

XST

Xstate Resources Limited

Corporate Update

13 May 2016

**Portfolio of TCF – scale
Gas Prospects
Onshore California**
with
Identified Production
Asset Acquisitions to
deliver cash flow and low
risk growth

Company Overview

Capital Structure

Shares on Issue	296 million
Market Cap	@\$0.014 per share A\$4.1 million ¹
Unlisted Options	19.5 million at 4-8 cents expire 31/05/16 2.5 million at 5 cents expire 31/12/16

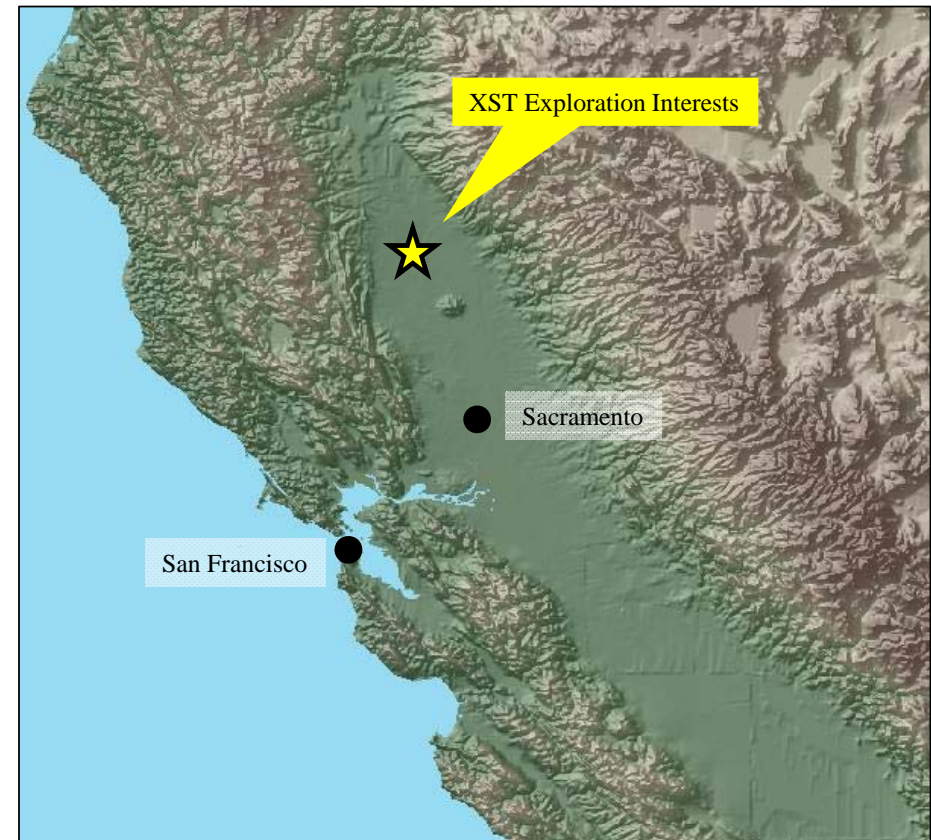
Shareholders

Top 10 shareholders	39%
Top 20 shareholders	53%
Directors	9%

Main Assets

- Sacramento Basin:
 - 10-30% Working Interests (exploration & minor production)
- AMI California:
 - 30.00% Working Interest (business development)

¹ As at May 12, 2016



Approximate location of the XST exploration assets and AMI in the Sacramento Basin of California – some 200km north of San Francisco.

- 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.
- 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.
- Xstate is advancing discussions in relation to other potential transactions, which the Board believe can be progressed rapidly.
- 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.
- The Company has identified and has access to attractive assets now...
 - Low-risk, high-upside leases provide inventory of undeveloped drilling locations
 - Targeting revenue growth from existing identified and future assets
- ...with significant potential for growth
 - Undeveloped reserves in currently targeted assets
 - Strong pipeline of additional acquisitions
 - Once strategy is demonstrated, accelerate number and size of deals
 - Stringent financial discipline, technical, commercial and financially driven investment process

The Xstate Board – Highly Balanced Skill Set



Xstate has a small but highly experienced committed Board with complementary skills and a proven track record

