

Australian Oil Company Limited and Controlled Entities

ACN 114 061 433

DIRECTORS' REPORT

The directors submit the financial report of Australian Oil Company Limited and its controlled entities ("the Consolidated Entity or Group") (hereinafter referred to as "AOC") for the half-year ended 31 December 2013.

Directors

The names of directors who held office during or since the end of the half-year:

- *Andrew Childs (Chairman)*
- *Gary Jeffery (appointed 24 October 2013)*
- *Keith Martens*
- *Mark Ohlsson (resigned 24 October 2013)*

Principal Activities

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

Review of Operations

The consolidated profit after tax of the Group for the period ended 31 December 2013 was \$776,842 (2012: loss \$387,010).

SACRAMENTO BASIN- (Onshore Northern California)

Exploration and New Ventures:

Significant progress has been made in AOC's definition and leasing of lands over world class and paradigm changing exploration prospects in the Northern Sacramento Basin during the period.

The right to an additional 1,447 kilometers (900 miles) of 2D seismic data in the Northern Sacramento Basin was purchased during the quarter. This data is 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 conventional, sandstone reservoir gas prospects.

Exploration leases have continued to be acquired resulting in approximately 13,000 acres currently leased. AOC has at least 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.

Owners of landowner royalties receive their royalty percentage of gross revenues from sales of oil and gas. The remaining revenues are then distributed to individual participants or joint venturers in proportion to their Working Interest (WI). Expenses including capital and operating expenses are incurred by participants according to their WI.

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 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.

West Brentwood Area of Mutual Interest (AMI) (AOC earning 26.67%)

No exploration activity was undertaken during the period.

Hood – Franklin Gas Project

No exploration activity was undertaken during the period.

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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.

SAN JOAQUIN BASIN- (Onshore Southern California)

Exploration and appraisal:

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

Capacity testing of the well for disposal of water produced from oil fields in association with produced oil (Produced Water), and an application to regulators to use the failed exploration well SCU #1-24 as a commercial water-disposal well continued during the period.

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

Patience #1-19 Oil Exploration Prospect

Due to unforeseen commercial issues the participants decided to terminate the farm in agreement to drill this well.

SANTA MARIA BASIN Huasna Sub-Basin- (Onshore Southern California)

Exploration:

Porter Ranch Oil Project (AOC 50% Working Interest)

The Porter Ranch Project consists of over 9000 leased acres 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 meters to test extensive Monterey Formation 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 oil. This estimate is based on surface geology mapping, 2D seismic and geologic and production parameters from nearby wells and comparisons to analogous fields in the greater Santa Maria Basin.

Appraisal and Development:

Mankin's Ranch Oil Field Project (EXCELARON LLC- AOC 35% interest)

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

COOPER BASIN (Onshore South Australia)

PEL 182

AOC 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.

As a result, at the end of the period, AOC had no remaining interest in PEL 182

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EXMOUTH SUB BASIN (Onshore Western Australia)

EP 435

During the period the Company sold its 17% interest in EP 435 for \$35,700.00 to Empire Oil & Gas NL. As a result, at the end of the period, AOC had no remaining interest in EP 435.

New Exploration Focus

As a consequence of the above transactions AOC has no remaining exploration activities, nor interests in Australia, and consequently is singularly focused on the company's oil and gas prospects in onshore California.

Dividends

No dividends were paid during the period (2012: Nil).

Subsequent Events

Other than as referred to below, no matters or circumstances have occurred subsequent to period end that have significantly affected, or may significantly affect, the operations of the Group, the results of those operations or the state of affairs of the Group in subsequent financial periods.

On 10 February 2014 the Company announced the completion of a placement to institutional and sophisticated investors eligible under s.708 of the Corporations Act (2001) of 11,930,326 new ordinary shares at 10 cents per share to raise \$1,193,032 (Placement).

Options

During the period Australian Oil Company Limited issued a total of 11,500,000 unlisted options to purchase ordinary shares in the Company. 10,000,000 unlisted options were issued to officers of the Company as approved by resolution at the Annual General Meeting on 29 November 2013. The options issued during the period are exercisable at 25 cents per ordinary share and expire on 31 December 2015.

