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ASX Limited

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XSTATE SECURES A CONVENTIONAL OIL FIELD PRODUCTION RESTORATION AND DEVELOPMENT OPPORTUNITY IN CALIFORNIA.

- **Xstate has entered into a binding Letter of Intent to acquire various majority working interests via staged acquisition and work program funding across three conventional oil fields onshore California with proven historical production and undeveloped potential. The transaction is subject to funding and due diligence by Xstate. Xstate has a 30 day exclusivity period to complete its due diligence followed by an additional 60 days to complete funding.**
- **The Deal is structured as a series of investment options over an 18 month period most of which are at Xstate's discretion, commencing with the initial restoration of production from existing wells and following on with development and appraisal drilling.**
- **Xstate will be Operator and can earn significant working interests (50% to 87.5%) with an initial work program targeting immediate production additions and with follow-up drilling to target ~10 MMbbl of gross resource potential**
- **18 sq miles of 3D seismic data are included in the transaction. One drilling target has already been permitted and is ready to drill, while a further possible 10 locations have been identified on 3D seismic, which have the potential to add significant low risk production and reserves.**
- **The deal provides Xstate entry to a potentially significant production and resources base at a low entry cost. The reserve and resource potential of assets will be more fully described at the conclusion of due diligence.**
- **The transaction is structured to take advantage of any increase in oil price or technical knowledge, while limiting exposure to the downside**
- **Importantly the directors have good knowledge of these assets and have access to trusted consultants that have been involved with these assets previously.**

Xstate Resources Limited ("Xstate" or the "Company") is pleased to announce that it has entered into a Letter of Intent "LOI" subject to funding and due diligence to acquire a significant working interest in three proven conventional oil fields located onshore northern California. The opportunity targets production rejuvenation and associated development drilling and appraisal opportunities offered by Sunset Exploration Inc. the "**Sunset Assets**".

The Company recently announced a strategic shift to focus on low risk conventional production opportunities onshore USA targeting underperforming or distressed assets at or near the bottom of the oil price cycle. The potential acquisition of the Sunset Assets are the first step towards Xstate executing its Strategy and transforming Xstate into a USA conventional oil and gas producer and explorer, focused on building a material asset base with the potential for significant growth to complement its existing exploration portfolio.

For this initial transaction, Xstate has carefully structured the transaction as a phased investment, based on an initial acquisition followed by the funding of a series of work-over, appraisal and development drilling options. Over a 2 year period Xstate intends to secure a production asset base with substantial behind pipe reserves and then drill undeveloped reserves that can be brought to production quickly thereby achieving economies of scale and increasing field profitability per barrel.

This strategy enables Xstate access to immediate production and a substantial proven undeveloped (PUD) reserves portfolio with the flexibility to drill additional wells during improving oil price conditions. Thus reserves are secured at low operating cost taking advantage of the prevailing low drilling cost environment.

Corporate Overview

This acquisition with associated drilling investment Options provides an excellent platform from which Xstate can grow. Expected cash flow from the workover program can be used for further development and appraisal activities and other projects that are currently under review. The location of the assets adjacent to other documented oil discoveries also provides opportunities for growth.

This acquisition provides cash flow, production infrastructure and more importantly access to growth opportunities consistent with Xstate's revised business strategy to generate value for shareholders through low risk field development, appraisal and production enhancement opportunities.

It is vitally important when working in the USA for joint venture interests to be aligned. We are fortunate to have potentially secured a supportive and enthusiastic joint venture partner in Sunset who will receive Xstate shares rather than cash for Option fees as part of the overall consideration contemplated by the transaction. Sunset has agreed to a transaction structure that will result in Xstate shareholders' funds being used for oil field development rather than vendor consideration.

Consequently, Xstate will develop on the ground operational capability and gain access to commercially aligned operational relationships in California, which will enable the identification, purchase and review of additional production opportunities in line with the Company's investment strategy.

For further details please contact:

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About Xstate Resources Limited

Xstate Resources (ASX Code: XST) is an ASX listed company focused on the oil and gas sector. The Company has existing gas exploration assets located in the Sacramento Basin, California and minor associated gas production.

Transaction Summary – Sunset Exploration Inc.