- **Chris Hodge – Managing Director** is a structural geologist and petroleum geophysicist by training. Over a career spanning 35 years he has occupied senior positions at Ampolex (exploration and country manager), Adelphi Energy (MD), Eureka Energy (Advisor) and Roc Oil (Director). Each of these companies was successful during Chris' tenure and each was ultimately taken over. In addition he has consulted to both Mitsui and Mitsubishi where he assisted in the building of exploration portfolios and making significant wildcat oil discoveries.
- **David McArthur (Non Executive Director & Company Secretary)** is a Chartered Accountant, having spent four years with a major international accounting firm, and has over 30 years' experience in the accounting profession. Mr McArthur has been actively involved in the financial and corporate management of a number of public listed companies over the past 27 years. He has substantial experience in capital raisings, company re-organisations and restructuring, mergers and takeovers, and asset acquisitions by public companies. Mr McArthur is an executive director of Lodestar Minerals Limited and Renewable Heat and Power Limited, a Non-Executive Director of Shark Mitigation Systems Limited and is Company Secretary for a number of public listed companies.
- **Ian Tchacos (Director - Developments & Acquisitions)** is a petroleum engineer with over 25 years international experience in corporate development and strategy, mergers and acquisitions, exploration, development and production, operations, marketing and finance. He has a proven management track record in a range of international company environments. In his last appointment as Managing Director of Nexus Energy he was responsible for the company's development from an onshore micro cap explorer to an ASX top 200 onshore production and operator. Mr Tchacos is currently Executive Chairman of ADX Energy Limited and Non Executive Chairman of Riedel Resources Limited.
- **Cosimo Damiano (Director – Commercial and Finance)** is a finance professional whose experience involves the strategic analysis and financial modelling of oil & gas companies for global Investment Banks and Energy Commodity Trading companies in a principal investment role. This experience has provided Mr. Damiano with a strong commercial understanding and analytical analysis of financing oil and gas assets across various geographic and fiscal regimes. He has extensive experience in North America, representing the Mercuria Group as a Director of Upstream Investments and represented Mercuria's Board interests in the company's oil and gas investments throughout North America located in Canada, California and North Dakota and Argentina.

