.	No.
No. of Options at reporting date	52,031,250	52,031,250	52,031,250	52,031,250

Options were 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 exercise price of each option is \$0.20 per share. All options expire on 31 December 2009.

NOTE 18: MINORITY INTEREST

	Consolidated Entity		Parent Entity	
	Year ended 30 June 2008 \$	Year ended 30 June 2007 \$	Year ended 30 June 2008 \$	Year ended 30 June 2007 \$
Excelaron	-	259,648	-	-
Timor Oil	57,046	1,749	-	-
	57,046	261,397	-	-

In 2007 the parent entity owed a 50% interest in Excelaron LLC, a Californian USA company formed to exploit leasehold areas in California. As a result of a capital raising by Excelaron, the parent entity's interest has reduced to 46% on 29th December 2007. Accordingly, Excelaron has been equity accounted for as an associate from that date.

NOTE 19: CAPITAL COMMITMENTS

	Consolidated Entity		Parent Entity	
	Year ended 30 June 2008 \$	Year ended 30 June 2007 \$	Year ended 30 June 2008 \$	Year ended 30 June 2007 \$
Capital Expenditure Commitments				
Exploration/drilling Expenditure Commitments				
PEL 182	200,000	1,380,000	-	-
EP 435	-	-	-	-
Timor Oil	-	20,000	-	20,000
Excelaron LLC	-	100,000	-	-
	200,000	1,500,000	-	20,000
Payable:				
— Within 1 year	200,000	1,100,000	-	20,000
— between 2 and 5 years	-	400,000	-	-
	200,000	1,500,000	-	20,000

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 exploration commitments over the forthcoming years.

NOTE 20: CONTINGENT LIABILITIES AND CONTINGENT ASSETS

The Consolidated entity and the company have no contingent assets or contingent liabilities.

NOTE 21: CASH FLOW INFORMATION

	Consolidated Entity		Parent Entity	
	Year ended 30 June 2008 \$	Year ended 30 June 2007 \$	Year ended 30 June 2008 \$	Year ended 30 June 2007 \$
Reconciliation of Cash Flow from Operations with Profit after Income Tax				
Profit (loss) after income tax	(1,085,433)	(1,185,397)	(551,403)	(479,430)
Non-cash flows in profit				
Depreciation	1,101	1,013	1,101	1,013
Impairment of receivables	-	-	-	203,384
Gain on deconsolidation	(350,583)	-		
Share of profit of associate	(2,913)			
Foreign Exchange variance	-	(85,274)	-	-
Write down shares to market	45,115	-	45,115	-
Net loss on listed shares	39,139	-	39,139	-
Changes in assets and liabilities, net of the effects of purchase and disposal of subsidiaries				
(Increase)/decrease in trade and term receivables	(55,286)	(1,895)	(6,438)	7,922
(Increase)/decrease in inventories	57,646	107,432	-	-
Increase/(decrease) in trade payables and accruals	42,246	(53,476)	33,939	(13,475)
(Increase)/decrease in exploration costs capitalised	(299,809)	(300,857)	-	-
Cashflow from operations	(1,608,777)	(1,518,454)	(438,547)	(280,586)

NOTE 22: EVENTS AFTER THE BALANCE SHEET DATE

No significant events occurred after the Balance Sheet date.

The financial report was authorised for issue by the directors on 30 September 2008.

The company has the power to amend and re-issue the financial report.

NOTE 23: RELATED PARTY TRANSACTIONS

Transactions between related parties are on normal commercial terms and conditions no more favourable than those available to other parties unless otherwise stated.

	Consolidated Entity		Parent Entity	
	Year ended 30 June 2008 \$	Year ended 30 June 2007 \$	Year ended 30 June 2008 \$	Year ended 30 June 2007 \$
Transactions with related parties:				
a. Subsidiary companies				
The parent company has made loans to the subsidiary companies as detailed below. The loans do not bear interest and will be repaid only from the proceeds of successful activities of the subsidiaries				
AOC No 2 Pty Ltd	-	-	2,489,758	1,596,850
AOC No 3 Pty Ltd	-	-	931,504	931,504
(less provision for loss)	-	-	(931,504)	(931,504)
Excelaron LLC	-	-	-	430,974
b. Other related parties				
The company offices are rented for \$3,000 per month from a company fully owned by one of the directors (G Jagelman). The rent is paid at normal market rates.				
c. Key Management Personnel				
Other than as described in Note 5 key management personnel have an interest in the following securities held by family members or related entities				
Shares				
Grant Jagelman	-	-	6,650,000	6,650,000
Ian Ferrier	-	-	412,500	412,500
John Blumer	-	-	375,000	250,000
Options				
Grant Jagelman	-	-	13,300,000	13,300,000
Ian Ferrier	-	-	512,500	512,500
John Blumer	-	-	625,000	500,000