Xstate has negotiated three investment options over three fields located in onshore northern California near to the Company's existing Sacramento Basin appraisal and exploration assets. The Company's investment is structured as a series of **Options** rather than firm **Obligations**. This affords flexibility in the work program whereby Xstate secures Options to invest in reserve additions at preferred oil pricing thereby securing reserve upside at low cost. The Company has a 30 day exclusivity period to complete its due diligence followed by an additional 60 days to raise the necessary funding from confirming that due diligence has been satisfied at the discretion of Xstate. The initial anticipated cost of the program over the period is approximately AUD\$3million. Xstate intends to optimize the program in consultation with Sunset during the due diligence period.

Field Name	Work Commitment / Option / Payments				Interest	Acres	Resource ⁴ Potential
	Activity	US\$ Net	Timing	Shares	WI / NRI	Net	Net (mboe)
Monroe Swell Production Leases	Acquisition & Re-works	\$0.4m	2Q & 3Q 2016	\$100,000 ²	50% / 40%	160	
Monroe Swell North Leases ¹	Option – 1 Well	\$0.8m	31-Dec-2016	nil	50% / 40%	1,080	
Monroe Swell South Leases ¹	Option – 1 Well	\$0.8m	31-Dec-2017	nil	50% / 40%	900	
Monroe Swell Total	4 Re-works & 2 Wells	\$2.0m	Various	\$100,000	50% / 40%	2,140	~2,200
West Brentwood¹	Option – 1 Well	\$1.2m	31-Dec-2016	\$50,000³	50% / 40%	315	650
Brentwood	Option – 1 Well	\$1.2m	31-Dec-2017	nil	87.5% / 70%	590	~3,000
TOTAL		\$4.4m		\$150k		3,045	5,850

¹ Xstate is entitled to receive 75% of cash flows (50% post pay back) until pay back in the event of flowing production at Monroe Swell North & South Leases and West Brentwood

² Xstate has also agreed to pay the vendor production milestone payments at Monroe Swell Production Leases as follows

- Tranche 1: US\$50,000 of Xstate shares when gross production averages 20 BOPD over a 30 day period; and
- Tranche 2: US\$50,000 of Xstate shares when gross production averages 40 BOPD over a 30 day period

³ Xstate has agreed to pay the vendor US\$50,000 in Xstate shares post successful completion of Xstate's due diligence

⁴ Estimated resources are based on initial review of assets and are indicative only until the completion of due diligence by Xstate.

Monroe Swell Project Area

The Monroe Swell Project is located at the Monroe Swell Oil Field in Monterey County, California. The Field lies in the Salinas Basin, about 70 miles southeast of Monterey and 30 miles northwest of the giant San Ardo Field. The oil field is located on the west side of the Salinas valley, about 12 miles northwest of the King City oil field.

The field comprises two separate production lease areas totaling 320 gross acres, the Doud/Burnett and Doud A, both producing from Miocene sands roughly equivalent to the San Ardo reservoirs. The Doud pool was discovered in 1949, while the Doud A was not discovered until 1987. The field has produced ~830,000 barrels of oil at an average depth of 2,800 feet, evenly split between the two areas. Production was shut-in in August 2014 at ~40 barrels of oil per day (“BOPD”).

The key attributes of the assets based on Xstate’s technical due diligence and economic studies undertaken to date are summarised as follows:

- The presence of historical production data provides significant confidence in relation to the performance of reservoirs and crude quality, which is medium (23-26° API);
- The best performing wells are located in the North acreage (~200,000 barrels per well);
- Shallow drill depths (less than 3,400 feet);
- Excellent 3D seismic and good quality 2D seismic coverage coupled with extensive well control in the area significantly reduces sub-surface risks;
- Potential for a staged development subject to drilling results mitigates financial risks and the presence of existing infrastructure enables the immediate commercialization of any reserve addition; and
- In field development potential exists in the Northern acreage and a drilling location has already been identified up-dip from an existing production well.

Work Program

Xstate in conjunction with its potential partner has identified several Return To Production wells (“RTP’s”) and Proved Undeveloped reserves (“PUD’s”) in the production lease boundaries, and the possibility exists for upside potential outside of the producing leases. The initial work program is focused on re-commencing production from previous shut-in wells and establishing cash flow. The initial acquisition and work-over commitment of US\$400,000 comprises the purchase of key leases from the Bankruptcy Court, remediating field facilities and re-working 4 shut-in wells to bring them into production. In addition Xstate intends to undertake well planning activities for the spudding of a well in the North or South Acreage by 31 December 2016.