Auditor's Declaration

The lead auditor's independence declaration under section 307C of the *Corporations Act 2001* is set out on page 4 for the half-year ended 31 December 2013.

This report is signed in accordance with a resolution of the Board of Directors



Gary Jeffery
Managing Director

Dated this 14th day of March 2014



Building a better
working world

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Auditor's Independence Declaration to the Directors of Australian Oil Company Limited

In relation to our review of the financial report of Australian Oil Company Limited for the half-year ended 31 December 2013, to the best of my knowledge and belief, there have been no contraventions of the auditor independence requirements of the *Corporations Act 2001* or any applicable code of professional conduct.

Ernst & Young

R J Curtin
Partner
Perth
14 March 2014

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CONDENSED CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME
FOR THE HALF-YEAR ENDED 31 DECEMBER 2013

	Notes	Half Year 31 December 2013 \$	Half Year 31 December 2012 \$
Interest revenue		509	3,043
Production revenue		26,089	42,869
Profit on sale of shares		-	3,752
Gain on sale of exploration asset	9	1,750,000	-
Share of (loss) of associate		-	(31,186)
Share of (loss) of joint venture		(46,614)	(1,273)
Impairment of joint venture		(34,099)	-
Administration expenses		(185,381)	(150,610)
Amortisation of oil and gas assets		-	(47,716)
Share based payments	16	(378,235)	(189,000)
Exploration expenditure written off		(70,531)	-
Impairment of exploration expenditure	14	(284,896)	(16,889)
Profit/(Loss) for period before tax		776,842	(387,010)
Income tax expense		-	-
Profit (Loss) for period after tax		776,842	(387,010)
Other comprehensive income			
<i>Items that may be reclassified subsequently to profit and loss:</i>			
- Investment revaluation reserve		(402)	(2,820)
- Foreign currency translation reserve		53,662	(15,771)
Income tax on items of comprehensive income		-	-
Other comprehensive income, net of tax		53,260	(18,591)
Total comprehensive income for the period		830,102	(405,601)
Profit/(Loss) for the period is attributable to:			
- Owners of the parent		776,842	(384,032)
- Non-controlling interest		-	(2,978)
		776,842	(387,010)
Total comprehensive income for the period is attributable to:			
- Owners of the parent		830,102	(402,623)
- Non-controlling interest		-	(2,978)
		830,102	(405,601)
Basic profit (loss) per share	8	0.98c	(0.49c)
Diluted profit (loss) per share	8	0.98c	(0.49c)

The accompanying notes form part of these financial statements.

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**CONSOLIDATED STATEMENT OF FINANCIAL POSITION
AS AT 31 DECEMBER 2013**

	Notes	31 December 2013 \$	30 June 2013 \$
ASSETS			
CURRENT ASSETS			
Cash and cash equivalents		917,679	34,427
Trade and other receivables		30,265	6,463
Financial assets	10	473	875
TOTAL CURRENT ASSETS		948,417	41,765
NON-CURRENT ASSETS			
Exploration expenditure	14	1,263,816	872,691
Investment in joint venture		-	33,000
TOTAL NON-CURRENT ASSETS		1,263,816	905,691
TOTAL ASSETS		2,212,233	947,456
LIABILITIES			
CURRENT LIABILITIES			
Trade and other payables		212,009	165,569
Liability to carry joint venture partner		78,546	78,546
TOTAL CURRENT LIABILITIES		290,555	244,115
NON-CURRENT LIABILITIES			
Provision for Restoration		140,000	140,000
TOTAL NON-CURRENT LIABILITIES		140,000	140,000
TOTAL LIABILITIES		430,555	384,115
NET ASSETS		1,781,678	563,341
EQUITY			
Issued capital	11	9,444,888	9,434,888
Accumulated losses		(8,613,496)	(9,390,338)
Reserves		950,286	518,791
TOTAL EQUITY		1,781,678	563,341

The accompanying notes form part of these financial statements.