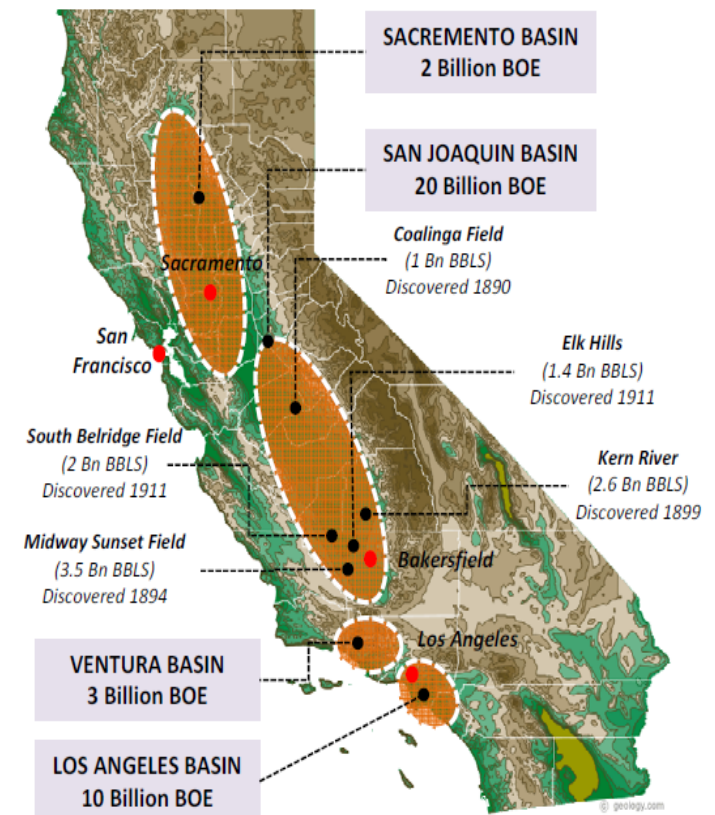
Why California

California - Historically World Class Oil & Gas Province

- High probability of finding hydrocarbons: +35bn boe discovered; Contains 15 of the U.S.A largest oil fields by EUR and 3 of the top 10.
- Production peaked in 1985 with investment tapering off since then. Ranks 3rd in US in oil production (567,000 BOPD) and 4th in proved oil reserves (2.7 bn barrels)¹.
- Geographically distinct from rest of US oil industry (e.g. Texas, Oklahoma). No pipelines over the Rocky Mountains; California oil price tracks \$1.5-\$3.00 over WTI and access to strong gas market and extensive infrastructure.
- Lack of investment and expertise provide numerous redevelopment opportunities. Apply new technology and new economics in previously developed areas.
- Despite California being a highly regulated industry its not prohibitive provided operators understand the regulations. Xstate is well placed given its Board experience and local market relationships.
- But to be successful, you must know the market, regulations, and people. Xstate has access at a Board and within California to good people and our history and operating experience we have the ability to find overlooked opportunities.

¹ Source: EIA, Feb 2015 (production); Dec 2013 (reserves).