NOTE 24: 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

Shares in foreign listed and unlisted companies	\$82,251
Effect of a 10% variance in the \$A/\$US exchange rate	+/- \$8,225

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.

iii Cash flow and fair value interest rate risk

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

Sensitivity analysis

Cash at the end of the financial year	\$967,964
Estimated interest for financial year based on interest rate of 7%	\$49,000
Effect of an increase/decrease in interest rates of 1%	+/- \$7,000

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.

b. Financial Instruments**Consolidated Entity**

	Weighted average effective interest rate		Non interest bearing		Floating interest value		Total	
	2008	2007	2008	2007	2008	2007	2008	2007
	%	%	\$	\$	\$	\$	\$	\$
Financial Assets:								
Cash at bank	7.1	6.3	-	-	967,964	2,011,653	967,964	2,011,653
Cash on hand	N/A	N/A	-	-	-	-	-	-
Receivables	N/A	N/A	81,779	13,775	-	-	81,779	13,775
Total financial assets			81,779	13,775	967,964	2,011,653	1,049,743	2,025,428
Financial Liabilities:								
Accounts payable & accruals	N/A	N/A	45,286	3,040	-	-	45,286	3,040
Total financial liabilities			45,286	3,040	-	-	45,286	3,040

Parent Entity

	Weighted average effective interest rate		Non interest bearing		Floating interest value		Total	
	2008	2007	2008	2007	2008	2007	2008	2007
	%	%	\$	\$	\$	\$	\$	\$
Financial Assets:								
Cash at bank	7.1	6.3	-	-	964,241	2,005,082	964,241	2,005,082
Cash on hand	N/A	N/A	-	-	-	-	-	-
Receivables	N/A	N/A	31,018	10,837	-	-	31,018	10,837
Total financial assets			31,018	10,837	964,241	2,005,082	995,259	2,015,919
Financial Liabilities:								
Accounts payable & accruals	N/A	N/A	36,979	3,040	-	-	36,979	3,040
Total financial liabilities			36,979	3,040	-	-	36,979	3,040

NOTE 25: SEGMENT REPORTING**Business Segment**

The consolidated entity operates in a single business segment being exploration of oil and gas.

Geographical Segments

The consolidated entity operates in Australia through its Australian subsidiaries and in the USA through its 46% interest in Excelaron LLC. There have been no significant activities in Timor Oil Limited.

As the USA operations do not contribute significantly to the consolidated entity at this time nor meet the thresholds as set out in AASB114, separate segment financial information has not been shown.

NOTE 26: COMPANY DETAILS

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

Level 8,
139 Macquarie Street,
Sydney NSW

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

DIRECTORS DECLARATION

The directors of the company declare that:

1. the financial statements and notes, as set out on pages 7 to 33, are in accordance with the *Corporations Act 2001* and:
 - a. comply with Accounting Standards and the Corporations Regulations 2001; and
 - b. give a true and fair view of the financial position as at 30 June 2008 and of the performance for the year ended on that date of the company and Consolidated entity;
2. the Chief Executive Officer and Chief Finance Officer have each declared that:
 - a. the financial records of the company for the financial year have been properly maintained in accordance with section 286 of the *Corporations Act 2001*;
 - b. the financial statements and notes for the financial period comply with the Accounting Standards; and
 - c. the financial statements and notes for the financial period give a true and fair view;
3. in the director's opinion there are reasonable grounds to believe that the company will be able to pay its debts as and when they become due and payable.

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



Director

Grant Jagelman

Dated this 30th day of September 2008



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

**Independent Auditor's Report to the Members of
Australian Oil Company Limited**

Report on the Financial Report

We have audited the accompanying financial report for Australian Oil Company Limited, which comprises the income statement, balance sheet, statement of changes in equity, cash flow statement, accompanying notes to the financial statements, and the directors' declaration for Australian Oil Company Limited (the Company) and Australian Oil Company Limited and controlled entities (the consolidated entity), for the year ended 30 June 2008. The consolidated entity comprises both the company and the entities it controlled at the year's end or from time to time during the financial year.

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 Australian Accounting Standards (including the Australian Accounting Interpretations) and the *Corporations Act 2001*. This responsibility includes establishing and maintaining internal control 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, in accordance with Accounting Standard AASB 101: Presentation of Financial Statements, that compliance with the Australian equivalents to International Financial Reporting Standards (IFRS) ensures that the financial report, comprising the financial statements and notes, complies with IFRS.

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 the auditor's judgement including the assessment of the risks of material misstatement of the financial report, whether due to fraud or error. In making those risk assessments, the auditor considers internal control 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 control. 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 and the remuneration disclosures in the directors' report.

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

Total Financial Solutions



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

Independence

In conducting our audit, we have complied with the independence requirements of the *Corporations Act 2001*.