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CONSOLIDATED STATEMENT OF CHANGES IN EQUITY
FOR THE HALF-YEAR ENDED 31 DECEMBER 2013

For the half-year ended
31 December 2012

	Share Capital	Retained losses	Investment Revaluation Reserve	Foreign Currency Translation Reserve	Share based payments Reserve	Non- controlling Interest	Total
	\$	\$	\$	\$	\$	\$	\$
Balance at 1 July 2012	8,511,970	(8,214,272)	3,875	(47,164)	252,248	(18,949)	487,708
Loss for the period	-	(384,032)	-	-	-	(2,978)	(387,010)
Other comprehensive loss	-	-	(2,820)	(15,771)	-	-	(18,591)
Total comprehensive (loss) for the period	-	(384,032)	(2,820)	(15,771)	-	(2,978)	(405,601)
<i>Transactions with owners in their capacity as owners:</i>							
Share Issue	972,433	-	-	-	-	-	972,433
Costs of shares issued	(49,515)	-	-	-	-	-	(49,515)
Share based payments	-	-	-	-	189,000	-	189,000
Balance at 31 December 2012	9,434,888	(8,598,304)	1,055	(62,935)	441,248	(21,927)	1,194,025

	Share Capital	Retained losses	Investment Revaluation Reserve	Foreign Currency Translation Reserve	Share based payments Reserve	Non- controlling Interest	Total
	\$	\$	\$	\$	\$	\$	\$
Balance at 1 July 2013	9,434,888	(9,390,338)	510	77,033	441,248	-	563,341
Profit for the period	-	776,842	-	-	-	-	776,842
Other comprehensive loss	-	-	(402)	53,662	-	-	53,260
Total comprehensive income/(loss) for the period	-	776,842	(402)	53,662	-	-	830,102
<i>Transactions with owners in their capacity as owners:</i>							
Share issue on exercise of options	10,000	-	-	-	-	-	10,000
Share based payments	-	-	-	-	378,235	-	378,235
Balance at 31 December 2013	9,444,888	(8,613,496)	108	130,695	819,483	-	1,781,678

The accompanying notes form part of these financial statements.

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CONSOLIDATED CASH FLOW STATEMENT
FOR THE HALF-YEAR ENDED 31 DECEMBER 2013

	Notes	31 December 2013 \$	31 December 2012 \$
CASH FLOWS FROM OPERATING ACTIVITIES			
Payments to suppliers and employees		(197,335)	(331,283)
Production income		26,089	-
Interest received		509	3,043
Net cash (used in) operating activities		(170,737)	(328,240)
CASH FLOWS FROM INVESTING ACTIVITIES			
Loans received		95,000	-
Loans paid		(50,000)	-
Acquisition of oil and gas assets		-	(162,862)
Loans to associates		(55,274)	-
Payments for exploration expenditure		(638,024)	(260,593)
Payments to joint venture		(47,713)	(31,186)
Proceeds from sale of investments		-	1,862
Proceeds from sale of exploration asset	9	1,750,000	-
Net cash generated from/(used in) investing activities		1,053,989	(452,779)
CASH FLOWS FROM FINANCING ACTIVITIES			
Share issue		-	743,999
Costs of share issue		-	(49,514)
Net cash from financing activities		-	694,485
Net increase/(decrease) in cash and cash equivalents		883,252	(86,534)
Cash and cash equivalents at 1 July		34,427	442,887
Cash and cash equivalents at 31 December		917,679	356,353

The accompanying notes form part of these financial statements.

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NOTES TO THE FINANCIAL STATEMENTS FOR THE HALF-YEAR ENDED 31 DECEMBER 2013

NOTE 1: GENERAL INFORMATION AND BASIS OF PREPARATION

(a) General information

The consolidated financial statements of Australian Oil Company Limited and its subsidiaries (the Group) for the six months ended 31 December 2013 were authorised for issue in accordance with a resolution of the directors on XX March 2014.

Australian Oil Company Limited (the Company) is a limited company, incorporated and domiciled in Australia, whose shares are publicly traded. The Group's principal activities include the exploration for oil and gas in Australia and overseas.

(b) Basis of preparation

The half-year financial report is a general purpose condensed financial report prepared in accordance with the requirements of the *Corporations Act 2001* and Australian Accounting Standard AASB 134: Interim Financial Reporting.