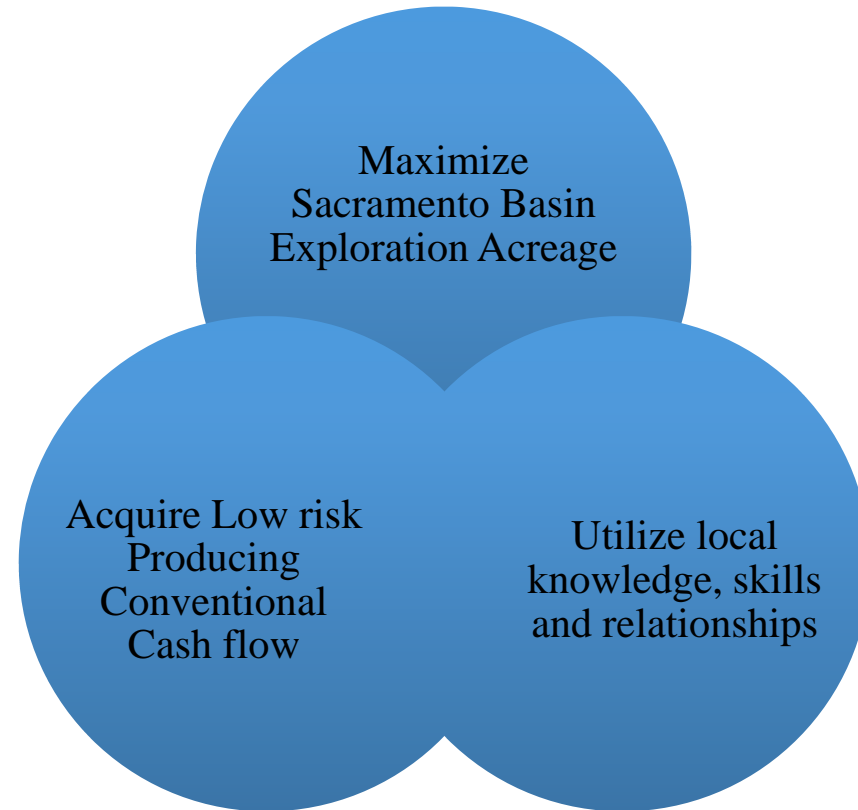
Hydrocarbon Basins and Major Fields



Xstate's Strategic Positioning



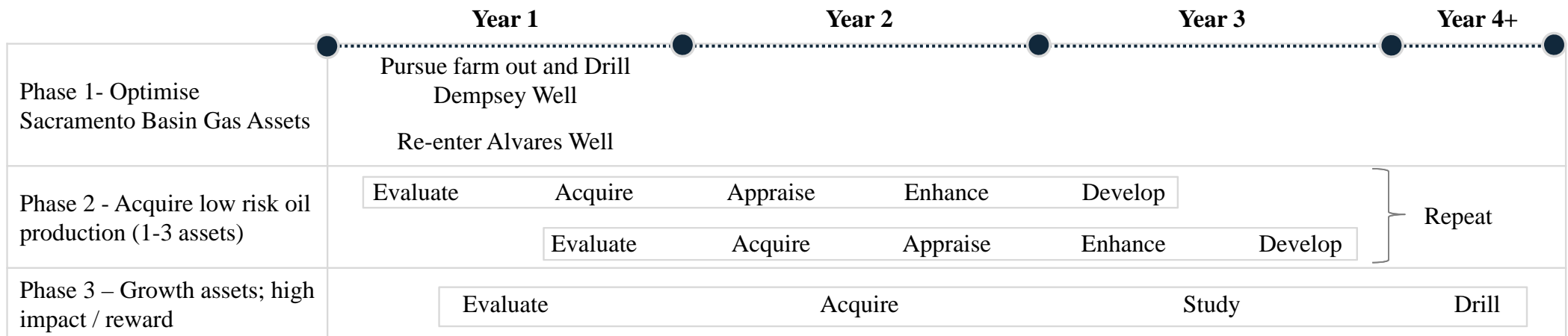
- In addition to its current exploration portfolio, Xstate is pursuing a strategy of low risk conventional production enhancement opportunities onshore U.S.A focusing on distressed assets at or near the bottom of the cycle held by companies that are forced to sell.
- Seek production assets with substantial behind pipe or undeveloped reserves that can be bought to production quickly to achieve economies of scale and reduce field operating costs.
- Low risk Exploitation: Assemble a balanced portfolio of projects from low risk production enhancement and development opportunities in proven hydrocarbon basins whilst increasing exploration exposure in the longer term.
- In Control: target operatorship and/or large equity positions, in all projects provides control and ability to farm out to cover costs.
- Shareholder Value Focus: Lean, low overhead operations so that capital is spent on finding and developing hydrocarbons.
- Across the USA, successful junior producers are often 'feedstock,' i.e. majors and large independents use juniors for exploration, appraisal, and development.
- But to be successful, you must know the market, regulations, and people.
- Board Expertise: Strong and highly experienced Technical team of staff and selected consultants with deep knowledge of our areas of activity.



Execution Plan



- Xstate is seeking to augment its high impact/reward exploration acreage in the Sacramento Basin by acquiring producing assets onshore USA. Focused on low risk oil assets in mature fields with existing production.
- The Company has identified a number of conventional fields that provide investors with exposure to a portfolio of drill ready development locations, near term production enhancement and an inventory of future development drilling opportunities.
- Further consolidate additional assets around the core acreage holding
- Funding for new asset acquisition and development will be executed when required



Typical Asset Profile Characteristics



Technical Attributes

- ✓ Target onshore Conventional high quality rocks
- ✓ Neglected fields: Significant production at shut in; Significant remaining reserves (low RF); Predictable historical cumulative oil production
- ✓ 3D seismic coverage availability to assist identifying sweet spots
- ✓ Combination of shallow drilling (<10,000), high EUR, stacked pay and under developed reserves (PUD's)
- ✓ Oil bias: Higher gravity crude (> 15 API, recoverable without steam)
- ✓ Drilling and completion recipe has been refined
- ✓ Type curve is proven and validated

Commercial Attributes

- ✓ Large equity interest and/or preferably operatorship
- ✓ Trusted operator/partner and/or vendor
- ✓ No surface (social or environmental) issues
- ✓ Good Joint Operating Agreement or 100% equity
- ✓ Access to premier markets (commodity prices)
- ✓ Production infrastructure is in place

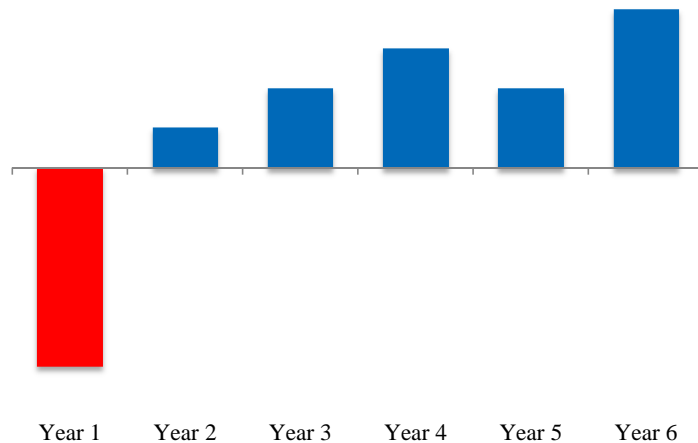
Financial Attributes

- ✓ Asset price Phase 1 US\$2-4m in equity, prefer no debt
- ✓ Drilling and completion costs of sub \$1m/well (~4,000ft)
- ✓ Oil price leverage: project is drill ready and economic at prevailing oil prices
- ✓ Increase operating margins; Scope for cost reduction and other efficiencies
- ✓ Ability to leverage debt to scale production

