AUSTRALIAN OIL COMPANY LIMITED

(ACN 114 061 433)

ANNUAL REPORT

2006

CONTENTS

CORPORATE DIRECTORY

Company

Australian Oil Company Limited
ACN 114 061 433

Directors

Ian Ferrier	Chairman
Grant Jagelman	Managing Director
John Blumer	Non-Executive Director
Peter Cockcroft	Non-Executive Director

Company Secretary

Mark Ohlsson

Registered Office and Head Office

Level 8
139 Macquarie Streest
Sydney NSW 2000

Telephone:	61 2 8231 7000
Facsimile:	61 2 9251 5778
Email:	jgjagelman@email.com
Website:	www.australianoilcompany.com

Auditor

WHK Greenwoods
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
Facsimlie:	61 2 9279 0664

Australian Stock Exchange Ltd

	ASX Code
Shares	**AOC**
Options	**AOCO**

CHAIRMAN'S LETTER

Dear Shareholders

Since our listing on the Australian Stock Exchange we have made progress in a number of areas and as is the nature of our industry had some set backs.

Our first well Emily 1 in PEL 182 whilst encountering hydrocarbons and being completed was not what we had hoped to achieve. Following additional 2D seismic we will production test the well and may re enter and side track to an up dip location.

We have been delayed in drilling additional wells in PEL 182 by circumstances beyond our control and are endeavouring to ensure that the next 4 wells are drilled cost efficiently and expeditiously.

The second well Dune 1 in EP 435 was dry however the information provided from that well has resulted in the parties agreeing to drill the Parrot 2 well and we are presently in discussions to farm out a portion of our interest in this well and in this event we will pay 5% of the cost of this next well for a 15% interest.

Our US joint venture is progressing and we are in midst of leasing approximately 1600 acres which includes 3 existing wells which we expect to bring onto production this financial year.

We have acquired the right to a 50% interest in Timor Oil Limited which had prior to the invasion of East Timor in 1975 extensive onshore exploration interests. This opportunity in East Timor is speculative as it is a difficult environment but we have very modest cash exposure and there is considerable potential upside.

Our operating costs have been contained and we expect to continue to operate at approximately $125,000 a quarter.

We are continuing to evaluate numerous other opportunities but believe that our current core interests in Australia and the US will provide a platform for expansion.

We expect that our current cash reserves will meet all our commitments until at least the end of financial year 2008

Yours sincerely

Ian Ferrier
Chairman
Sydney 8th September 2006

OPERATIONS REVIEW

During the past year the Company drilled 2 onshore wells, one in PEL 182 in the Cooper Basin in South Australia and a further well in EP 435 in the Carnarvon Basin Western Australia.

We have completed our farm-in obligations with Empire Oil and Gas NL and our wholly owned subsidiary Australian Oil Company No 3 Pty Ltd was on 13 April 2006 assigned a 25% interest in EP 435 in the Carnarvon Basin pursuant to the farming agreement.

On 5 May 2006 the Company acquired a 50% interest in Excelaron LLC a company incorporated in the US and operating in California. It is currently leasing the mineral rights over approximately 1600 acres of land in San Luis Obispo County.

Also in September 2006 the Company was granted an option to acquire a 50% interest in Timor Oil Ltd exercisable for a payment of $100,000 on or before 31 December 2010 and will manage its operations which involves negotiations with the government of East Timor regarding possible onshore oil concessions.

The company set an operating budget in the prospectus of $490,000 for the financial year and have operated within that budget. We have a budget for this year of $500,000. The company was incorporated on 2 May 2005 and the financial statements are for the period from incorporation to 30 June 2006.

The exploration expenditure for the financial year was less that projected due to the inability to drill the wells proposed in PEL 182 caused by the unavailability of the White Sands Petroleum rig which had been contracted by the operator Eagle Bay Resources NL. We have been actively working with all the participants to implement the drilling program.

AOC Group

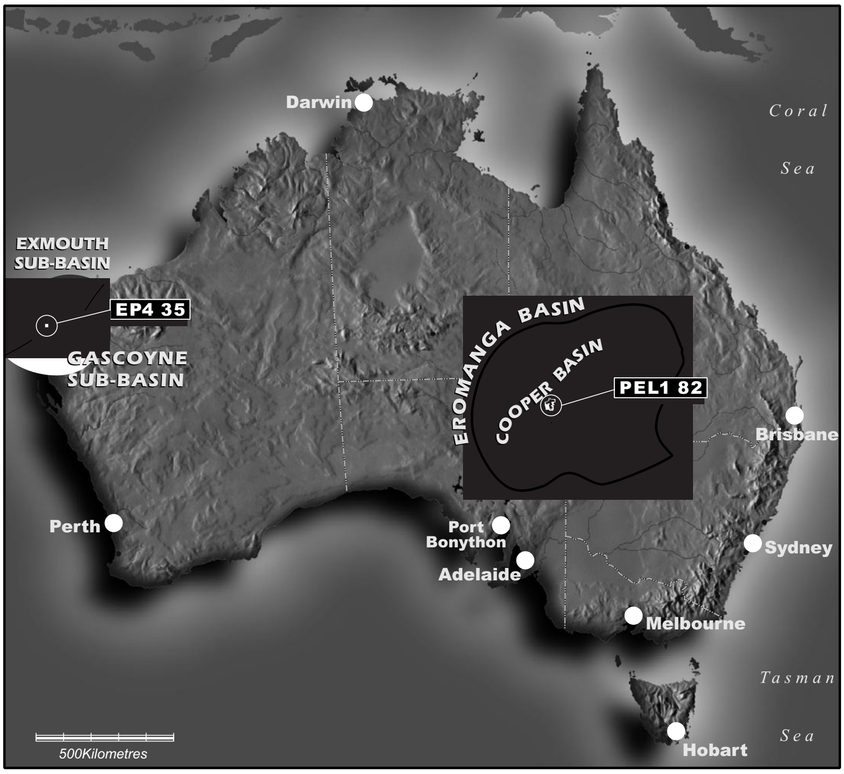
On 17 May 2005 the Company incorporated 3 wholly-owned subsidiaries: Australian Oil Company No 2 Pty Limited ("AOC No 2"), Australian Oil Company No 3 Pty Limited ("AOC No 3") and Australian Oil Company No 4 Pty Limited ("AOC No 4"). AOC No 2 entered into a farm-in with Eagle Bay Resources NL and AOC No 3 entered into a farm-in with Rough Range Oil Pty Ltd. AOC No 4 has not entered into any agreements at this time.

Two farm-in agreements

The AOC Group farm-in agreements include the following terms :

- Eagle Bay Resources NL in respect of a 12.5% interest in PEL 182 in the Cooper Basin, where by AOC No 2 agreed to pay 25% of the cost of the initial 5 wells and thereafter its 12.5% share of an additional 6 wells.