The half-year financial report does not include full disclosures of the type normally included in an annual financial report and therefore cannot be expected to provide as full an understanding of the financial performance, financial position and cash flows of the consolidated entity as the full financial report.

It is recommended that this half-year financial report be read in conjunction with the annual financial report for the year ended 30 June 2013 and any public announcements made by Australian Oil Company Limited ("AOC") and its controlled entities during the half-year in accordance with continuous disclosure requirements arising under the *Corporations Act 2001*.

The half-year Financial Report has been prepared on a historical cost basis with the exception of financial assets which are carried at fair value and in Australian dollars.

(c) New standards, interpretations and amendments adopted by the Group

The accounting policies adopted in the preparation of the interim condensed consolidated financial statements are consistent with those followed in the preparation of the Group's annual consolidated financial statements for the year ended 30 June 2013, except for the adoption of new standards and interpretations effective as of 1 January 2013 detailed below:

- AASB 119 Employee Benefits (Revised 2011)
- AASB 10 Consolidated Financial Statements
- AASB 11 Joint Arrangements
- AASB 12 Disclosure of Interest in Other Entities
- AASB 13 Fair Value Measurement

The nature and the impact of each new standard/amendment is described below:

AASB 119 Employee Benefits (Revised 2011)

The revised standard changes the definition of short term employee benefit. The distinction between short-term and other long-term employee benefits is now based on whether the benefits are expected to be settled wholly within 12 months after the reporting date.

The change in distinction between short-term and other long-term employee benefits did not have a significant impact on the Group.

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NOTES TO THE FINANCIAL STATEMENTS FOR THE HALF-YEAR ENDED 31 DECEMBER 2013

NOTE 1: GENERAL INFORMATION AND BASIS OF PREPARATION

(c) New standards, interpretations and amendments adopted by the Group (Continued)

AASB 10 Consolidated Financial Statements

AASB 10 establishes a single control model that applies to all entities including special purpose entities. AASB 10 replaces the parts of previously existing AASB 27 Consolidated and Separate Financial Statements that dealt with consolidated financial statements and SIC-12 Consolidation – Special Purpose Entities. AASB 10 changes the definition of control such that an investor controls an investee when it is exposed, or has rights, to variable returns from its involvement with the investee and has the ability to affect those returns through its power over the investee. To meet the definition of control in AASB 10, all three criteria must be met, including: (a) an investor has power over an investee; (b) the investor has exposure, or rights, to variable returns from its involvement with the investee; and (c) the investor has the ability to use its power over the investee to affect the amount of the investor's returns.

AASB 10 had no impact on the consolidation of investments held by the Group.

AASB 11 Joint Arrangements

AASB 11 replaces AASB 31 Interests in Joint Ventures and SIC-13 Jointly-controlled Entities — Non-monetary Contributions by Venturers. AASB 11 removes the option to account for jointly controlled entities (JCEs) using proportionate consolidation. Instead, JCEs that meet the definition of a joint venture under AASB 11 must be accounted for using the equity method.

AASB 11 did not have a significant impact on the Group.

AASB 12 Disclosure of Interests in Other Entities

AASB 12 sets out the requirements for disclosures relating to an entity's interests in subsidiaries, joint arrangements, associates and structured entities. None of these disclosure requirements are applicable for interim condensed consolidated financial statements, unless significant events and transactions in the interim period require that they are provided. Accordingly, the Group has not made such disclosures.

AASB 13 Fair Value Measurement

AASB 13 establishes a single source of guidance under AASB for all fair value measurements. AASB 13 does not change when an entity is required to use fair value, but rather provides guidance on how to measure fair value under AASB when fair value is required or permitted. AASB 13 also requires specific disclosures on fair values, some of which replace existing disclosure requirements in other standards, including AASB 7 Financial Instruments: Disclosures.

AASB 13 did not have a significant impact on the Group. Additional disclosure requirements are detailed in Note 17 to the financial statements.