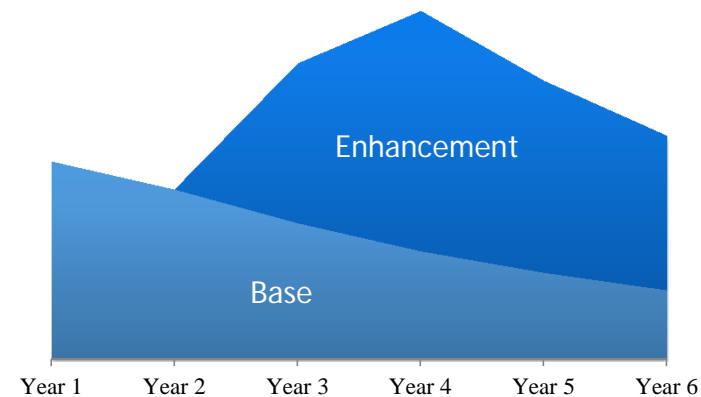
Typical Asset Profile Characteristics: Financial

- Initial asset acquisition and development capital sourced upfront.
- Thereafter, the objective is for the asset to provide sufficient capital for reinvestment purposes.
- Its anticipated the company will require 3-4 assets to provide a self sustaining cash flow for growth.
- Valuation can be increased through fast tracking development and acquiring additional assets.
- Enhancement increases production and overall asset value.
- Asset sales and/or farm-outs to fund future growth.

Net Cash Flow – Illustrative Example



Production Profile – Illustrative Example



Sacramento Basin Strategy



Major position in prolific basin

- Innovative geological and geophysical interpretation to identify prospects
- Ground floor land positions over prospects and prospective trends
- Build a prospect portfolio with materiality, diversity and follow-up potential
- Secure funding for drilling via farmout
- Targeting low risk and/or multi - TCF prospects
- Several prospects identified - fully or partially leased
- Two (2) high value prospects in the process of being farmed out

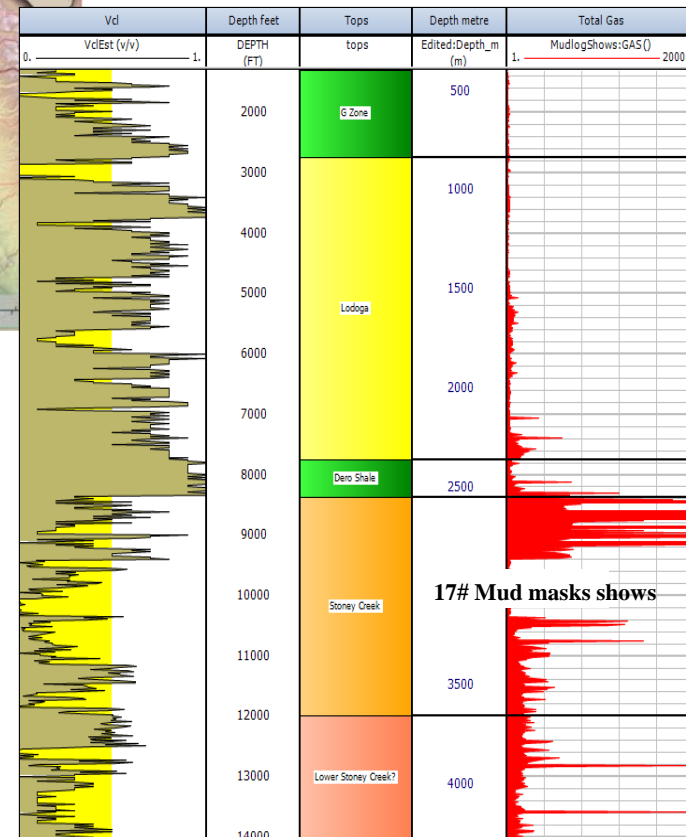
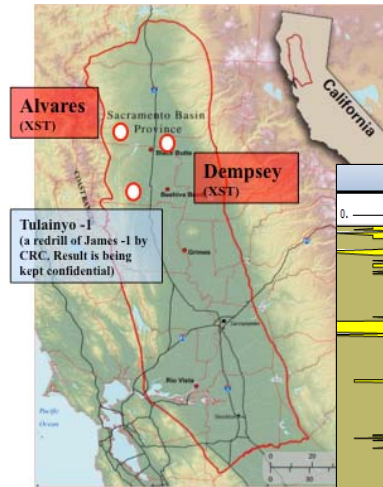
Sacramento Gas	XST Working Interest	Prospective Resource (100%)
Alvares Appraisal	25%	>2 TCF
Dempsey	10%	1 TCF
Strat Play on 3D	10%	>0.5 TCF
Alvares Analogues (3)	30%	~6 TCF (total)
Dempsey Analogues (2)	30%	~2 TCF (total)
Prospects on 3D (3)	10%	~2 TCF (total)
Well deepening	10%	80 BCF

