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QUARTERLY ACTIVITY REPORT
DECEMBER 2013

AUSTRALIAN OIL COMPANY (ASX : AOC)

KEY ACTIVITIES

- **Received $1.75 million cash upon resolution of issues related to exploration licence PEL 182 in the Cooper Basin, South Australia.**
- **Appointed new Managing Director with over 40 years exploration and development experience to complement the already extensive experience of the AOC Board.**
- **Completed strategic asset disposals to ensure singular focus on highly prospective onshore California exploration opportunities:**
    - **Continued technical evaluation of prospects and leasing of related lands on world class and potentially paradigm changing gas prospects.**
    - **Joint venture agreement for more extensive exploration with Xstate Resources Limited (ASX: XST) onshore California.**

SACRAMENTO BASIN (Onshore Northern California)

Exploration and New Ventures:

The rights to an additional 1,447 kilometres (900 miles) of 2D seismic data in the Northern Sacramento Basin were purchased during the quarter. These data are being received and being selectively reprocessed, and are being interpreted along with AOC’s existing 2D and 3D seismic data and extensive well and geologic information database to generate multiple prospects.

Exploration leases have continued to be acquired resulting in approximately 13,000 acres currently leased. AOC has 40% working interest (WI) in all these leased land which are subject to land owner royalties of up to 20% and are required to be renewed on a regular basis, generally yearly.

The costs of these leases are included in the company's expenditures for the quarter, detailed in the separately filed Appendix 5B.

Leases for oil and gas exploration in onshore California are generally obtained from individual land and mineral rights owners. Leases may range from a partial interest fraction of an acre upwards to thousands of acres in size. The leasing of land for exploration in the USA is also very competitive, and consequently leasing details are closely guarded by companies to protect their intellectual property, gain competitive advantage and hence protect and potentially grow shareholder value.

Unlike many international, including Australian exploration permits, there are no obligations to conduct exploration seismic or drilling on the Company's leases, however AOC is actively planning for drilling in the Sacramento Basin in the first half of 2014.

Mapping of the various data has resulted in the interpretation of multiple prospects with potential recoverable gas resources ranging from 50 BCF to over 3 Tcf.

A discovery of the latter resource size would change the current exploration potential perception or paradigm given that the largest field to date in the basin has produced a little over 3 Tcf of gas. Obviously such a discovery would be of very significant value to AOC shareholders.

These resource estimates are based on an assessment of all available seismic and geological information including petrophysical evaluations of previously drilled wells and the shows of gas in those wells.

The interpreted prospects cover at least 3 different prospect types which are independent of each other, i.e. a discovery or dry hole on one prospect has little bearing on the resultant probability of a discovery on the next type, enhancing the probability of success from drilling.
However, ongoing interpretation is revealing follow up leads and prospects of similar size for each of these types, giving AOC the opportunity to follow-up any discovery.

Some of the prospects being prepared for drilling are considered to be relatively low risk because they rely on offsetting and / or re-entering wells with extensive shows of gas that were not considered commercially significant at the time of drilling in the period from the 1950's to mid-1980's.

The application of new drilling and evaluation technologies will be advantageous to the currently planned drilling program.

Design and planning for the drilling of the first prospect in the northern Sacramento basin commenced during the quarter.

Production:

Rancho - Capay Gas Field (AOC 40% WI in 5 wells) & Los Medanos Gas Field (AOC 40% WI in 2 wells)

AOC acquired gas production rights in the above fields in the Sacramento Basin onshore California in late 2012 primarily as a means to acquire leases for further exploration and to access an extensive 3D seismic database to generate new exploration opportunities. The acquisition was countercyclical when gas prices were below US$2 /mcf. Recent gas prices have been in excess of US$5 /mcf.

Production during the December quarter was consistent with the previous quarter.

SANTA MARIA BASIN (HUASNA SUB-BASIN) Onshore Southern California

Exploration

PORTER RANCH OIL PROJECT (AOC 45% Working Interest)

The Porter Ranch Project consists of over 9000 acres leased over a number of surface anticlines in the prospect area.

The permitting process progressed in preparation for the drilling of one exploration well with a planned total depth of approximately 1500 metres to test the Monterey oil reservoirs in the first half of 2014.

The first prospect planned to be drilled has estimated recoverable resources of over 10 million barrels of recoverable oil. This estimate is based on surface geology, 2D seismic and geologic and production parameters from nearby wells and comparisons to analagous fields in the Santa Maria Basin.

Appraisal / Development

MANKINS RANCH OIL FIELD PROJECT

Legal procedures to resolve issues blocking progress on producing Monterey Formation oils from the regulator designated Mankins Ranch Oil Field continued during the quarter at no cost to AOC.

SAN JOAQUIN BASIN (Onshore Southern California)

Facility Development

SCU #1-24 Water-Disposal Well (AOC Working Interest 32.81%)

Capacity testing of the well for water disposal, and application to regulators to use the failed exploration well SCU #1-24 as a commercial water injection well continued.

In the adjacent area to this well, there are large volumes of water produced from high water-cut oil reservoirs. Disposal of the produced water can make permitted water-disposal wells attractive economic assets.

COOPER BASIN SOUTH AUSTRALIA

Asset Disposal

PEL 182

AOC and Dome Petroleum resolved issues with a previously advised farm-out of AOC's 7.5% interest in Permit PEL 182 resulting in AOC receiving $1.75 million in cash during the quarter.

Anticipated Third quarter activities

AOC will continue preparation for drilling two wells in the first half of 2014 in onshore California. Generation of prospects for future drilling and or farmout will also continue apace.

Managing Director
Gary Jeffery
31 January 2014

Competent Person

This document contains forward looking statements that are subject to risk factors associated with the oil and gas industry. It is believed that the expectations reflected in these statements are reasonable, but they may be affected by a many variables which could cause actual results or trends to differ materially. The technical information provided has been reviewed by Mr Gary Jeffery, Managing Director of Australian Oil Company Limited. He is a qualified geophysicist with over 40 years technical, commercial and management experience in exploration for, appraisal and development, and transportation of oil and gas. Mr Jeffery consents to the inclusion of the information in the form and context in which it appears.