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NOTES TO THE FINANCIAL STATEMENTS FOR THE HALF-YEAR ENDED 31 DECEMBER 2013

NOTE 2: CONTROLLED ENTITIES

Australian Oil Company Ltd (the parent entity) has 3 subsidiaries which were incorporated on 17 May 2005. Australian Oil Company Ltd owns 100% of:

- Australian Oil Company No 2 Pty Ltd;
- Australian Oil Company No 3 Pty Ltd; and
- Australian Oil Company Investments Pty Ltd.

At 31 December 2013 Australian Oil Company Investments Pty Ltd owned 100% of the capital of Sacgasco LLC, a California corporation which was incorporated on 20 December 2010. Sacgasco was incorporated to exploit the Company's interest in the various projects in California.

Australian Oil Company Limited owns a 50% interest in Alamo Creek Oil LLC and a 100% interest in Los Alamos Oil LLC, both through its other subsidiaries.

NOTE 3: INVESTMENT IN JOINT VENTURE

The Group has a 50% interest in Alamo Creek LLC, a jointly controlled entity, the principal activities of which are oil exploration through the Porters Ranch project. The interest in this joint venture is accounted using the equity accounting method.:

The investment in Alamo Creek LLC is carried at nil since Alamo Creek LLC is in a net liability position at 31 December 2013.

Current period's share of net loss in the joint venture of \$46,614 (2012: N/A) has not been recognised in the statement of comprehensive income.

NOTE 4: INVESTMENT IN ASSOCIATE

As at 31 December 2013 the parent entity holds 35% of the ordinary shares of Excelaron LLC (incorporated in the USA).

The investment in Excelaron LLC is carried at nil since Excelaron LLC is in a net liability position at 31 December 2013 consistent with 30 June 2013.

Current period's share of net loss in the associate of \$1,015 (2012: N/A) has not been recognised in the statement of comprehensive income.

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NOTES TO THE FINANCIAL STATEMENTS FOR THE HALF-YEAR ENDED 31 DECEMBER 2013

NOTE 5: SEGMENT INFORMATION

Identification of reportable segments

The Group has identified its operating segments based on the internal reports that are reviewed and used by the board of directors (chief operating decision makers) in assessing performance and determining the allocation of resources.

Types of product and service by segment

As of the date of this report and during the period ended 31 December 2013 the Group operates entirely in the industry of exploration for oil and gas. The operating segments are identified based on the information presented to the chief operating decision maker.

The Group is managed primarily on its tenements. An operating segment is engaged in providing products or services within a particular economic environment and is subject to risks and returns that are different from those of segments operating in other economic environments.

Accounting policies adopted

Unless stated otherwise, all amounts reported to the Board of Directors as the chief decision maker with respect to operating segments are determined in accordance with accounting policies that are consistent to those adopted in Note 1.

Segment assets

Where an asset is used across multiple segments, the asset is allocated to the segment that receives the majority of economic value from the asset. In the majority of instances, segment assets are clearly identifiable on the basis of their nature and physical location.

Segment liabilities

Liabilities are allocated to segments where there is direct nexus between the incurrence of the liability and the operations of the segment. Tax liabilities are generally considered to relate to the Company as a whole and are not allocated. Segment liabilities include trade and other payables.

Corporate office activities

Corporate office activities are not allocated to operating segments and form part of the reconciliation to net profit/(loss) after tax.

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**NOTES TO THE FINANCIAL STATEMENTS FOR THE
HALF-YEAR ENDED 31 DECEMBER 2013**

NOTE 5: SEGMENT INFORMATION (CONTINUED)

Segment Result

	Australia	US	Total
	\$	\$	\$
Segment Result 31 December 2013			
Segment revenue	1,750,000	26,089	1,776,089
Segment result	1,750,000	(410,051)	1,339,949
Reconciliation of segment net profit after tax to net profit/ (loss) before tax:			
Other revenue			509
Corporate, professional and other expenses			(563,616)
Net profit before tax per the statement of comprehensive income			776,842
	Australia	US	Total
	\$	\$	\$
Segment Result 31 December 2012			
Segment revenue	-	42,869	42,869
Segment result	-	(54,195)	(54,195)
Reconciliation of segment net profit after tax to net profit/ (loss) before tax:			
Other revenue			3,325
Corporate, professional and other expenses			(335,389)
Depreciation expense			(751)
Net (loss) before tax per the statement of comprehensive income			(387,010)
	Australia	US	Total
	\$	\$	\$
Segment Assets 31 December 2013			
Segment operating assets	-	1,263,816	1,263,816
Cash and cash equivalent			917,679
Trade and other current assets			30,265
Financial assets			473
Total assets per the statement of financial position			2,212,233