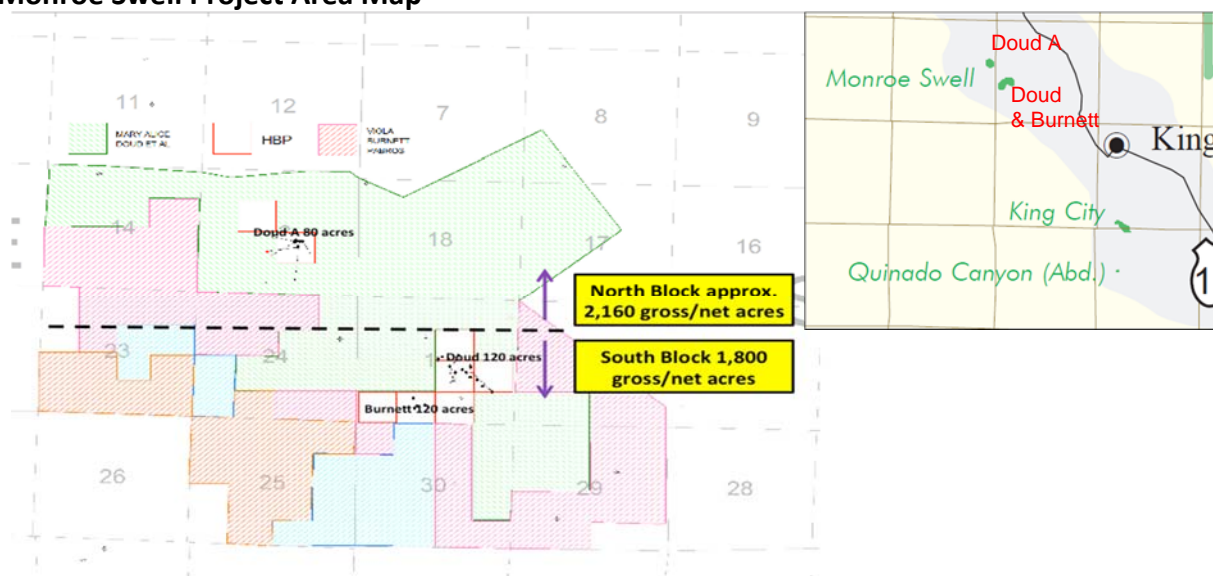
Xstate is obligated to fund the first US\$400,000 to earn a 50% Working Interest (“WI”), which is equivalent to 40% Net Revenue Interest (“NRI”) in the Doud, Doud A and Burnett leases commonly referred to as the Production Area Leases. Xstate has also agreed to pay Sunset production milestone payments as follows:

- Tranche 1: Sunset is entitled to US\$50,000 of Xstate shares when gross production averages 20 BOPD over a 30 day period; and
- Tranche 2: Sunset is entitled to US\$50,000 of Xstate shares when gross production averages 40 BOPD over a 30 day period.

Furthermore, Xstate retains the Option to drill two development wells on either the North and/or South acreage areas. Xstate has agreed to fund the cost of two wells up to US\$800,000 each to earn a 50% WI (40% NRI). The first well is due by December 31, 2016 and a second

well on the same terms is due by December 31, 2017. In the event of flowing production Xstate is entitled to preferential cash flow rights of 75% until pay back.

Monroe Swell Project Area Map



Brentwood Fields Complex (Brentwood and West Brentwood)

The Brentwood Field Complex comprises two individual fields (“Brentwood” and “West Brentwood”) that are located 50km east of San Francisco and are the only known oil fields in the Sacramento Basin.

The Brentwood Field was discovered in 1962 and most of the wells were drilled by 1970 and have produced 8 MMbbl of oil and 60 billion cubic feet (Bcf) of gas. The field was shut-in early 1999 due to low oil prices when still producing ~65 BOPD from 6 active wells.

The West Brentwood field is located adjacent to the Brentwood field and has produced ~3 MMbbl of oil and 9 Bcf of gas.

The key attributes of the assets based on Xstate’s due diligence and economic work undertaken to date are summarized as follows:

- The presence of historical production data provides significant confidence in relation to the performance of reservoirs and crude quality, which is light (35-40° API);
- The initial drilling targets are estimated to contain up to 250,000 barrels of recoverable oil each, with estimated initial flow potential of 200-500 barrels of oil per day per well;
- The best performing wells are located at West Brentwood (where greater than 400,000 barrels per well recoveries have been achieved);
- Shallow drill depths (less than 4,500 feet);
- The availability of excellent 3D seismic and good quality 2D seismic coverage coupled with extensive well control in the area reduces sub-surface risks;
- Potential for a staged development subject to drilling results mitigates financial risks and the presence of existing infrastructure provides for immediate commercialization of any reserve addition; and
- The ability to have a combined processing facility at West Brentwood, avoiding any impact to a residential area surrounding Brentwood.