Auditor's Opinion

In our opinion the financial report of Australian Oil Company Limited and Australian Oil Company Limited and Controlled Entities is in accordance with the *Corporations Act 2001*, including:

- i. giving a true and fair view of the company's and consolidated entity's financial position as at 30 June 2008 and of their 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;

The financial report also complies with International Financial Reporting Standards as disclosed in Note 1.

Report on the Remuneration Report

We have audited the Remuneration Report included in the directors' report for the year ended 30 June 2008. 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 2008, complies with Section 300A of the *Corporations Act 2001*.


WHK HORWATH SYDNEY


DAVID SINCLAIR
Principal

Dated this 30th day of September 2008

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:

Ian Ferrier - Chairman	Independent	(appointed May 2005)
Grant Jagelman - Managing Director	Non-Independent	(appointed May 2005)
John Blumer – Non-Executive Director	Independent	(appointed May 2005)
Peter Cockcroft – Non-Executive Director	Independent	(appointed May 2005)

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 2008 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 23rd September 2008

Spread of Shares	Number of Holders	
	Fully paid shares	Options
1 - 1,000	12	0
1,001 - 5,000	16	2
5,001 - 10,000	94	75
10,001 - 100,000	197	132
100,001 and over	70	62
	<hr/>	<hr/>
	389	271
	<hr/>	<hr/>

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 shareholder is
Grant Jagelman Superannuation Fund – 4,350,000 shares (10.35%)

4. Interest in Mining Tenements

PEL 182	Cooper Basin, South Australia	5%
EP 435	Carnarvon Basin, Western Australia	17%
PL 17	Surat Basin, Queensland	40%
Leichhardt Exclusion Block	Surat Basin, Queensland	30%

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

Shareholder	Fully Paid Shares	%
Grant Jagelman Superfund	4,350,000	10.349
Mr Andrew Childs	1,780,000	4.235
Warrangi Nominees Pty Ltd	1,700,000	4.045
Paso Holdings Pty Ltd	1,468,879	3.495
Mount Royal Pty Ltd	1,354,803	3.223
Petroleum Ventures Pty Ltd	1,270,245	3.022
Mrs Ann Patrick	1,116,907	2.657
Candide Investments Pty Ltd	970,000	2.308

Mr Graeme Clatworthy	910,000	2.165
Golden Words Pty Ltd	771,668	1.836
Alan Davis Pty Ltd	700,000	1.665
Persal & Co Investments Pty	700,000	1.665
Merrill Lynch (Australia) Nominees Pty Ltd	679,482	1.617
Mr Peter Cockcroft	662,501	1.576
National Nominees Limited	590,716	1.405
Mr Ian Ferrier	500,001	1.190
Mr James A Linen	500,000	1.190
Eagle Bay Resources NL	500,000	1.190
Royal Sunset Pty Ltd	500,000	1.190
Mr Harold Daly & Mrs Maureen Daly	489,500	1.165
	21,514,702	51.187

9. Twenty Largest Option holders

Option Holder	Options	%
Grant Jagelman Superfund	13,300,000	25.562
Mr Andrew Childs	2,125,000	4.084
Berenes Nominees Pty Ltd	2,000,000	3.844
National Nominees Limited	2,000,000	3.844
Mr J H Patrick & Mrs A M Patrick	1,732,120	3.329
Mr Peter Cockcroft	1,012,500	1.946
Mr Ian Ferrier	1,000,000	1.922
Quotidian No 2 Pty Limited	1,000,000	1.922
Scintilla Capital Pty Ltd	1,000,000	1.922
UBS Nominees Pty Ltd	927,000	1.782
Mrs Ann Patrick	850,000	1.634
Mr Michael Pope	775,000	1.489
Merrill Lynch (Australia) Nominees Pty Ltd	713,978	1.372
Alan Davis Pty Ltd	600,000	1.153
Mr Brian Morrison & Mrs Ngaire Morrison	600,000	1.153
Mr Joseph Patrick	600,000	1.153
Mr Christopher Weyers	600,000	1.153
Polding Pty Ltd	512,500	0.985
Strategic Investments Ltd	512,500	0.985
Mr Patrick Cremin	500,000	0.961
Donwillow Pty Ltd	500,000	0.961
Forbar Custodians Limited	500,000	0.961
Mr Alban Hasslinger	500,000	0.961
J M Blumer & Associates Pty Ltd	500,000	0.961
Mr James A Linen	500,000	0.961
Scintilla Strategic	500,000	0.961
Mr Thomas Sharp	500,000	0.961
	35,860,598	68.921

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 No 4.

"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 No 4" means Australian Oil Company No 4 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.

"PEL 182 Farm-In Agreement" means the farm-in agreement dated 3 June 2005 between AOC No 2 and Eagle Bay.

