



Australian Oil Company Limited
ACN 114 061 433

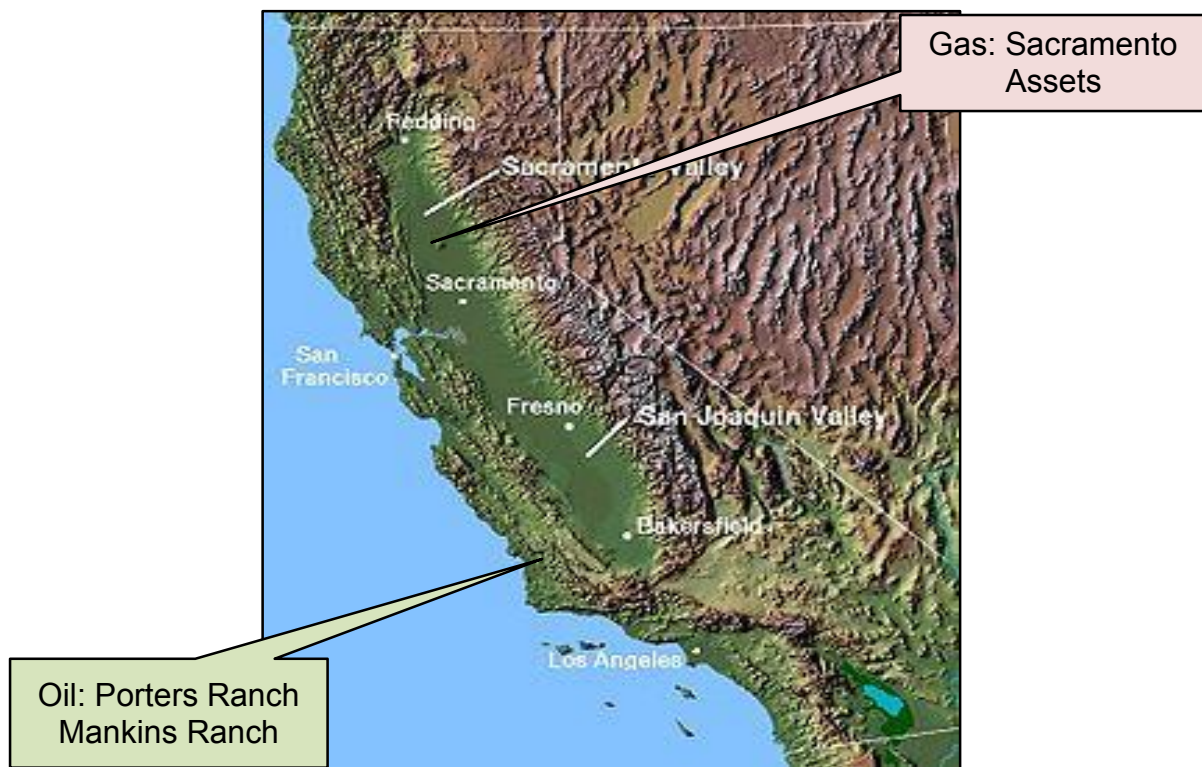
4 September 2014

ASX Limited

Electronic lodgement

Exploration Well on Dempsey Prospect Targets 1 Tcf of Gas

Australian Oil Company Limited (ASX Ticker: “AOC”) has commenced permitting to drill the multi-zone, conventional Dempsey Gas Prospect located below AOC production facilities in the northern Sacramento Basin, onshore California.



Location Map

Sacramento Basin

The Sacramento Basin has produced over 9 Tcf of gas to date from sandstone reservoirs. The largest field has produced 3.5 Tcf gas.

