



Australian Oil Company Limited

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QUARTERLY ACTIVITY REPORT June 2014 AUSTRALIAN OIL COMPANY (ASX : AOC)

STRATEGY

During the quarter AOC has affirmed its strategy as:

“Next generation exploration in the Sacramento Basin in California, chasing big gas to supply the Californian gas market and burgeoning LNG market on the west coast of North America”

- AOC has been in California since 2007 and has a strong local presence
- AOC has acquired an extensive technical database for generation of plays, prospects and leads
- For the last 18 months, AOC has been developing a multi-Tcf underexplored conventional gas play under the established Sacramento Gas Basin. (9 Tcf gas produced; 3.5 Tcf from Rio Vista Field)
- In support of the play, the company has secured over 14,000 acres of prospective land, with another 10,000 acres being processed; AOC has 4 ‘leased and ready to drill’ prospects at depths from 2,400 metres to 4,000 metres.
- Prospects are within 25 kilometres of under-filled gas trunklines that connect to the local gas market, and connect to 13 planned LNG export terminals on the West Coast of the US and Canada.
- Large gas resources can be produced with very attractive economic return at gas prices below US\$3 per mcf; gas prices in California have more than doubled since late 2012 to around US\$5 per mcf.
- AOC observes that the planned LNG export market within economic reach of AOC leases is ~ 20 Bcf/day (7 Tcf per year)
- The local gas market is ~7 Bcf per day (2.5 Tcf per year) of which only 6% is satisfied by local production

PRIMARY FOCUS

SACRAMENTO BASIN (Onshore Northern California)

Exploration and New Ventures:

Exploration leases have continued to be acquired, or renewed, resulting in approximately 14,000 acres currently leased. AOC has a working interest (WI) between 40% and 70% in these leased lands. Offers to lease up to 10,000 acres of additional land are being processed.

The company has recently purchased the rights to 160 kilometres of additional 2D seismic data in the Basin. These data will be used to define current and additional prospects for exploration drilling.

Mapping to date has resulted in the interpretation of multiple prospects with best estimate recoverable prospective resources of gas ranging from 50 BCF to over 2 Tcf.



Production:

Rancho - Capay Gas Field (AOC 55% WI in 5 wells) & Los Medanos Gas Field (AOC 55% WI in 2 wells)

AOC acquired 40% working interest, in 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 access an extensive 3D seismic database to generate new exploration opportunities. AOC acquired an additional 15% WI in these wells effective 1 January 2014.

Production:

Production	June 2014 Quarter	March 2014 Quarter
Gross mcf * (100%)	54,253	55,486
Net AOC mcf (after Royalty)	29,839	20,809

* mcf – Thousand Cubic feet gas

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

Exploration

PORTER RANCH OIL PROJECT (AOC 45% Working Interest)

The Porter Ranch Project in San Luis Obispo County consists of over 9,000 acres leased over a number of surface anticlines in the prospect area.

The permitting process continued in preparation for the drilling of one exploration well with a planned total depth of 1,500 metres to test the Monterey oil reservoirs in 2014. The prospect has best estimate recoverable prospective resources of approximately 10 million barrels of oil. This estimate is based on surface geology, 2D seismic and geologic and production parameters from nearby wells and comparisons to analogous fields in the Santa Maria Basin.

The County is currently evaluating the application to drill an exploration well on the Porter Ranch leases.

SECONDARY FOCUS

Appraisal / Development

MANKINS RANCH OIL FIELD PROJECT (AOC 35% Working Interest)

Processes to resolve issues blocking progress on producing Monterey Formation oil from the regulator designated Mankins Ranch Oil Field continued during the quarter.

Subsequent to the end of the quarter a court dismissed the writ and takings lawsuit filed in regards to the denial of a permit to drill the Mankins (Huasna) Oil Field. Consequently, AOC is currently reviewing its options related to the Mankins Project.

Other leases: On 1 July 2014 AOC terminated all its rights in the Brentwood Area of Mutual Interest due to the assessed lower prospectivity compared to the other assets in AOC's extensive asset portfolio

SAN JOAQUIN BASIN (Onshore Southern California)

Facility Development

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

Activities to licence use of the well SCU #1-24 as a commercial water injection well have progressed. Activities to better assess the injection capacity of the well are in planning.

ISSUED CAPITAL at 30 June 2014

Ordinary Shares	91,465,838
Unlisted Options exercisable 31 Dec 2014	16,500,000
Unlisted Options exercisable 31 Dec 2015	11,500,000

Note: On 25 July 2014 shareholders approved the issuing of 648,501 ordinary shares in lieu of director and consulting fees from 1 November 2013 until 30 June 2014, and 500,000 unlisted options exercisable at 25 cents expiring 31 December 2016

MANAGING DIRECTORS COMMENT:

“I am very excited with the progress AOC has made in uncovering game changing big conventional gas resources in an onshore area with excellent infrastructure, lower cost services and large markets for gas.