- Rough Range, a wholly-owned subsidiary of Empire Oil and Gas NL, in respect of a 25% interest in EP 435, in the Carnarvon Basin, whereby AOC No 3 has paid 50 % of the cost of one well and hereafter will pay its 25% share of any ongoing exploration



Excelaron LLC

This company is looking to bring into production 3 existing wells and subject to the performance of those wells there will be a number of other well locations that can be drilled. These existing wells were drilled over 25 years ago and are located in an isolated area. The oil is 8 to 12 gravity and is located at depths from 500 to 3000 feet.

The company is currently finalising leasing over approximately 1600 acres and will then commence obtaining permitting approvals. There is plant and equipment including 3 tanks and pipelines located on the land however prior to production commencing it will require additional plant and equipment and the upgrading of the road, and the existing equipment and plant.

The reason that the wells previously ceased being operated was that they are uneconomical at less than the West Texas International price of US $20 a barrel because of operating, transport and royalty costs. Typically this grade oil sells at a 25% discount to WTI pricing.

AOC and William Divine each own 50% of Excelaron LLC and due to the nature of this US corporation a joint operating agreement has been entered into by AOC and William Divine which amongst other standard provisions provides that there are 3 directors including 2 nominated by AOC namely G Jagelman and I Ferrier. Under this structure the production and net revenues pass directly to the shareholders.

AOC has agreed to lend up to US$450,000 to Excelaron LLC to bring these wells onto production and will be repaid prior to any distribution of revenues.

PEL 182 Cooper Basin, South Australia

The Emily well was spudded on 11 January 2006 and reached total depth on 24 January 2006 and a straddle stem test was run over the Birkhead interval from 1901 to 1907.5 metres over 2 sand bodies that exhibited hydrocarbon shows and recorded high restivity on the electric logs. A successful test was carried out and 33.6 barrels of fluid were recovered of which 1.3 barrels was a light black oil.

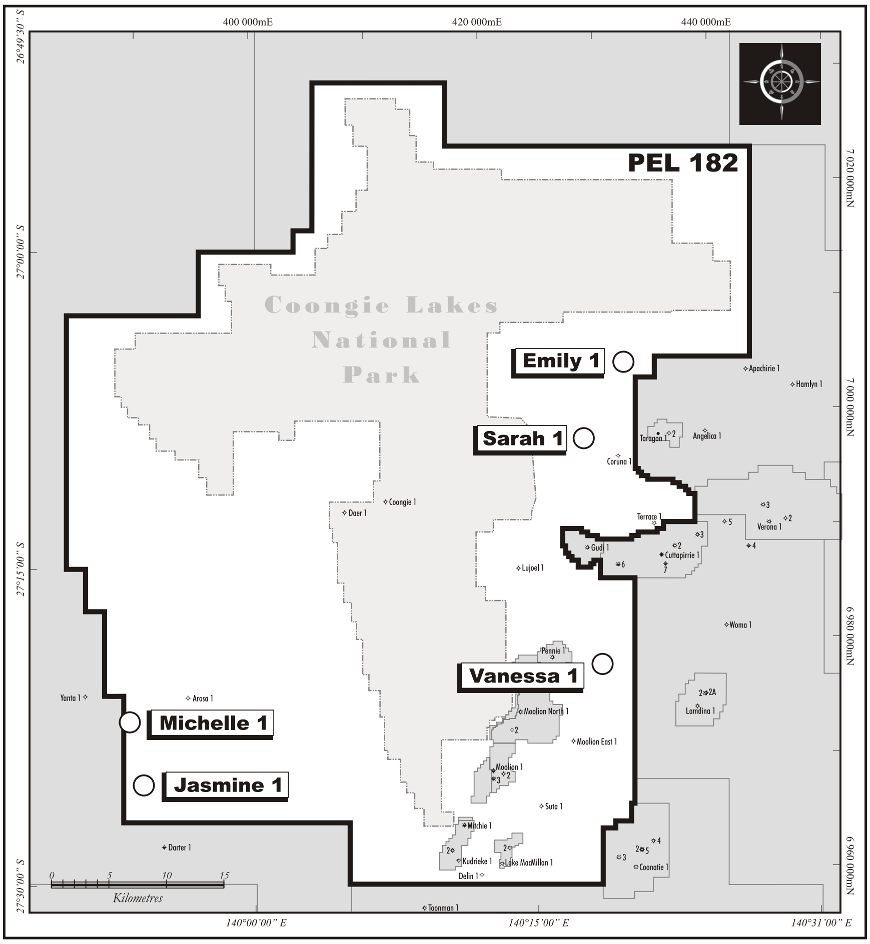
As a result the well was cased and suspended. The Company obtained an independent consultants report who recommended that an extended production test take place to determine the formation flow capacity of the zone of interest and to confirm the productivity of the well. A recommendation which we support has now been received from the operator to reprocess 2D seismic and remap the Emily area and production test prior to determining whether to reenter and horizontal drill to an up dip location.

It is planned to drill another 4 wells this financial year and we are awaiting the out come of discussions between the operator, Audax Resources Limited and White Sands Petroleum regarding the availability of the White Sands rig to enable this to proceed as soon as possible.