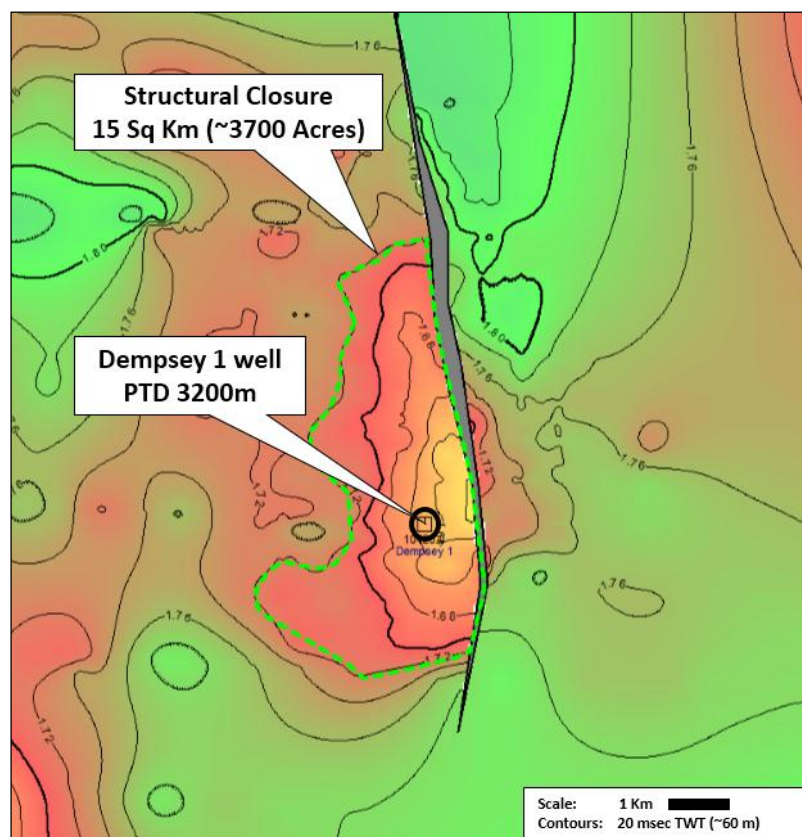
AOC produces gas from 7 wells in the Sacramento Basin.

Dempsey 1 Exploration Well

The Dempsey 1 exploration well is to be located on an existing drilling pad within a gas unit from which AOC is producing and selling gas. Consequently, approval of the well drilling permit by local regulatory authorities is expected to take 45 - 60 days.

Once approved, the well could be drilled in December 2014 or early 2015, dependent on rig availability and operational considerations. The well has a Proposed Total Depth ('PTD') of 3200 metres and is prognosed to take around 50-60 days to drill and cost between US\$4.5 and \$5.5 million.

AOC is in advanced discussions on funding alternatives for the drilling of the Dempsey well.