AOC has found an anomaly in industry perceptions of prospectivity in the Sacramento Basin and consequently has developed and leased a very exciting set of assets with multi-Tcf of gas potential.

I take comfort in reports that OXY, the largest industry participant in Californian oil and gas, is preparing to drill a multi-Tcf potential gas prospect located ~30 miles away and on trend with AOC’s leading prospect.

The west coast of the USA is hungry for gas supplies to existing local markets, and to planned LNG export terminals which have convenient access to growing Asian LNG Markets.

AOC has industry low overhead costs and no work program obligations and hence can manage its drilling programs according to its ability to fund.

AOC plans to invite strategic partners and or farminees to assist in the funding of some or all its exploration drilling program. I am very encouraged by such discussions to date.

Based on my 40 years of industry experience, I think AOC is in the right place at the right time and I look forward to seeing the fruits of our labour providing rewards to shareholders.”

Gary Jeffery

Managing Director

Competent Persons, Risk and Explanatory Statement

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 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.

In accordance with ASX Listing Rules, any new hydrocarbon resource information in this presentation has been reviewed by Australian Oil Company’s Technical Director, Mr Keith Martens, who has over 35 years’ experience in the sector, with 15 years of experience in

working in North America. Mr Martens is a qualified resources evaluator and consents to that information being included in the form and context in which it appears.

The estimated quantities of petroleum that may potentially be recovered by the application of a future development project(s) relate to undiscovered accumulations. These estimates have both an associated risk of discovery and a risk of development. Further exploration appraisal and evaluation is required to determine the existence of a significant quantity of potentially moveable hydrocarbons.

US exploration is conducted on leases granted by Mineral Right owners, in AOC's case primarily private individuals or groups. Leases can vary in size from very small parcels (part of an acre) to large landholdings (covering a few square miles). Leases generally are for 5 years and rentals are paid annually. There are no work commitments associated with the leases. Some leases are 'Held By Production' and royalties, generally less than 20% of revenues, are paid to mineral right owners in lieu of rentals. AOC has not listed all its leases as it is impractical and not meaningful for potential project value assessment in a conventional gas play. A detailed listing of leases may also lead to a loss of competitive advantage and consequent reduced value to AOC shareholders.

Appendix 5B

Mining exploration entity quarterly report

Introduced 1/7/96. Origin: Appendix 8. Amended 1/7/97, 1/7/98, 30/9/01, 01/06/10, 17/12/10

Name of entity

AUSTRALIAN OIL COMPANY LIMITED

ABN

83 114 061 433

Quarter ended ("current quarter")

30 JUNE 2014

Consolidated statement of cash flows

Cash flows related to operating activities	Current quarter \$A'000	Year to date (12 months) \$A'000
1.1 Receipts from product sales and related debtors	24	100
1.2 Payments for (a) exploration and evaluation	(342)	(1,185)
(b) development	-	-
(c) production	-	-
(d) administration	(147)	(680)
1.3 Dividends received	-	-
1.4 Interest and other items of a similar nature received	-	2
1.5 Interest and other costs of finance paid	-	-
1.6 Income taxes received / (paid)	(7)	(7)
1.7 Other -	-	4
Net Operating Cash Flows	(472)	(1,766)
Cash flows related to investing activities		
1.8 Payment for purchases of: (a) prospects	-	-
(b) equity investments	-	-
(c) other fixed assets	-	-
1.9 Proceeds from sale of: (a) prospects	-	-
(b) equity investments	-	-
(c) other fixed assets	-	-
- residual interest in PEL 182	-	1,750
1.10 Loans to other entities	-	-
1.11 Loans repaid by other entities	-	-
1.12 Other - sale of exploration assets	-	-
Net investing cash flows	-	1,750
1.13 Total operating and investing cash flows (carried forward)	(472)	(16)

+ See chapter 19 for defined terms.

Appendix 5B
Mining exploration entity quarterly report

1.13	Total operating and investing cash flows (brought forward)	(472)	(16)
	Cash flows related to financing activities		
1.14	Proceeds from issues of shares, options, etc.	-	1,193
1.15	Proceeds from sale of forfeited shares	-	-
1.16	Proceeds from borrowings	-	95
1.17	Repayment of borrowings	-	(95)
1.18	Dividends paid	-	-
1.19	Other – capital raising costs	-	(66)
	Net financing cash flows	-	1,127
	Net increase (decrease) in cash held	(472)	1,111
1.20	Cash at beginning of quarter/year to date	1,680	97
1.21	Exchange rate adjustments to item 1.20	(9)	(9)
1.22	Cash at end of quarter	1,199	1,199

Payments to directors of the entity and associates of the directors
Payments to related entities of the entity and associates of the related entities

		Current quarter \$A'000
1.23	Aggregate amount of payments to the parties included in item 1.2	62
1.24	Aggregate amount of loans to the parties included in item 1.10	-

1.25 Explanation necessary for an understanding of the transactions

1.23 - Includes salaries and fees paid to directors.