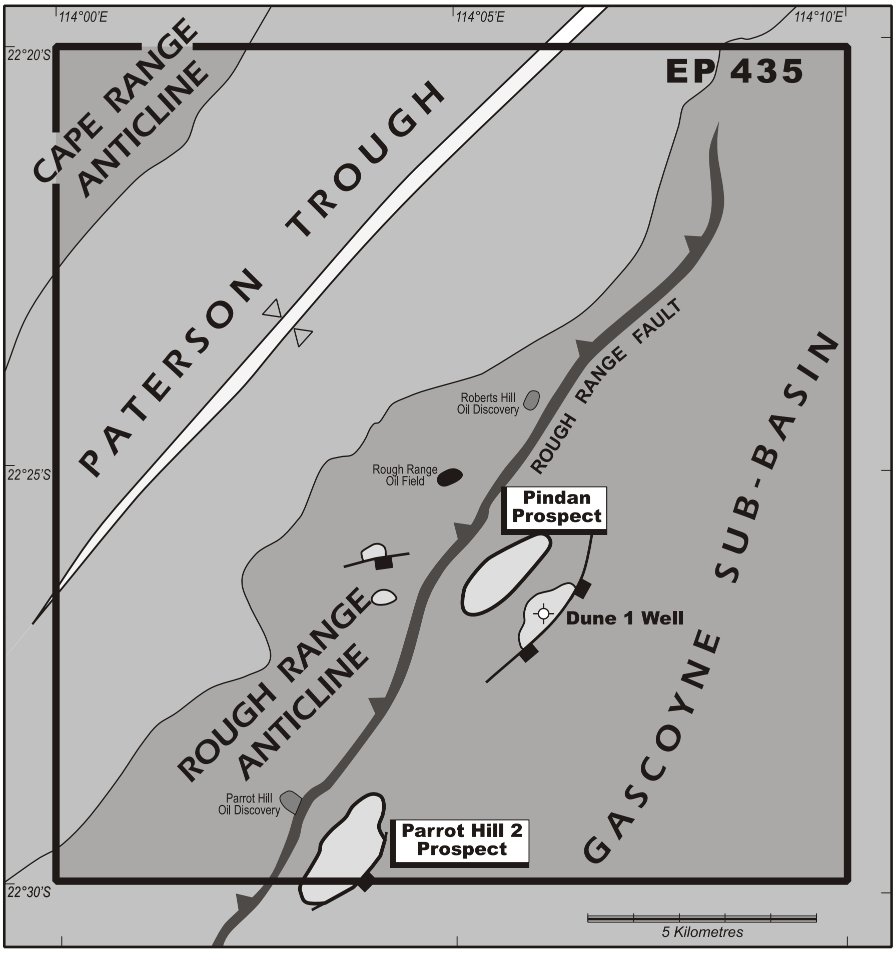
PEL 182 is located at Coongie Lakes in the Cooper Basin in South Australia and comprises an area of 1,745 square kilometres.
It is approximately 60 kilometres north of the Moomba oil terminal and processing facilities with access to the oil pipeline to Port Bonython and the Cuttapirrie-Tirrawarra–Moomba pipeline. This enhances the viability of any discoveries that are made in the area.

The Cooper-Eromanga basins are Australia's largest onshore oil and gas province and there are 39 oil fields and 112 gas fields on line in the basins with significant production of oil and gas in the area since 1982.

Hydrocarbons have been recovered from 9 separate reservoirs and there are both structural and stratigraphic plays in the Patchawarra Trough.



EP435, Carnarvon Basin, Western Australia



The Dune-1 well was delayed due to delays in obtaining statutory approvals and unseasonably bad weather and drilling commenced on 20 April 2006. The well was drilled to a total depth of 1401 metres on 9 June 2006 with no hydrocarbon shows in the primary objective the Birdrong Sandstone.

Although the well was dry the technical information provides for potential new plays and the participants have agreed to drill the Parrot Hill-2 prospect.

EP 435 is located in the onshore Exmouth Sub-Basin in the Carnarvon Basin in Western Australia and is approximately 100 kilometres south of the port of Exmouth. It covers an area of 318 square kilometres. The Northwest Coastal Highway, an all-weather sealed road runs north south through the eastern part of the permit and the Dampier-Perth natural gas pipeline lies about 100 kilometres to the east of the permit.

The interest excludes the production from the Rough Range Oilfield, Australia's first oil discovery in 1953 which is situated within the permit. AOC No 3 will, however, have access to the oil production facilities situated on the area and which could be accessed by a flowline.

The NE-SW trending Rough Range Fault is the most significant feature within the area. The structural featues with the Early Createaceous Birdrong Sandstone reservoir sealed by the Muderong Shale are the main exploration objective.

Timor Oil Limited

Timor Oil carried out extensive exploration on shore East Timor from 1957 up until the Indonesian invasion in 1975 including 2000 kilometres of seismic and the drilling of 21 wells at a cost at that time of over $20 million.

Since 2000 there have been over 15 representations made to the East Timorese government for consideration to be given for Timor Oil Ltd to be able to participate in onshore oil exploration.

The East Timorese have been concentrating on the offshore areas predominately in the Timor Sea however we expect that in the next year that there may be an opportunity to apply for onshore concessions

DIRECTORS REPORT

The directors present their report on the results of Australian Oil Company Limited (“the Company”) for the period from 2 May 2005 (date of incorporation) to 30 June 2006 and the state of affairs of the Company at that date.

Directors

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

Ian Ferrier *Chairman*
Ian Douglas Ferrier, was the founder of Ferrier Hodgson and is now a consultant to the firm. 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 both InvoCare Limited and Port Douglas Reef Resorts Limited and a director of McGuigan Simeon Wines Limited, Macquarie Goodman Management Limited, Reckon Limited and Timor Oil Ltd. (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 25 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 Timor Oil Ltd.He is a member of the VALMIN Committee, a joint committee of the Australian Institute of Mining and Metallurgy, the Australian Institute of Geoscientists and the Mineral Industry Consultants Association Inc. He is a past president of each of the NSW Branch of the Petroleum Exploration Society of Australia and of the Earth Resources Foundation of the University of Sydney. (appointed 2 May 2005)

Peter Cockcroft *Non-Executive Director*
Peter John William Cockcroft, is a graduate of the University of Sydney with qualifications in geology and geophysics. He holds postgraduate qualifications in business administration from the Edinburgh Business School. He has had commercial and management roles with BHP, Shell, Premier Oil and Fletcher Challenge. He has been a special adviser to governments in Indonesia, South Korea and East Timor. He holds memberships with the Institute of Directors (UK), American Association of Petroleum Geologists,Society of Petroleum Engineers and the International Association of Energy Economists. He is a Life Fellow of the Royal Geographical Society and a Life Member of the Society of Petroleum Engineers. (appointed 2 May 2005)

Directors Meetings

The number of director’s meetings attended by each of the directors of the Company during the financial period are

	Number of Meetings	Number of Meetings Attended
Ian Ferrier	13	13
Grant Jagelman	13	13
John Blumer	13	12
Peter Cockcroft *	13	8

* leave of absence granted on 3 occasions.

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 Australian Oil Company Limited 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	500,001	412,500	1,000,000	412,500
Grant Jagelman	4,350,001	2,300,000	13,300,000	-
John Blumer	1	250,000	-	500,000
Peter Cockcroft	662,501	-	1,012,500	-

Employee Options

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

Remuneration Report

The Board's policy for the remuneration of Directors is included in the Corporate Governance Statement in this Annual report. Details of remuneration provided to directors during the financial period are as follows

	Salary/Fee $	Superannuation $	Total $
Ian Ferrier	45,871	4,129	50,000
Grant Jagelman	233,000	-	233,000
John Blumer	27,523	2,477	30,000
Peter Cockcroft	30,000	-	30,000

Performance Based Remuneration

There are no performance-based remunerations for the Board of Directors

Dividends

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

Principal Activities

In September 2005 the Company closed its prospectus after obtaining subscriptions for 30,000,000 shares at 20 cents (with one free attaching option for each share exercisable at 20 cents at any time before their expiry on 31 December 2009), thereby raising $6,000,000 for oil and gas exploration and working capital.

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

Operating Results

The consolidated loss of the economic entity after providing for income tax for the financial period amounted to $1,160,123.