Work Program

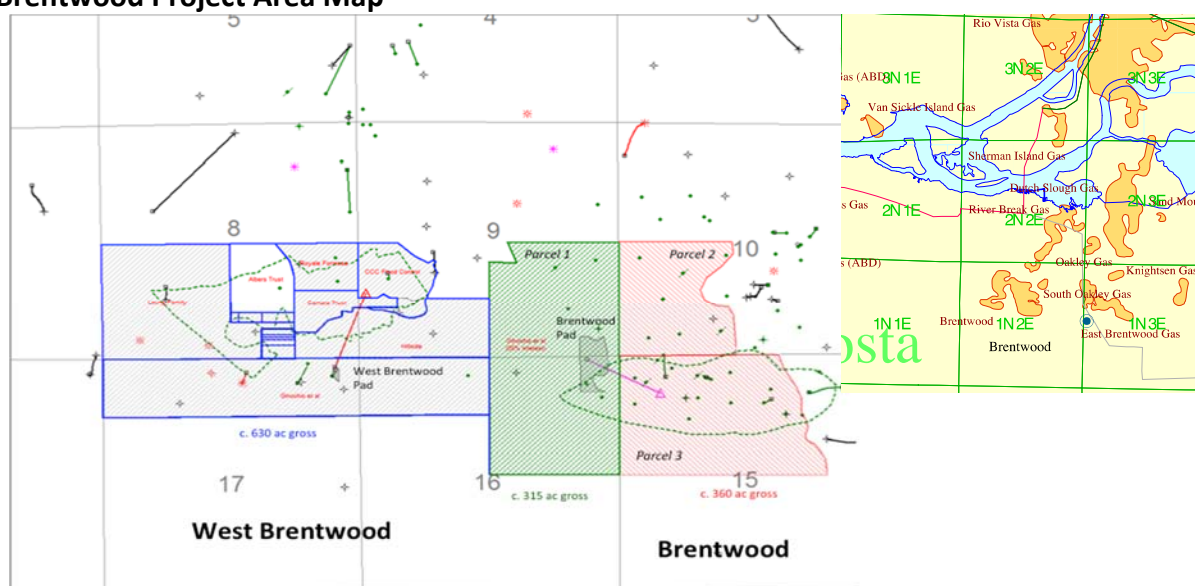
Xstate in conjunction with its potential partner has identified a drilling location at West Brentwood that has been permitted with the relevant regulatory authorities. The development well is planned to be drilled by December 31, 2016 and if drilled would fulfil Xstate's farm-in Option to earn a 50% WI. A subsequent well is planned 12 months later on the Brentwood acreage, which has already been identified from 3D seismic.

Xstate has agreed to fund the cost of a development well at West Brentwood up to US\$1,200,000 to earn a 50% working interest (40% NRI) before December 31, 2016 targeting 1.3 MMbbl of resource potential. In the event of flowing production Xstate is entitled to preferential cash flow rights of 75% until pay back.

Xstate has also agreed to pay Sunset US\$50,000 in Xstate shares over the West Brentwood lease area upon completion of its due diligence and commitment to proceed to executing a Definitive Agreement.

Xstate has agreed to fund the cost of a development well at Brentwood up to US\$1,200,000 to earn an 87.5% working interest (70% NRI) before December 31, 2017. The joint venture has identified a suitable drilling location from existing seismic that will be directionally drilled. The Brentwood leases are estimated to contain 4.4 MMbbl of resource potential and in the event of flowing production would be tied to facilities located at West Brentwood.

Brentwood Project Area Map



For and on behalf of the Board of Xstate Resources Limited

Competent Person

The technical information provided has been compiled by Mr Chris Hodge, Managing Director of Xstate Resources Limited. He is a qualified petroleum geologist with over 35 years technical, commercial and management experience in exploration for, appraisal and development of oil and gas and mineral and energy resources.

Mr Hodge has reviewed the results, procedures and data contained in this release.

Mr Hodge consents to the inclusion of the above information in the form and context in which it appears. The estimates are based on information and data provided by Sunset's technical team and certain third party independent parties, which have not yet been verified by Xstate. These estimates are subject to full technical and commercial due diligence by Xstate, its independent consultants and advisors before they are acquired.

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.

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.