Non-cash financing and investing activities

2.1 Details of financing and investing transactions which have had a material effect on consolidated assets and liabilities but did not involve cash flows

None

2.2 Details of outlays made by other entities to establish or increase their share in projects in which the reporting entity has an interest

None

Financing facilities available

Add notes as necessary for an understanding of the position.

	Amount available \$A'000	Amount used \$A'000
3.1 Loan facilities	-	-
3.2 Credit standby arrangements	-	-

Estimated cash outflows for next quarter

	\$A'000
4.1 Exploration and evaluation	250
4.2 Development	-
4.3 Production	-
4.4 Administration	80
Total	330

Reconciliation of cash

Reconciliation of cash at the end of the quarter (as shown in the consolidated statement of cash flows) to the related items in the accounts is as follows.

	Current quarter \$A'000	Previous quarter \$A'000
5.1 Cash on hand and at bank	1,199	1,680
5.2 Deposits at call	-	-
5.3 Bank overdraft	-	-
5.4 Other (provide details)	-	-
Total: cash at end of quarter (item 1.22)	1,199	1,680

Changes in interests in mining tenements

	Tenement reference	Nature of interest (note (2))	Interest at beginning of quarter	Interest at end of quarter
6.1	Interests in mining tenements relinquished, reduced or lapsed			
6.2	Interests in mining tenements acquired or increased			

+ See chapter 19 for defined terms.

Appendix 5B
Mining exploration entity quarterly report

Issued and quoted securities at end of current quarter

Description includes rate of interest and any redemption or conversion rights together with prices and dates.

	Total number	Number quoted	Issue price per security (see note 3) (cents)	Amount paid up per security (see note 3) (cents)
7.1 Preference +securities <i>(description)</i>	Nil	N/A	N/A	N/A
7.2 Changes during quarter (a) Increases through issues (b) Decreases through returns of capital, buy-backs, redemptions	N/A	N/A	N/A	N/A
7.3 +Ordinary securities **	91,465,838	91,465,838	N/A	N/A
7.4 Changes during quarter (a) Increases through issues (b) Decreases through returns of capital, buy-backs				
7.5 +Convertible debt securities <i>(description)</i>	Nil	N/A	N/A	N/A
7.6 Changes during quarter (a) Increases through issues (b) Decreases through securities matured, converted	N/A	N/A	N/A	N/A
7.7 Options <i>(description and conversion factor)</i>	6,000,000 10,500,000 11,500,000	- - -	<i>Exercise price</i> 25 cents 25 cents 25 cents	<i>Expiry date</i> 31 December 2014 31 December 2014 31 December 2015
7.8 Issued during quarter	-	-	-	-
7.9 Exercised during quarter	N/A	N/A	N/A	N/A
7.10 Expired during quarter				
7.11 Debentures <i>(totals only)</i>	Nil	N/A		
7.12 Unsecured notes <i>(totals only)</i>	Nil	N/A		

+ See chapter 19 for defined terms.

Compliance statement

- 1 This statement has been prepared under accounting policies which comply with accounting standards as defined in the Corporations Act or other standards acceptable to ASX (see note 5).
- 2 This statement does give a true and fair view of the matters disclosed.

Sign here:  Date: 31 July 2014
Company Secretary

Print name: David M McArthur

Notes

- 1 The quarterly report provides a basis for informing the market how the entity's activities have been financed for the past quarter and the effect on its cash position. An entity wanting to disclose additional information is encouraged to do so, in a note or notes attached to this report.
- 2 The "Nature of interest" (items 6.1 and 6.2) includes options in respect of interests in mining tenements acquired, exercised or lapsed during the reporting period. If the entity is involved in a joint venture agreement and there are conditions precedent which will change its percentage interest in a mining tenement, it should disclose the change of percentage interest and conditions precedent in the list required for items 6.1 and 6.2.
- 3 **Issued and quoted securities** The issue price and amount paid up is not required in items 7.1 and 7.3 for fully paid securities.
- 4 The definitions in, and provisions of, *AASB 6: Exploration for and Evaluation of Mineral Resources* and *AASB 107: Statement of Cash Flows* apply to this report.
- 5 **Accounting Standards** ASX will accept, for example, the use of International Financial Reporting Standards for foreign entities. If the standards used do not address a topic, the Australian standard on that topic (if any) must be complied with.

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