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**NOTES TO THE FINANCIAL STATEMENTS FOR THE
 HALF-YEAR ENDED 31 DECEMBER 2013**

NOTE 5: SEGMENT INFORMATION (CONTINUED)

Segment Result (Continued)

Segment Assets 30 June 2013	Australia \$	US \$	Total \$
Segment operating assets	-	905,691	905,691
Cash and cash equivalent			34,427
Trade and other current assets			7,338
Property, plant and equipment			-
Total assets per the statement of financial position			947,456

Segment Liabilities

Liabilities of \$290,555 (June 2013: \$244,115) per the statement of financial position are not allocated to operating segments as they relate to corporate office activities, with the exception of \$140,000 provision for restoration which relates to the US oil and gas assets.

NOTE 6: CONTINGENT LIABILITIES AND CONTINGENT ASSETS

There have been no updates to the matters previously disclosed in the 30 June 2013 financial report. There were no contingent liabilities or contingent assets at 31 December 2013.

NOTE 7: EVENTS SUBSEQUENT TO REPORTING DATE

Other than as referred to below, no matters or circumstances has occurred subsequent to period end that has significantly affected, or may significantly affect, the operations of the Group, the results of those operations or the state of affairs of the Group in subsequent financial periods.

On 10 February 2014 the Company announced the completion of a placement to institutional and sophisticated investors eligible under s.708 of the Corporations Act (2001) of 11,930,326 new ordinary shares at 10 cents per share to raise \$1,193,032 (Placement).

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NOTES TO THE FINANCIAL STATEMENTS FOR THE HALF-YEAR ENDED 31 DECEMBER 2013

NOTE 8: PROFIT/(LOSS) PER SHARE

	31 December 2013	31 December 2012
	\$	\$
Profit (Loss) after tax attributable to ordinary equity holders of the parent	776,842	(387,010)
	No.	No.
Weighted average number of ordinary shares outstanding during the period used in calculating basic and diluted loss per share	79,304,534	79,285,512
Basic and diluted profit/(loss) per share*	0.98c	(0.49c)

Note 1 – 31 December 2013: Basic and diluted earnings per share are the same since the exercise price of the unexercised options outstanding at the reporting date was greater than the weighted average share price of the Company during the period.

Note 2 – 31 December 2012: Share options outstanding at 31 December 2013 have not been included in the calculation of dilutive earnings per share as these are anti-dilutive.

NOTE 9: SALE OF EXPLORATION INTERESTS

	31 December 2013	31 December 2012
	\$	\$
Gain on sale of US interests	-	-
Gain on sale of Australian interests	1,750,000	-
Total	1,750,000	-

On 21 November 2013 the Company announced that all outstanding issues with respect to the farm-out of a 7.5% interest in PEL 182 to Dome Petroleum Resources Plc. (Dome) had been resolved.

The outcome was achieved by selling the 7.5% interest in PEL 182 to the remaining participants for \$3,750,000. As part of settlement with Dome, Dome received \$2,000,000 of the \$3,750,000 with AOC receiving the balance of \$1,750,000.

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**NOTES TO THE FINANCIAL STATEMENTS FOR THE
 HALF-YEAR ENDED 31 DECEMBER 2013**

NOTE 10: FINANCIAL ASSETS	31 December 2013	30 June 2013
	\$	\$
Available for sale financial assets		
Balance at the beginning of the period	875	4,320
Disposals	-	(1,580)
Fair value gain/(loss)	(402)	(1,865)
Balance at end of the period	473	875

Available for sale financial assets comprise investments in ordinary issued capital of listed entities. There are no fixed returns or fixed maturity attached to these investments

NOTE 11: ISSUED CAPITAL	31 December 2013	30 June 2013
	\$	\$
79,535,512 (30 June 2013 – 79,285,512) fully paid ordinary shares	9,444,888	9,434,888

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

NOTE 12: OPTIONS

Australian Oil Company Limited has on issue a total of 28,000,000 unlisted options to purchase ordinary shares in the Company.

