



Australian Oil Company Limited
ACN 114 061 433

8 October 2014

ASX Limited

Electronic lodgement

TWO WELL FARMOUT TO CORNERSTONE INVESTOR

Australian Oil Company Limited (ASX:AOC) is pleased to announce the signing of a Heads of Agreement with Northern Gulf Petroleum Pte Ltd (NGP) to drill the Alvares and Dempsey prospects in the Sacramento Basin of California.

NGP will fund the drilling of both wells and earn a 50% interest in each prospect from a Joint Venture led by AOC and involving ASX listed Xstate Resources Limited (ASX:XST) and private interests.

The Alvares and Dempsey prospects have gross unrisks best estimate recoverable prospective resources of 2.4 TCF and 1 TCF respectively and drilling is planned for mid-2015. Refer to ASX announcement of AOC's Good Oil Conference Presentation on 9 September 2014 for details on these prospects.

AOC would operate the drilling of the wells using an experienced California drilling team.

AOC and XST have an option to increase their working interests in these prospects and are expected to have a 30% and 12.5% working interest respectively in each prospect post drilling.

The Heads of Agreement is subject to due diligence on lease title, corporate and operational matters scheduled to be conducted in California during October 2014.

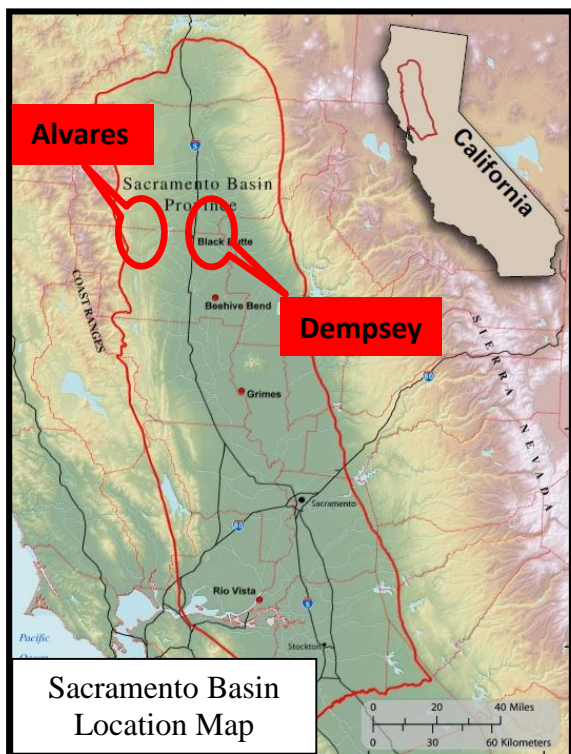
The drilling costs under the 2 for 1 carry are capped at US\$4.6 million and US\$10 million for the Dempsey Exploration and Alvarez Appraisal Prospects respectively. Cost thereafter will be borne according to working interest.

Concurrently, NGP will also take an approximate 15% placement in AOC. AOC will issue 13,529,651 shares at a price of 12 cents being approximately 80% of the 30 Day VWAP of AOC shares on the ASX.

This placement will raise around \$1.6 million which will be used for acquisition of additional working interest in California, including additional working interests in the Dempsey and Alvares Prospects in the Sacramento Basin prior to farmout, and working capital.

The placement and farmout provide the basis for strategic co-operation between AOC and NGP.

The NGP group is a privately held company with its core assets in the Gulf of Thailand. With imminent production from the Manora oil development expected to deliver a strong cash flow to the company, NGP began a search for under-capitalised companies with significant exploration potential and concluded that the AOC led joint venture in the Sacramento basin in California represented a world class opportunity.



NGP has expressed the view that the LNG supply to Asia will continue to grow particularly in Thailand, and that the size of the prospects in California qualify as having potential to supply to the LNG market in Asia. Consequently NGP is in discussion with AOC and XST with respect to potential investments in LNG export opportunities that may evolve from exploration in the Sacramento Basin of California.

Andrew Childs, Chairman of AOC commented: *"The strategic alliance with the NGP group of companies is material in delivering our vision of being a major gas supplier in the very attractive Californian market. We are pleased to welcome NGP to our share registry as it expands our reach into Asia and with this alliance AOC shareholders can be confident*

that the significant gas potential in the Dempsey and Alvares prospects will be funded for drilling. This will provide shareholders with a highly leveraged opportunity for share value growth and enhancing the value of AOC's portfolio of gas and oil projects onshore California."

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

Gary Jeffery
Managing Director

Competent Persons

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.

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. Before investing it is recommended that you conduct your own due diligence and consult financial and technical advisors.