Review of Operations

For the review of operations for the period refer to the Chairman's Letter and Review of Operations section in 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.

Adoption of Australian Equivalents to IFRS

As this is the first financial period for Australian Oil Company Limited and its controlled entities, all the accounting policies adopted are compliant with the Australian equivalents to IFRS. As a result there are no transition and reconciliation to be disclosed.

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 period ended 30 June 2006 are included in greater detail in the Chairman's Letter and Operations Review section of the Annual Report.

Non-audit Services

The board of directors is satisfied that the provision of non-audit services during the year is compatible with the general standard of independence for auditors imposed by the Corporations Act 2001. The directors are satisfied that the services disclosed below did not compromise the external auditor's independence for the following reasons:

- all non-audit services are reviewed and approved by the directors prior to commencement to ensure they do not adversely affect the integrity and objectivity of the auditor; and
- the nature of the services provided do not compromise the general principles relating to auditor independence as set out in the Institute of Chartered Accountants in Australia and CPA Australia's Professional Statement F1: Professional Independence.

The fee for non-audit service regarding the initial public offering paid to the external auditors during the year ended 30 June 2006 was $16,500.

Auditor's Declaration

The lead auditor's independence declaration under section 307C of the Corporations Act 2001 is set out on page 9 for the period ended 30 June 2006.

Signed in accordance with a resolution of the Board of Directors

Managing Director
Grant Jagelman

Dated this 8th day of September 2006

WHK Greenwoods

AUDITOR'S INDEPENDENCE DECLARATION UNDER SECTION 307c OF THE CORPORATIONS ACT 2001 TO THE DIRECTORS OF AUSTRALIAN OIL COMPANY LIMITED AND CONTROLLED ENTITIES

I declare that, to the best of my knowledge and belief, during the period ended 30 June 2006 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 Greenwoods

WHK GREENWOODS

David Sinclair

Dated this 8 day of September 2006.

COPORATE GOVERNANCE

The Board of Directors

The Company's constitution provides that 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.
If the AOC 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 AOC 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 is committed to the adoption of corporate governance policies and practices consistent with the ASX Corporate Governance Council's "Principles of Good Corporate Governance and Best Practice Recommendations", which are appropriate for a company of Australian Oil Company Limited's size and nature. Such policies include, but are not limited to, the Board Charter, Board Code of Conduct, Board Committee Charters, Continuous Disclosure, Trading in Securities and Risk Management Policies.
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 AOC Group's activities develop in size, nature and scope, the implementation of a formal corporate governance committee will be given further consideration.

Appointments to other boards

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

Remuneration policy

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 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.

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.

Continuous disclosure

The Company is ASX a "disclosing entity" under sections 111AC and 111AE of the Corporations Act.
As such, it is required to comply with the continuous disclosure requirements of Chapter 3 of the ASX Listing Rules and section 674 of the Corporations Act. 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.

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

Income Statement

for the period ended 30th June 2006

	Note	Consolidated Entity 14 months ended 30 June 2006 $	Parent Entity 14 monthS ended 30 June 2006 $
Revenue – Interest	2	171,755	171,755
Depreciation and amortisation expense		85	85
Administration expenses		601,916	525,698
Impairment of receivables		-	728,121
Exploration expenses		767,982	-
Profit (loss) before income tax		(1,198,228)	(1,082,149)
Income tax expense	4	-	-
Profit (loss) from continuing operations		(1,198,228)	(1,082,149)
Profit (loss) for the period		(1,198,228)	(1,082,149)
Profit (loss) attributable to minority equity interest		(38,105)	-
Profit attributable to members of the parent entity		(1,160,123)	(1,082,149)
Overall Operations			
Basic and diluted earnings per share (cents per share)	8	(3.7) 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 2006

	Note	Consolidated Entity 14 months ended 30 June 2006 $	Parent Entity 14 months ended 30 June 2006 $
ASSETS			
CURRENT ASSETS			
Cash and cash equivalents	9	3,551,026	3,551,026
Trade and other receivables	10	11,398	11,258
TOTAL CURRENT ASSETS		3,562,424	3,562,284
NON-CURRENT ASSETS			
Trade and other receivables	10	482	1,021,351
Financial assets	11	4,000	71,260
Plant and equipment	13	2,986	2,986
Inventory	14	287,273	-
Exploration expenditure	15	724,637	-
TOTAL NON-CURRENT ASSETS		1,019,378	1,095,597
TOTAL ASSETS		4,581,802	4,657,881
CURRENT LIABILITIES			
Trade and other payables	16	56,516	16,516
TOTAL CURRENT LIABILITIES		56,516	16,516
TOTAL LIABILITIES		56,516	16,516
NET ASSETS		4,525,286	4,641,365
EQUITY			
Issued capital	17	5,723,514	5,723,514
Retained earnings		(1,160,123)	(1,082,149)
Minority equity interest	18	(38,105)	-
TOTAL EQUITY		4,525,286	4,641,365

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 14 months ended June 2006

	Note	Issued Capital	Retained Earnings	Minority Interest	Total
Consolidated Entity		**$**	**$**	**$**	**$**
Balance at 2 May 2005		-	-	-	-
Shares issued during the period		6,350,005	-	-	6,350,005
Profit attributable to members of the parent entity		-	(1,160,123)	-	(1,160,123)
Profit attributable to minority shareholders		-	-	(38,105)	(38,105)
Share Issue costs		(626,491)	-	-	(626,491)
Balance at 30 June 2006		5,723,514	(1,160,123)	(38,105)	4,525,286

Parent Entity					
Balance at 2 May 2005					
Share Issued during the period		6,350,005	-	-	6,350,005
Profit attributable to members of parent entity		-	(1,082,149)	-	(1,082,149)
Share Issue costs		(626,491)	-	-	(626,491)
Balance at 30 June 2006		5,723,514	(1,082,149)	-	4,641,365

The accompanying notes form part of these financial statements

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

Cash Flow Statement

For the 14 months ended 30th June 2006

	Note	Consolidated Entity 14 months ended 30 June 2006 $	Parent Entity 14 months ended 30 June 2006 $
CASH FLOWS FROM OPERATING ACTIVITIES			
Payments to suppliers and employees		(2,336,688)	(520,440)
Interest received		171,755	171,755
Net cash (used in) operating activities	21	(2,164,933)	(348,685)
CASH FLOWS FROM INVESTING ACTIVITIES			
Purchase of property, plant and equipment		(3,072)	(3,071)
Purchase of investments		(4,000)	(4,000)
Loans		(482)	(1,749,472)
Payment for subsidiary, net of cash acquired		-	(67,260)
Net cash provided by investing activities		(7,554)	(1,823,803)
CASH FLOWS FROM FINANCING ACTIVITIES			
Proceeds from issue of shares		6,350,005	6,350,005
Costs of Share Issue		(626,491)	(626,491)
Net cash provided by financing activities		5,723,514	5,723,514
Net increase in cash held		3,551,026	3,551,026
Cash at beginning of period		-	-
Cash at end of period	9	3,551,026	3,551,026

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 14 months ended 30th June 2006

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, Urgent Issues Group 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 have elected the first financial year to cover the period 2 May 2005 to 30 June 2006. 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 is prepared in Australian dollars.