- 16,500,000 unlisted options were issued to key management personnel of the Company and others on 11 December 2012 as approved by resolution at the Annual General Meeting and by the Board, and are exercisable at 25 cents per ordinary share and expire on 31 December 2014
- 11,500,000 unlisted options were issued to key management personnel and consultants of the Company and others on 17 December 2013 as approved by resolution at the Annual General Meeting, and are exercisable at 25 cents per ordinary share and expire on 31 December 2015.

At the date of this report no options have been exercised.

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NOTES TO THE FINANCIAL STATEMENTS FOR THE HALF-YEAR ENDED 31 DECEMBER 2013

NOTE 13: RELATED PARTIES

There have been no significant changes to the nature of related party transactions as disclosed in the last financial report. All transactions with related parties are conducted on normal commercial terms and conditions. Total amount paid to directors in the performance of their duties as directors for the half-year ended 31 December 2013 amounted to \$66,667 (2012: \$35,000).

During the first half of the period the Company offices were rented for \$2,100 per month from a company partly owned by Mr. A Childs. The rent was paid at normal market rates. The company moved to independently owned offices in September 2013.

A loan for an amount of \$50,000 was obtained from Gary Jeffery on 13 August 2013, prior to Gary Jeffery being appointed as a director. The loan was repaid on 21 November 2013 with a total of \$1,398 being paid in interest. The terms of the loan were deemed to be on normal commercial terms and conditions.

NOTE 14: EXPLORATION EXPENDITURE

	31 December 2013 \$	30 June 2013 \$
Opening balance at 1 July	872,691	439,616
Exploration expenditure capitalised during period	676,021	719,137
Exploration expenditure impaired during period	(284,896)	(286,062)
Closing balance at 31 December	1,263,816	872,691

The recoverability of the carrying amount of exploration expenditure is dependent on the successful development and commercial exploitation, or alternatively, sale of assets.

The impairment charge of \$284,896 relate to the carrying amount of specific area of interest for which exploration for and evaluation of mineral resources have not led to the discovery of commercially viable quantities of mineral resources and therefore is unlikely to be recovered in full from successful development or by sale.

NOTE 15: COMMITMENTS

The consolidated entity, through its subsidiary companies, has commitments, farm-in 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 joint venture participants that drilling should continue, it is not possible to exactly set out the funds due to be contributed. In relation to the investment in Excelaron, the consolidated entity is not committed to any expenditure or capital commitments of the farm-in partners should they cease to continue as operators.

Australian Oil Company Limited and Controlled Entities

ACN 114 061 433

NOTES TO THE FINANCIAL STATEMENTS FOR THE HALF-YEAR ENDED 31 DECEMBER 2013

NOTE 16: SHARE BASED PAYMENTS

Period ended 31 December 2013

On 17 December 2013, 11,500,000 unlisted options were issued to Officers and consultants of the Company as approved by resolution at the Annual General Meeting and are exercisable at 25 cents per ordinary share. The options vested immediately.

The fair value of the options granted is estimated at the date of grant using the binomial option pricing model; taking into account the terms and conditions upon which the options were granted. The options expire on 31 December 2015. There is no cash settlement of the options. The fair value of options granted during the six months ended 31 December 2013 was estimated on the date of grant using the following assumptions:

- Dividend yield (%) - Nil
- Expected volatility (%) 100
- Risk-free interest rate (%) 2.71
- Expected life (years) 2.1

For the six months ended 31 December 2013 the Group has recognised \$378,235 of share-based payment transactions expense in the income statement.

Period ended 31 December 2012

On 11 December 2012, 10,500,000 unlisted options were issued to Officers of the Company and others as approved by resolution at the Annual General Meeting and by the Board and are exercisable at 25 cents per ordinary share. The options vested immediately.

