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Operations Update

Coalinga Area

San Joaquin Basin, California

- Potential for SCU 1-24 well to be used for commercial water disposal
- The HBP farmin well, targeting the Allison and Vasqueros sands, is scheduled to spud in 6-8 weeks



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Australian Oil Company (ASX:AOC) wishes to advise that the production test of the Domengine zone has produced only formation water.

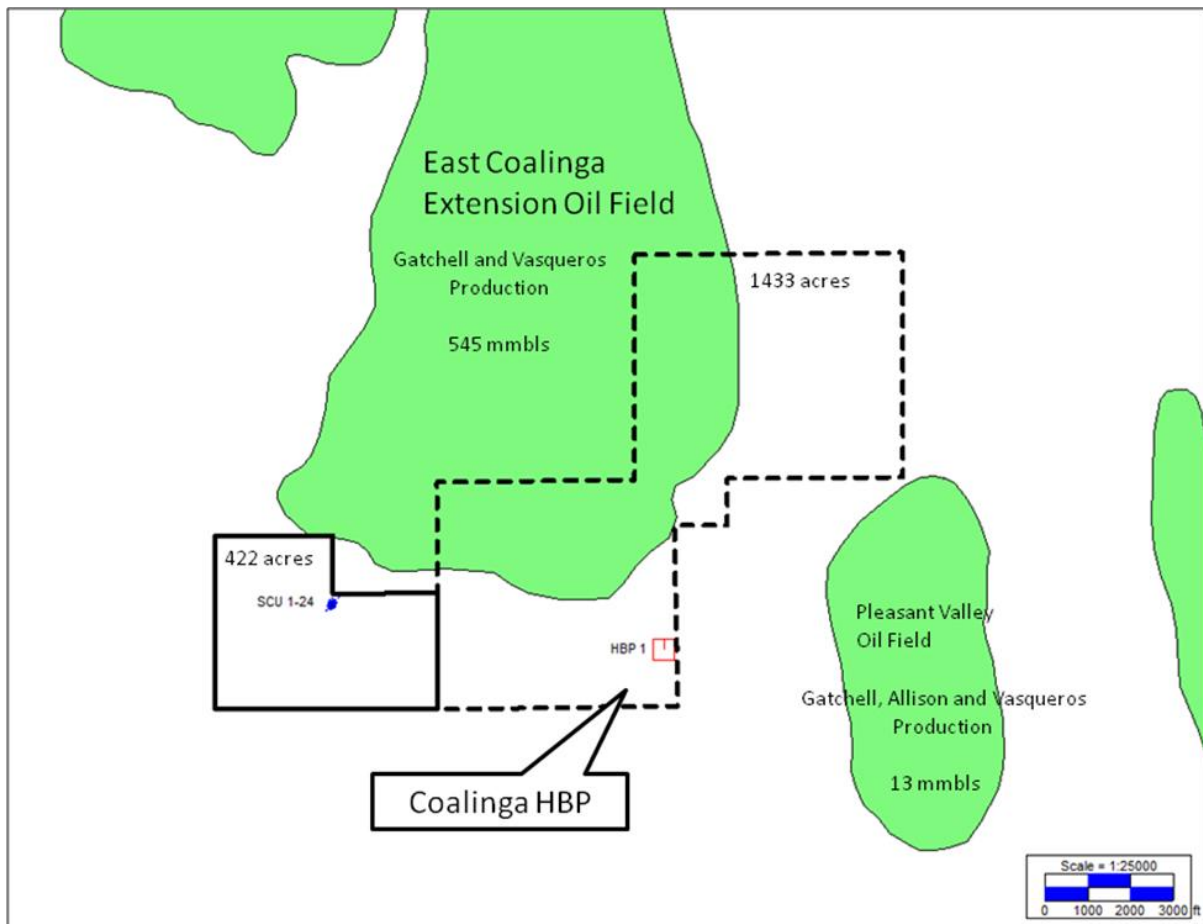
The well has been suspended and subject to permitting approvals, will be used as a commercial water injection well.

HBP FARMIN

AOC will participate in the drilling of one well and have an option to drill a second well to earn approximately 25% interest in 1433 acres. Total cost exposure to AOC is approximately \$US 280,000 based on the estimated dry hole cost for drilling one well.

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.

Planning is underway to spud this well in 6-8 weeks.



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

Andrew Childs
Chairman
10 September 2012

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