The financial report of Australian Oil Company Limited and controlled entities, and Australian Oil Company Limited as an individual parent entity comply with all Australian equivalents to International Financial Reporting Standards (AIFRS) in their entirety.

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

First-time Adoption of Australian Equivalents to International Financial Reporting Standards

Australian Oil Company Limited and controlled entities, and Australian Oil Company Limited as an individual parent entity have prepared financial statements in accordance with the Australian equivalents to International Financial Reporting Standards (AIFRS).

The financial report complies with Australian Accounting Standards which include Australian equivalents to International Financial Reporting Standards (AIFRS). Compliance with AIFRS ensures that the financial report, comprising the financial statements and the notes thereto, complies with International Financial Reporting Standards (IFRS).

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 consistencies 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 the 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

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 assess whether there is objective evidence that a financial instrument has been impaired.

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 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 when it is received.

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.

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. Loans and Receivables

Trade receivables, loans and other receivables are recorded at amortised costs less impairment.

l. Payables

Trade payables and other accounts payable are recognised when the company becomes obliged to make future payments resulting from the purchase of goods and services.

m. Inventory

Inventories are measured at the lower of cost and realisable net value.

NOTE 2: REVENUE

	Consolidated Entity 14 months ended 30 June 2006 $	Parent Entity 14 months ended 30 June 2006 $
Operating activities		
—Interest received – Bank	171,755	171,755
Total Revenue	171,755	171,755

NOTE 3: PROFIT FOR THE PERIOD

Impairment of assets (i)	-	728,121
(i) relates to provision for impairment of intercompany loans receivable at the end of the period		
Exploration expenditure (ii)	767,982	-
(ii) relates to exploration expenditure expenses during the period		

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%	(359,468)	(324,645)
Add:		
Tax effect of:		
—other non-allowable items	21,089	33,089
—write-downs to recoverable amounts	-	(218,436)
Current year tax benefits not recognised	338,379	509,992
Income tax attributable to entity reported in the income statement	-	-
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	(21,089)	185,347
— tax losses:	359,468	324,645
	338,379	509,992

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	appointed 2 May 2005
Grant Jagelman	Managing Director	appointed 2 May 2005
John Blumer	Director	appointed 2 May 2005
Peter Cockcroft	Director	appointed 2 May 2005

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. Key management Personnel Compensation

Directors & Executives	Short term benefits			Post-Employment	Total
	Cash, salary and fees	Cash profit share	Non-cash benefit	Super-annuation	
	$	$	$	$	$
Ian Ferrier	45,871	-	-	4,129	50,000
Grant Jagelman	233,000	-	-	-	233,000
John Blumer	27,523	-	-	2,477	30,000
Peter Cockcroft	30,000	-	-	-	30,000
Total	336,394	-	-	6,606	343,000

d. Options Holdings

	Balance 2.5.2005	Granted as Compen-sation	Options Exercised	Balance 30.6.2006
Ian Ferrier	1,000,000	-	-	1,000,000
Grant Jagelman	13,300,000	-	-	13,300,000
Peter Cockcroft	1,012,500	-	-	1,012,500
Total	15,312,500	-	-	15,312,500

e. Shareholdings

Number of shares held by Key Management Personnel

Key Management person	Balance 2.5.2005	Granted as Compen-sation	Options Exercised	Balance 30.6.2006
Ian Ferrier	500,001	-	-	500,001
Grant Jagelman	4,350,001	-	-	4,350,001
Peter Cockcroft	662,501	-	-	662,501
John Blumer	1	-	-	1
Total	5,512,504	-	-	5,512,504

NOTE 6: AUDITORS' REMUNERATION

	Consolidated Entity 14 months ended 30 June 2006 $	Parent Entity 14 months ended 30 June 2006 $
Remuneration of the auditor of the parent entity and subsidiaries for:		
— auditing or reviewing the financial report	20,000	20,000
— Other services	16,500	16,500
Total	36,500	36,500

NOTE 7: DIVIDENDS

No dividends were paid during the period
The franking account balance at the end of the period was nil

NOTE 8: EARNINGS PER SHARE

	Consolidated Entity 14 months ended 30 June 2006 $
a. Reconciliation of earnings to profit or loss	
Profit/(loss)	(1,287,407)
Profit/(loss) attributable to minority equity interest	(38,105)
Earnings used to calculate EPS	(1,249,302)
	No.
b. Weighted average number of ordinary shares outstanding during the period used in calculating basic and dilutive EPS	31,316,968

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

NOTE 9: CASH AND CASH EQUIVALENTS

	Consolidated Entity 14 months ended 30 June 2006 $	Parent Entity 14 months ended 30 June 2006 $
Cash at bank and in hand	231,559	231,559
Short-term bank deposits	3,319,467	3,319,467
	3,551,026	3,551,026

The effective interest rate on short-term bank deposits was 6.01% (2005: 5.9%); these deposits have an average maturity of 30 days.

NOTE 10: TRADE AND OTHER RECEIVABLES

	Consolidated Entity	Parent Entity
CURRENT		
Other receivables		
Amounts receivable from:		
— GST refund	11,398	11,258
— other related parties	-	-
— Tax refund	-	-
	11,398	11,258
NON-CURRENT		
Other receivables		
Amounts receivable from		
- Subsidiary companies	-	1,748,990
- less provision for impairment of receivables	-	(728,121)
- other companies	482	482
	482	1,021,351

NOTE 11: OTHER FINANCIAL ASSETS

	Consolidated Entity	Parent Entity
Available-for-sale Financial Assets		
Listed investments, at cost		
— shares in listed corporations	4,000	4,000
	4,000	4,000
Unlisted investments, at cost		
— shares in controlled entities	-	67,260
	-	67,260
Total investments held at fair values	4,000	71,260

NOTE 12: CONTROLLED ENTITIES

a. **Controlled Entities Consolidated**

	Country of Incorporation	Percentage Owned 14 months ended 30 June 2006
Subsidiaries of Australian Oil Company Limited		%
Australian Oil Company No 2 Pty Limited	Australia	100
Australian Oil Company No 3 Pty Limited	Australia	100
Australian Oil Company No 4 Pty Limited	Australia	100
Excelaron LLC	USA	50

b. **Acquisition of Controlled Entities**

On 17 May 2005 the parent entity incorporated 3 new companies resulting in the ownership of 100% in Australian Oil Company No 2 Pty Ltd, Australian Oil Company No 3 Pty Ltd and Australian Oil Company No 4 Pty Ltd. Each company has issued ordinary share of $1.
On 7 May 2006 the parent entity acquired 50% of Excelaron LLC, a company incorporated in California USA.

c. **Disposal of Controlled Entities**

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

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

The parent entity holds 50% of the ordinary shares of Excelaron LLC. Under an Operating Agreement between Australian Oil Company and the other shareholder, Mr William Divine, Australian Oil Company Limited is required to make all the financial and operating policy decisions of Excelaron LLC and to ensure that those policies are consistent with the policies of the Consolidated entity.