The fair value of the options granted was estimated at the date of grant using a Black Scholes pricing model, taking into account the terms and conditions upon which the options were granted. The options expire on 31 December 2014. There is no cash settlement of the options. The fair value of options granted during the six months ended 31 December 2012 was estimated on the date of grant using the following assumptions:

- Dividend yield (%) - Nil
- Expected volatility (%) 113
- Risk-free interest rate (%) 2.78
- Expected life (years) 2.1

For the six months ended 31 December 2012 the Group recognised \$189,000 of share-based payment transactions expense in the income statement.

NOTE 17: FAIR VALUES

The fair value of financial assets and financial liabilities of the consolidated entity approximate their carrying value.

Australian Oil Company Limited and Controlled Entities
ACN 114 061 433

DIRECTORS' DECLARATION

In accordance with a resolution of the directors of Australian Oil Company Limited, I state that:

In the opinion of the directors:

(a) the financial statements and notes of the consolidated entity are in accordance with the *Corporations Act 2001*, including:

(i) giving a true and fair view of the consolidated entity's financial position as at 31 December 2013 and of its performance for the half year ended on that date; and

(ii) complying with Accounting Standards AASB 134: Interim Financial Report and the *Corporations Regulations 2001*;

(b) 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 has been made after receiving the declarations required to be made to the Directors in accordance with section 295A of the *Corporations Act 2001* for the half year ending 31 December 2013.

On behalf of the Board



Managing
Director

.....
Gary Jeffery

Dated this 14th day of March 2014

To the members of Australian Oil Company Limited

Report on the Half-Year Financial Report

We have reviewed the accompanying half-year financial report of Australian Oil Company Limited, which comprises the condensed statement of financial position as at 31 December 2013, the condensed statement of comprehensive income, condensed statement of changes in equity and condensed statement of cash flows for the half-year ended on that date, notes comprising a summary of significant accounting policies and other explanatory information, and the directors' declaration of the consolidated entity comprising the company and the entities it controlled at the half-year end or from time to time during the half-year.

Directors' Responsibility for the Half-Year Financial Report

The directors of the company are responsible for the preparation of the half-year financial report that gives a true and fair view in accordance with Australian Accounting Standards and the *Corporations Act 2001* and for such internal controls as the directors determine are necessary to enable the preparation of the half-year financial report that is free from material misstatement, whether due to fraud or error.

Auditor's Responsibility

Our responsibility is to express a conclusion on the half-year financial report based on our review. We conducted our review in accordance with Auditing Standard on Review Engagements ASRE 2410 *Review of a Financial Report Performed by the Independent Auditor of the Entity*, in order to state whether, on the basis of the procedures described, we have become aware of any matter that makes us believe that the financial report is not in accordance with the *Corporations Act 2001* including: giving a true and fair view of the consolidated entity's financial position as at 31 December 2013 and its performance for the half-year ended on that date; and complying with Accounting Standard AASB 134 *Interim Financial Reporting* and the *Corporations Regulations 2001*. As the auditor of Australian Oil Company Limited and the entities it controlled during the half-year, ASRE 2410 requires that we comply with the ethical requirements relevant to the audit of the annual financial report.

A review of a half-year financial report consists of making enquiries, primarily of persons responsible for financial and accounting matters, and applying analytical and other review procedures. A review is substantially less in scope than an audit conducted in accordance with Australian Auditing Standards and consequently does not enable us to obtain assurance that we would become aware of all significant matters that might be identified in an audit. Accordingly, we do not express an audit opinion.

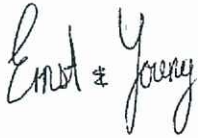
Independence

In conducting our review, we have complied with the independence requirements of the *Corporations Act 2001*. We have given to the directors of the company a written Auditor's Independence Declaration, a copy of which is included in the Directors' Report.

Conclusion

Based on our review, which is not an audit, we have not become aware of any matter that makes us believe that the half-year financial report of Australian Oil Company Limited is not in accordance with the *Corporations Act 2001*, including:

- a) giving a true and fair view of the consolidated entity's financial position as at 31 December 2013 and of its performance for the half-year ended on that date; and
- b) complying with Accounting Standard AASB 134 *Interim Financial Reporting* and the *Corporations Regulations 2001*.



Ernst & Young



R J Curtin
Partner
Perth
14 March 2014