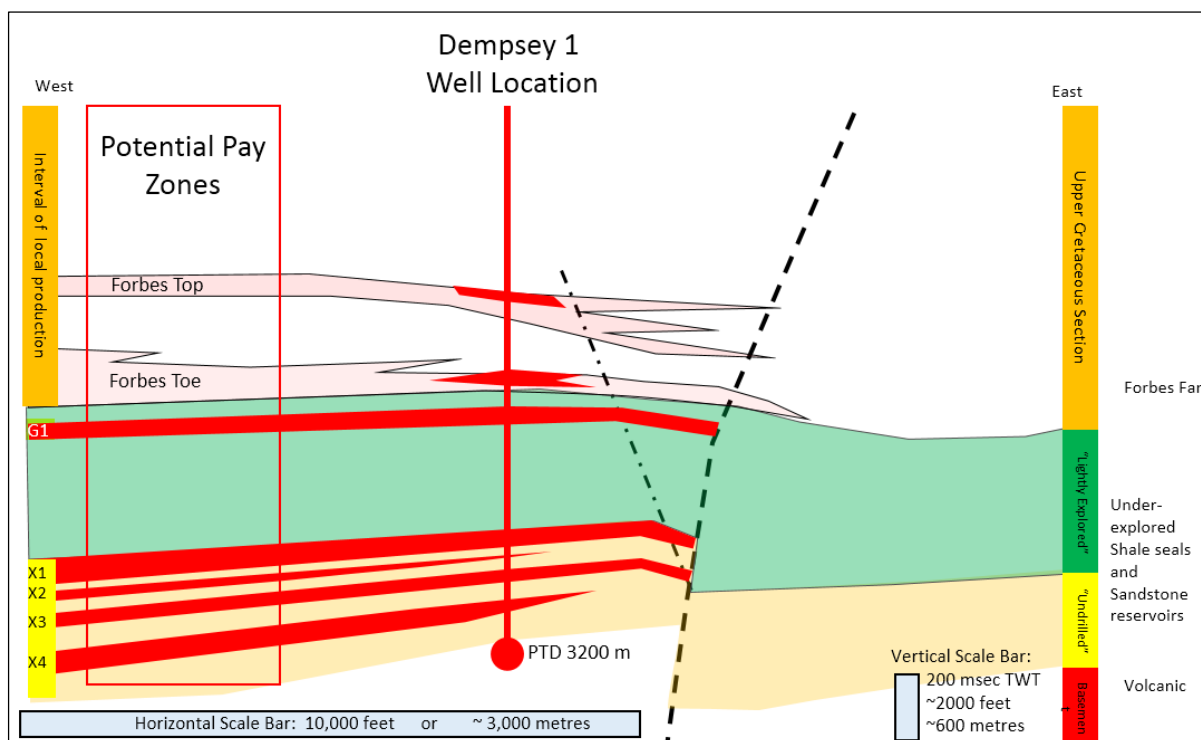
Structure Map near Top X1 Reservoir

The overall structural closure of the Dempsey Prospect is 15 square kilometres (~3700 acres). The extent of individual reservoirs range from 80 acres to 3900 acres.

The Dempsey prospect is a relatively simple tilted fault block closure with 7 prospective reserves zones.

Two of these reservoirs are within the existing field production reservoir zones while 5 are in the relatively undrilled part of the Sacramento Basin.

The location and extent of each zone is based on structural and seismic stratigraphic interpretation and good quality 3D seismic, integrated into regional 2D seismic and well information.



Schematic Cross Section illustrating 7 Reservoir Targets

Prospective Resources

The total (100%) unrisks recoverable prospective resource on a best estimate deterministic basis in the Dempsey Prospect is over 1 Tcf (i.e. over 167 million barrels of oil equivalent (boe) - using an industry standard energy based conversion factor of 6 mcf per boe).

The estimate is based on a deterministic assessment of net pay in each zone, seismically derived closure and historical basin recovery factors. The resource estimates for the 2 shallow zones are based on analogue producing field data. The resource estimates for the other 5 zones are based on more limited data from sediments identified by drilling, mostly between 1943 and 1982.

Recoverable resource estimates for individual reservoirs range from 1 Bcf to 350 Bcf.

The probability of success is rated in a range of 40% - 10% for the individual prospective zones.

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.

AOC has interests in mineral leases covering some 5400 acres (gross) in the Dempsey Prospect area.

Some of these leases are Held by Production (HBP) and others are on 5 years terms with annual lease payments. There are no work obligations or commitments. In the event of a commercial discovery 16 to 22% of revenue from production is payable as mineral rights royalties.

Working Interests:

Australian Oil Company Limited (ASX: AOC)	55% *
Xstate Resources Limited (ASX: XST)	10% *
Private Interests	35%

* AOC and XST have an option, on terms to be finalized, to increase their working interests to 60% and 25% respectively.

Only 15 wells, from over 6000 wells drilled in the Northern Sacramento Basin, intersected material parts of the targeted higher potential sediments. Of these only 2 are interpreted to have been drilled within structural closure and these two wells intersected up to 5000 feet of gas shows.

Gas samples indicate 'pipeline quality' dry gas.

Cores and log information confirm thick seals and reservoirs with good porosity and permeability, capable of flowing commercial quantities of gas. The distribution of reservoirs is uncertain because of the limited well intersections.

Development Infrastructure

The Dempsey 1 well will be located within an existing gas field area with infrastructure available. Should commercial quantities of gas be found, existing production facilities, which are connected to the interstate pipeline networks, would be used to sell the gas almost immediately.

California imports over 90% of its ~7 Bcf/day gas needs providing a ready market for gas.

Californian hub gas prices generally are the highest reported in the mainland US, averaging 60 cents more than the widely reported Henry Hub gas price.

The relevant current spot gas price is US\$4.55 per mcf.

Gary Jeffery, Managing Director commented:

“The Dempsey Prospect is the first well to be drilled on a number of attractive gas prospects mapped and leased by AOC in the northern Sacramento Basin. The prospects provide material leverage for AOC shareholders in an area of excellent infrastructure and reasonable drilling costs, and strong local and LNG export related gas markets.

The existing production equipment also facilitates early production revenue from a successful well. The interpreted presence of 7 target reservoirs in the Dempsey Prospect increase the probability of a commercial success.

Dempsey, like the other AOC prospects are conventional sandstone reservoir prospects with low operating costs which are modelled to provide highly leveraged returns to shareholders at current and projected California gas prices.”

In accordance with ASX Listing Rules, any new hydrocarbon resource information in this document has been reviewed by Australian Oil Company's Technical Director, Mr Keith Martens, who has over 35 years of 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.

For and on behalf of the Board of Australian Oil Company Limited

Gary Jeffery
Managing Director