NOTE 13: PROPERTY, PLANT AND EQUIPMENT

	Consolidated Entity 14 months ended 30 June 2006 $	Parent Entity 14 months ended 30 June 2006 $
PLANT AND EQUIPMENT		
Office equipment		
At cost	3,071	3,071
Accumulated depreciation	(85)	(85)
Total Property, Plant and Equipment	2,986	2,986

NOTE 13: PROPERTY, PLANT AND EQUIPMENT (CONTINUED)

Movements in Carrying Amounts

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

	Plant and Equipment $
Consolidated Entity:	
Balance at the beginning of period	-
Additions	3,071
Disposals	-
Depreciation charge	(85)
Carrying amount at the end of period	2,986
Parent Entity:	
Balance at the beginning of period	-
Additions	3,071
Disposals	-
Carrying amount at the end of period	3,071

NOTE 14: INVENTORY

	Consolidated Entity 14 months ended 30 June 2006 $	Parent Entity 14 months ended 30 June 2006 $
Casing – PEL 182	287,273	-

NOTE 15: EXPLORATION EXPENDITURE

NON-CURRENT		
Exploration expenditure capitalised		
— exploration and evaluation phases	724,635	-
Total exploration expenditure	724,635	-

During the period 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 and Empire Oil and Gas NL with respect to EP 435 in the Carnarvon Basin.

Exploration expenditure in relation to the first well drilled in EP 435 has been expensed as no reserves were discovered and the well has been abandoned.

Exploration expenditure in relation to the Emily 1 well in PEL 182 has been capitalised as the partners in the farm-in agreement have determined that further drilling may lead to commercial reserves being proven.

NOTE 16: TRADE AND OTHER PAYABLES

	Consolidated Entity 14 months ended 30 June 2006 $	Parent Entity 14 months ended 30 June 2006 $
CURRENT		
Unsecured liabilities		
Trade payables	1,516	1,516
Sundry payables and accrued expenses	55,000	15,000
	56,516	16,516

NOTE 17: ISSUED CAPITAL

42,031,255 (2005: 12,031,255) fully paid ordinary shares	6,350,005	6,350,005
Share issue costs	(626,491)	(626,491)
	5,723,514	5,723,514

a.	**Ordinary shares**	No of shares	No of shares
	At the beginning of reporting period	-	-
	Shares issued during the period		
—	2 May 2005 - Incorporation	5	5
—	20 May 2005	10,000,000	10,000,000
—	24 May 2005	2,031,250	2,031,250
—	7 October 2005	30,000,000	30,000,000
	At reporting date	42,031,255	42,031,255

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 of options	No of options
At the beginning of reporting period		-	-
—	2 May 2005 - Incorporation	-	-
—	20 May 2005	20,000,000	20,000,000
—	24 May 2005	2,031,250	2,031,250
—	7 October 2005	30,000,000	30,000,000
	At reporting date	52,031,250	52,031,250

All options expire on 31 December 2009. Options were granted to shareholders on purchase of ordinary shares. The exercise price is $0.20 per share. All options were granted for nil consideration.

NOTE 18: MINORITY INTEREST

	Consolidated Entity 14 months ended 30 June 2006	Parent Entity 14 months ended 30 June 2006
	$	$
Share capital	1	-
Retained earnings	38,104	-
	38,105	-

The parent entity owns a 50% interest in Excelaron LLC a Californian USA company formed to exploit leasehold areas in California. Through an Operating Agreement with the other 50% shareholder the parent entity controls the operations of Excelaron in such a way that it has been treated as a subsidiary for the purposes of the preparation of these financial statements.

The interest of 50% that the parent entity has in Excelaron has accordingly been treated for accounting purposes as a minority interest.

NOTE 19: CAPITAL COMMITMENTS

a. **Capital Expenditure Commitments**		
Exploration/drilling Expenditure Commitments		
PEL 182	2,000,000	-
PEL 435	50,000	-
Excelaron LLC	300,000	-
	2,350,000	-
Payable:		
— Within 1 year	1,700,000	-
— between 2 and 5 years	650,000	-
	2,350,000	-

The consolidated entity through the 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 which will be 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 14 months ended 30 June 2006	Parent Entity 14 months ended 30 June 2006
	$	$
Reconciliation of Cash Flow from Operations with Profit after Income Tax		
Profit (loss) after income tax	(1,198,228)	(1,082,149)
Non-cash flows in profit		
Depreciation	85	85
Write-off of capitalised expenditure	(724,636)	-
Impairment of receivables	-	728,121
Changes in assets and liabilities, net of the effects of purchase and disposal of subsidiaries		
(Increase)/decrease in trade and term receivables	(11,397)	(11,258)
(Increase)/Decrease in inventories	(287,273)	-
(increase)/ Decrease in exploration cost capitalised	(724,635)	-
Increase/(decrease) in trade payables and accruals	56,516	16,516
Increase/(decrease) in deferred taxes payable	-	-
Cashflow from operations	(2,164,933)	(348,685)

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 7th September 2006. 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 14 months ended 30 June 2006 $	Parent Entity 14 months ended 30 June 2006 $
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	-	1,011,909
AOC No 3 Pty Ltd	-	728,121
(less provision for loss)	-	(728,121)
Excelaron LLC	-	8,960
b. Other related parties		
There were no transactions during the period with other related parties		
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	-	2,300,000
Ian Ferrier	-	412,500
John Blumer	-	250,000
Options		
Ian Ferrier	-	512,500
John Blumer	-	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 main purpose of non-derivative financial instruments is to raise finance for group operations.

i. Financial Risks

The main risks the group is exposed to through its financial instruments are interest rate risk, foreign currency risk, liquidity risk and credit risk.

Foreign currency risk

The group is exposed to fluctuations in foreign currencies arising from the sale and pur chase of goods and services in currencies other than the group's measurement currency.

Liquidity risk

The group manages liquidity risk by monitoring forecast cash flows and ensuring that adequate unutilised borrowing facilities are maintained.

