



ABN 96 009 217 154

9 May 2016

ASX Limited

Electronic lodgement

XSTATE ELECTS TO NOT EXERCISE THE OPTION TO ACQUIRE SUNSET ASSETS

- **Xstate has elected not proceed with the acquisition of a working interest in the Sunset Assets announced on 14 April 2016 due to the identified risks with the assets that it has not been able to mitigate during the due diligence period.**
- **Xstate has sought an extension of time from Sunset to further investigate these significant risks, however Sunset declined to provide such an extension.**
- **Notwithstanding the decision not to acquire the Sunset Assets the Board and Management have continued to actively seek identify and evaluate further asset opportunities that meet Xstate's investment criteria and are capable of being delivered in a timely manner.**

Xstate Resources Limited ("Xstate" or the "Company") refers to the announcement dated 14 April 2016 in relation to the execution of a Letter of Intent ("LoI") with Sunset Exploration Inc. ("Sunset").

The company advises that it has decided not to proceed with the asset acquisitions afforded by the LOI, effective immediately and will not proceed with acquiring a working interest in any assets from Sunset.

Whilst conducting its due diligence Xstate identified a number of risks, which Sunset failed to satisfy to Xstate's technical requirements. The Company requested an extension to enable Xstate to complete its due diligence and further analyse its findings in relation to the initial investment in Monroe Swell, however Sunset declined to provide such an extension.

The Company recently announced a strategic shift to focus on low risk conventional production opportunities onshore U.S.A targeting underperforming or distressed assets at or near the bottom of the oil price cycle.

Whilst the Sunset Assets presented the Company with a potential first step towards transforming Xstate into a USA onshore, conventional oil and gas producer, the Board believe these assets do not satisfy its investment criteria and has decided to pursue alternative investment opportunities with a lower risk profile and immediate access to cash flow.

Xstate is advancing discussions in relation to other potential transactions, which the Board believe can be progressed rapidly.

It is the Company's intention to concentrate its efforts on assets with proven upside, which are in production rather than shut in. This ensures that the facilities are functioning, all required environmental and regulatory approvals are in place and importantly in the case of onshore production acquisitions a viable water disposal solution is in place.

Conclusion/Comments

Whilst it is disappointing that the Company will not complete this transaction, the Board of Xstate believes it is in its shareholders' best interests to not do so given the identified risks and uncertainties in relation to the assets. Rejection of the Sunset transaction partly on technical merits and partly on poor definition is an important demonstration of the discipline required to deliver the Company's strategy of developing a low risk, high value reserves and production base.

Importantly the Xstate Board has identified a number of lower risk alternative production and reserves transactions that it can secure which can deliver its stated strategy and fulfill its ambition of becoming a producer with access to reserves upside in the near term.

For further details please contact:

Chris Hodge

Managing Director

Xstate Resources Limited

Tel Office: +61 8 9423 3200

Email: chrishodge@xstate.com.au**Cosimo Damiano**

Director Commercial and Finance

Xstate Resources Limited

Tel Office: +61 8 9423 3200

Email: cosimodamiano@xstate.com.au

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.