Australian Oil Company Limited

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AUSTRALIAN OIL COMPANY TO DRILL TWO MORE WELLS IN THE COALINGA AREA

DRILLING TO COMMENCE IN 4TH QUARTER 2012

- **AOC, through its wholly owned subsidiary Sacgasco LLC, has signed a letter of intent to earn approximately 32% interest in an additional 1433 acres in the Coalinga area of the San Joaquin basin of California by drilling 2 wells.**
- **The first well Coalinga HBP targets a prospect with 2 sands each of which has a potential of 2 million barrels of recoverable oil.**
- **The first well will be drilled in the 4th quarter of this year.**
- **The second optional well will be positioned based on the results of the drilling of the first well.**

Coalinga Location Map

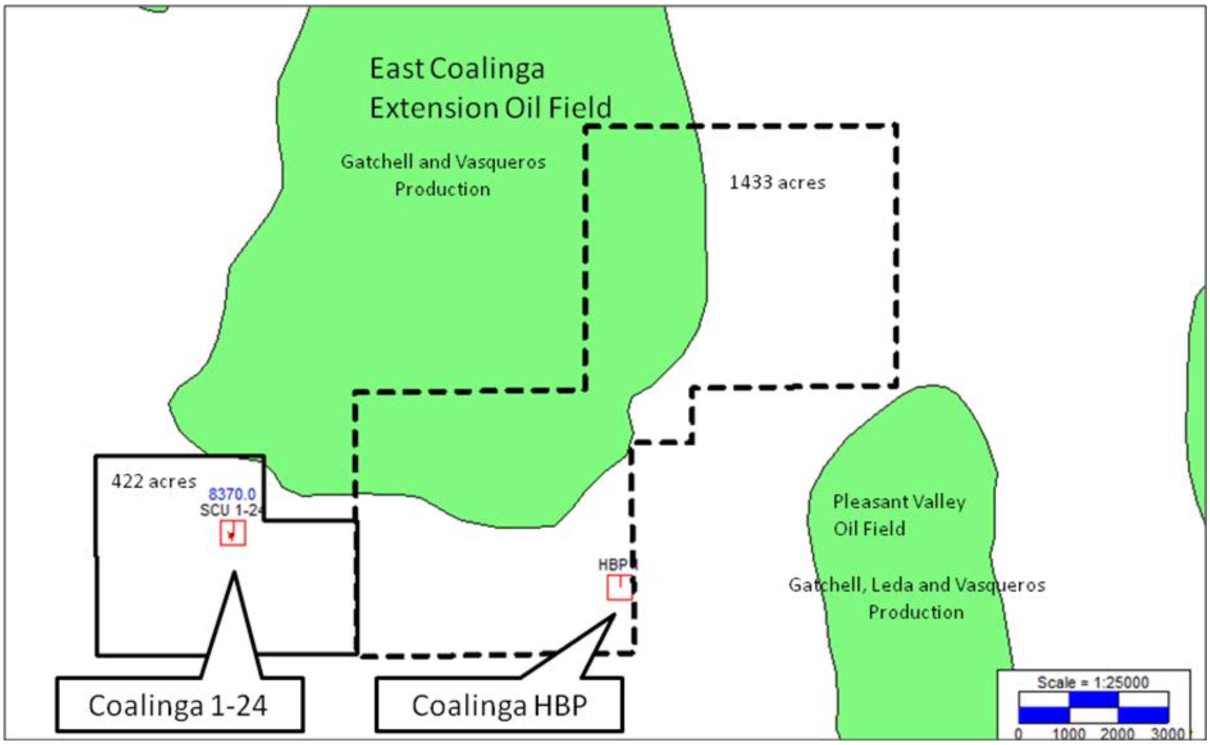
Australian Oil Company (ASX:AOC) have signed a participation agreement to drill another exploration well in the Coalinga area of the San Joaquin basin in California. The agreement defines the rights to production from the Gatchell Sandstone outside of the Chevron owned and operated East Coalinga Extension Oil Field, and includes rights to production from shallower sands over the entire 1433 acres, plus rights for production from zones deeper than the Gatchell over the entire 1433 acre block. The area is immediately to the east of AOC's recently completed SCU 1-24 Gatchell Sand exploration well.

AOC will participate in the drilling of one well and have an option to drill a second well to earn approximately 32% interest in the 1433 acres. Total cost exposure to AOC is approximately $US 400,000 based on the estimated dry hole cost for drilling one well.

Fields in the local area have produced oil from the primary reservoir sands of the Gatchell Formation, and from shallower Allison and Vaqueros Sands as well as from 2 additional shallower secondary targets. All production is from conventional reservoirs with good commercial rates without the need for reservoir stimulation. Conventional water flooding is used during the life of the field to maintain pressure and oil flow.

The first exploration well ('Coalinga HBP') is a test of two sands, the Allison and the Vaqueros just southeast of the East Coalinga Extension oil field. The prospective oil traps are mapped on 3D seismic as isolated sand bodies. Each of these sands has a potential of 2 mmbbls of recoverable, prospective oil.

AOC has also identified 2 other independent prospects on the farmin block and will consider drilling these after the results of the first well are known and integrated into the subsurface interpretation. AOC has the rights to all production revenues from its participating equity (after deducting the pro rata landowner royalties which are approximately 20%) until the cost of the well has been paid out. Thereafter AOC has the right to 75% of revenue from its earned equity after deducting its share of landowner royalty



Note: East Coalinga Extension Oil Field Gatchell Sand production is not included in Farm-in Rights.

AOC director, Andrew Childs, said the Coalinga prospects add significant exploration opportunities to the company's portfolio.

"*We are delighted to secure these two high impact oil prospects in a proven oil province as part of a strategy to give shareholders exposure to the drilling of multiple exploration wells each year."*

"This deal not only gives us almost immediate drilling activity, but also lets us earn a significant interest in 1433 acres, most of which is covered by good quality 3D seismic."

"These conventional oil targets are in two separate zones thus spreading the risk, are each of significant size, and if successful are likely to flow at very profitable rates."

"AOC is currently reviewing a number of other deals in the area and is also generating our own plays in central California."

Mark Ohlsson

Company Secretary

23 August 2012