Credit risk

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 Consolidated entity does not have any material credit risk exposure to any single receivable or group of receivables under financial instruments entered into by the Consolidated entity.

b. **Interest Rate Risk**

The consolidated entity's 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 classes of financial assets and financial liabilities, is as follows:

Consolidated Entity

	Weighted average effective interest rate 2006 %	Non interest bearing 2006 $	Floating interest value 2006 $	Total 2006 $
Financial Assets:				
Cash at bank	6.1	-	3,550,175	3,550,175
Cash on hand	N/A	852	-	852
Receivables	N/A	11,879	-	11,879
Total financial assets		12,731	3,550,175	3,562,906
Financial Liabilities:				
Accounts payable & accruals	N/A	56,516	-	56,516
Total financial liabilities		56,516	-	56,516

Parent Entity

Financial Assets:				
Cash at bank	6.1	-	3,550,175	3,550,175
Cash on hand	N/A	851	-	851
Receivables	N/A	1,032,195	-	1,032,195
Total financial assets		1,033,046	3,550,175	4,583,221
Financial Liabilities:				
Accounts payable & accruals	N/A	16,516	-	16,516
Total financial liabilities		16,516	-	16,516

c. **Net Fair Value**

The net fair values of:

— Listed investments have been valued at the quoted market bid price at balance date, adjusted for transaction costs expected to be incurred. For unlisted investments where there is no organised financial market, the net fair value has been based on a reasonable estimation of the underlying net assets or discounted cash flows of the investment.

— Other assets and other liabilities approximate their carrying value.

No financial assets and financial liabilities are readily traded on organised markets in standardised form other than listed investments.

Financial assets where the carrying amount exceeds net fair values have not been written down as the economic entity intends to hold these assets to maturity.

Aggregate net fair values and carrying amounts of financial assets and financial liabilities at balance date.

NOTE 25: BUSINESS COMBINATION

Summary of acquisition

On 17 May 2005 the parent entity incorporated 3 new companies resulting in the ownership of 100% in Australian Oil Company No 2 Pty Ltd, Australian Oil Company No 3 Pty Ltd and Australian Oil Company No 4 Pty Ltd. Net identifiable asset acquired equalled the purchase consideration of $1 for each company.

On 7 May 2006 the parent entity acquired 50% of Excelaron LLC. Excelaron was incorporated on this date resulting in net identifiable assets acquired equal to purchase consideration of $67,257. The acquired business contributed expense and loss of $38,105 to the Group for the period from 7 May to 30 June 2006.

NOTE 26: FIRST TIME ADOPTION OF AUSTRALIAN EQUIVALENTS TO INTERNATIONAL FINANCIAL REPORTING STANDARDS

Management assessed the implications of Australian equivalents to International Financial Reporting Standards (AIFRS). There were no material adjustments arising from the adoption of AIFRS.

NOTE 27: SEGMENT REPORTING

The consolidated entity and the company operate in a single business and geographic segment being exploration of oil and gas in Australia.

NOTE 28: CHANGE IN ACCOUNTING POLICY

The following Australian Accounting Standards that have recently been issued or amended but are not yet effective, have not been applied by Australian Oil Company Limited:

AASB Amendment	AASB Standard Affected	Nature of Change in Accounting Policy and impact	Application Date of the Standard	Application Date for the Group
2004–3	AASB 1: First-time Adoption of AIFRS	No change, no impact	1 January 2006	1 July 2006
	AASB 101: Presentation of Financial Statements	No change, no impact	1 January 2006	1 July 2006
	AASB 124: Related Party Disclosures	No change, no impact	1 January 2006	1 July 2006
2005–1	AASB 139: Financial Instruments: Recognition and Measurement	No change, no impact	1 January 2006	1 July 2006
2005–5	AASB 1: First-time Adoption of AIFRS	No change, no impact	1 January 2006	1 July 2006
	AASB 139: Financial Instruments: Recognition and Measurement	No change, no impact	1 January 2006	1 July 2006

2005–6	AASB 3: Business Combinations	No change, no impact	1 January 2006	1 July 2006
2005–9	AASB 132: Financial Instruments: Recognition and Measurement	Relates to financial guarantee contracts No impact on AOC	1 January 2006	1 July 2006
	AASB 139: Financial Instruments: Disclosure and Presentation		1 January 2006	1 July 2006
2005–10	AASB 139: Financial Instruments: Recognition and Measurement	No change, no impact	1 January 2007	1 July 2007
	AASB 101: Presentation of Financial Statements	No change, no impact	1 January 2007	1 July 2007
	AASB 114: Segment Reporting	No change, no impact	1 January 2007	1 July 2007
	AASB 117: Leases	No change, no impact	1 January 2007	1 July 2007
	AASB 133: Earnings per share	No change, no impact	1 January 2007	1 July 2007
	AASB 132: Financial Instruments: Disclosure and Presentation	No change, no impact	1 January 2007	1 July 2007
	AASB 1: First-time Adoption of AIFRS	No change, no impact	1 January 2007	1 July 2007
	AASB 4: Insurance Contracts	No change, no impact	1 January 2007	1 July 2007
	AASB 1023: General Insurance Contracts	No change, no impact	1 January 2007	1 July 2007
	AASB 1038: Life Insurance Contracts	No change, no impact	1 January 2007	1 July 2007
2006–1	AASB 121: The Effects of Changes in Foreign Exchange Rates	No change, no impact	1 January 2006	1 July 2006
New Standard	AASB 7: Financial Instruments: Disclosure	No change, no impact	1 January 2007	1 July 2007
New Standard	AASB 119: Employee Benefits: December 2004	No change, no impact	1 January 2006	1 July 2006

All other pending Standards issued have no application to either the parent consolidated entity.

AASB Amendment	**AASB Standard Affected**
2005–2	AASB 1023: General Insurance Contracts
2005–4	AASB 139: Financial Instruments: Recognition and Measurement
	AASB 132: Financial Instruments: Disclosure and Presentation
2005–9	AASB 4: Insurance Contracts
	AASB 1023: General Insurance Contracts
	AASB 139: Financial Instruments: Recognition and Measurement
	AASB 132: Financial Instruments: Disclosure and Presentation

NOTE 29: COMPANY DETAILS

The registered office and the principal place of business of the company:
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 11 to 31, 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 2006 and of the performance for the period 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.

At the date of this declaration, there are reasonable grounds to believe that the companies which are party to this deed of cross guarantee will be able to meet any obligations or liabilities to which they are, or may become subject to, by virtue of the deed.

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

Director
Grant Jagelman
Dated this 8th day of September 2006

WHK Greenwoods

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

Independent audit report to the members of
Australian Oil Company Limited and Controlled Entities

Scope

The financial report and directors' responsibility

The financial report 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 (the consolidated entity), for the period from 2 May 2005 (date of incorporation) to 30 June 2006. The consolidated entity comprises both the company and the entities it controlled during that period.

The directors of the company are responsible for the preparation and true and fair presentation of the financial report in accordance with the *Corporations Act 2001*. This includes responsibility for the maintenance of adequate accounting records and internal controls that are designed to prevent and detect fraud and error, and for the accounting policies and accounting estimates inherent in the financial report.

Audit Approach

We conducted an independent audit in order to express an opinion to the members of the company. Our audit was conducted in accordance with Australian Auditing Standards, in order to provide reasonable assurance as to whether the financial report is free of material misstatement. The nature of an audit is influenced by factors such as the use of professional judgment, selective testing, the inherent limitations of internal control, and the availability of persuasive rather than conclusive evidence. Therefore, an audit cannot guarantee that all material misstatements have been detected.

We performed procedures to assess whether in all material respects the financial report presents fairly, in accordance with the *Corporations Act 2001*, including compliance with Accounting Standards and other mandatory financial reporting requirements in Australia, a view which is consistent with our understanding of the company's and the consolidated entity's financial position, and of their performance as represented by the results of their operations and cash flows.

We formed our audit opinion on the basis of these procedures, which included:

- examining, on a test basis, information to provide evidence supporting the amounts and disclosures in the financial report, and

- assessing the appropriateness of the accounting policies and disclosures used and the reasonableness of significant accounting estimates made by the directors.

While we considered the effectiveness of management's internal controls over financial reporting when determining the nature and extent of our procedures, our audit was not designed to provide assurance on internal controls.

Accountants & Advisers An Investor Group firm WHK Greenwoods ABN 97 895 683 573
Level 15 309 Kent Street Sydney NSW 2000
Telephone 02 9262 2155 Facsimile 02 9262 2190
Email mail@whkgreenwoods.com.au
www.whkgreenwoods.com.au

WHK Greenwoods

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

Independence
In conducting our audit, we followed applicable independence requirements of Australian professional ethical pronouncements and the *Corporations Act 2001*.

In accordance with ASIC Class Order 05/83, we declare to the best of our knowledge and belief that the auditor's independence declaration set out on page 7 of the financial report has not changed as at the date of providing our audit opinion.

Audit Opinion
In our opinion, the financial report of Australian Oil Company Limited is in accordance with:

a. 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 2006 and of their performance for the period ended on that date; and

   ii. complying with Accounting Standards in Australia and the Corporations Regulations 2001; and

b. other mandatory professional reporting requirements in Australia.

WHK Greenwoods

WHK GREENWOODS

David Sinclair

Dated this 8 day of September 2006.

SHAREHOLDER INFORMATION

1. Distribution at 16 August 2006

Spread of Shares	Number of Holders	
	Fully paid shares	Options
1 - 1,000	10	-
1,001 - 5,000	16	2
5,001 - 10,000	112	87
10,001 - 100,000	255	216
100,001 and over	71	58
	464	363

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
J G Jagelman – 4,350,001 shares (10.35%)

4. Interest in Mining Tenements

PEL 182	Cooper Basin, South Australia	12.5%
EP 435	Carnarvon Basin, Western Australia	25%

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 date that restrictions cease to apply to the number of securities set out below:

Ordinary shares

Date	No. of shares
11 October 2007	7,975,000

Options granted over ordinary shares

Date	No. of options
11 October 2007	15,825,000

8. Twenty Largest Shareholders as at 16th August 2006

Shareholder	Fully Paid Shares	%
MR GRANT JAGELMAN	4,350,001	10.349
MS DIANE JAGELMAN	1,700,000	4.045
LOST ARK NOMINEES PTY LIMITED	1,367,500	3.254
FORTIS CLEARING NOMINEES PTY LTD	1,064,608	2.533
PETROLEUM VENTURES PTY LTD	1,050,000	2.498

Shareholder	Fully Paid Shares	%
NATIONAL NOMINEES LIMITED	1,000,000	2.379
PARADYN HOLDINGS PTY LTD	1,000,000	2.379
ALAN DAVIS GROUP PTY LIMITED	1,000,000	2.379
CANDIDE INVESTMENTS PTY LIMITED	806,266	1.918
MRS ANN MCCALL PATRICK	716,907	1.706
MR PETER COCKCROFT	662,501	1.576
MR IAN FERRIER	500,001	1.190
MR JAMES A LINEN	500,000	1.190
DONWILLOW PTY LTD	500,000	1.190
GOSFORD QUARRIES (NSW) PTY LTD	500,000	1.190
ALAN DAVIS GROUP PTY LTD	500,000	1.190
LOST ARK NOMINEES PTY LIMITED	450,000	1.071
ADMEREX LIMITED	412,500	0.981
POLDING PTY LTD	412,500	0.981
ADMEREX IRELAND LIMITED	412,500	0.981
STRATEGIC INVESTMENTS LTD	412,500	0.981
	19,317,784	45.961

9. Largest Option holders as at 16th August 2006

Option Holder	Options	%
MR GRANT JAGELMAN	13,300,000	25.562
NATIONAL NOMINEES LIMITED	2,000,000	3.844
ROSEWARNE SUPERANNUATION PTY LIMITED	1,765,000	3.392
FORTIS CLEARING NOMINEES PTY LTD	1,560,000	2.998
BERENES NOMINEES PTY LTD	1,500,000	2.883
ALAN DAVIS GROUP PTY LIMITED	1,500,000	2.883
MR PETER COCKCROFT	1,012,500	1.946
QUOTIDIAN NO 2 PTY LIMITED	1,000,000	1.922
PARADYN HOLDINGS PTY LTD	1,000,000	1.922
GOSFORD QUARRIES (NSW) PTY LTD	1,000,000	1.922
MR IAN FERRIER	1,000,000	1.922
RIGI INVESTMENTS PTY LTD	790,000	1.518
LOST ARK NOMINEES PTY LIMITED	750,000	1.441
ALAN DAVIS PTY LTD	600,000	1.153
ADMEREX LIMITED	512,500	0.985
POLDING PTY LTD	512,500	0.985
ADMEREX IRELAND LIMITED	512,500	0.985
STRATEGIC INVESTMENTS LTD	512,500	0.985
MR PATRICK JOSEPH CREMIN	500,000	0.961
MR ALBAN HORST HASSLINGER	500,000	0.961
MR JAMES A LINEN	500,000	0.961
DONWILLOW PTY LTD	500,000	0.961
J M BLUMER & ASSOCIATES PTY LTD	500,000	0.961
RIVIERA SUPER FUND	500,000	0.961
	33,827,500	65.014

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).

"Company" or "AOC" means Australian Oil Company Limited (ACN 114 061 433).

"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.

"EP 435 Farm-In Agreement" means the farm-in agreement dated 30 May 2005 between AOC No 3 and Rough Range. allotted New Shares under the Offer.

"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.