Alvares Project

- Xstate’s Alvares Project is based around the appraisal of the Alvares – 1 well, which was drilled in 1982 on a large anticline and encountered over 1,500m of gas shows and flowed gas to surface.
- The JV is considering to re-enter this well to flow-test potentially productive sands – although a twinned well is possible.

Tulainyo Project

- In 2015 CRC drilled a well called Tulainyo -1 on a geologically similar structure, on trend to Alvares, and 50km to the south.
- The Tulainyo structure had also been drilled – in this case by James -1 in 1947. James -1 also reported extensive gas shows with uncommercial gas flows to surface.
- The Tulainyo well result, originally kept confidential, is now confirmed to have encountered **“multiple stacked gas-bearing reservoirs”** over a 50 square mile structure.



Wet sands outside of closure

Thick Seal

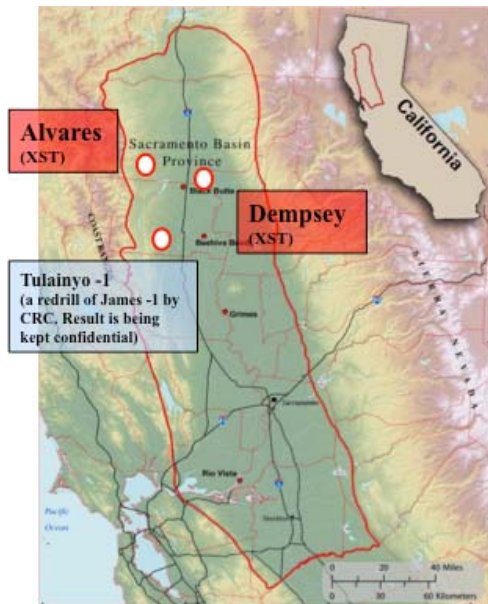
Interpreted Gas Column with core and gas sample

1500+ metres gas shows

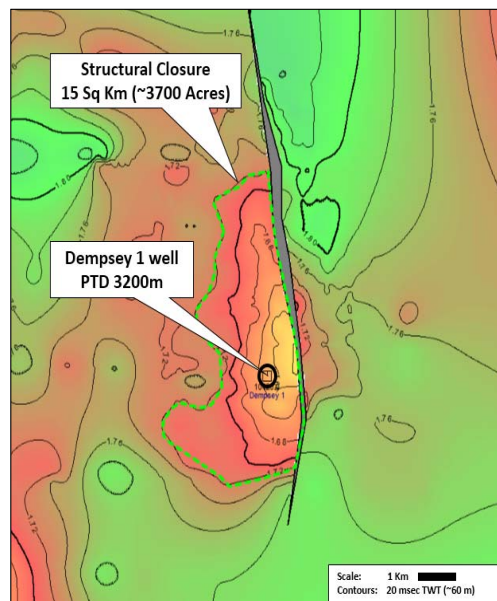
Dempsey Prospect ~ 1 TCF 10% equity

- 1 TCF gas exploration well with 7 potential reservoir targets
- Reservoirs range from conventional Forbes (productive in this area) through to under-explored structural and stratigraphic Early Cretaceous targets
- Structure mapped from 3D seismic
- Individual reservoirs range in area from 80 – 3,700 acres

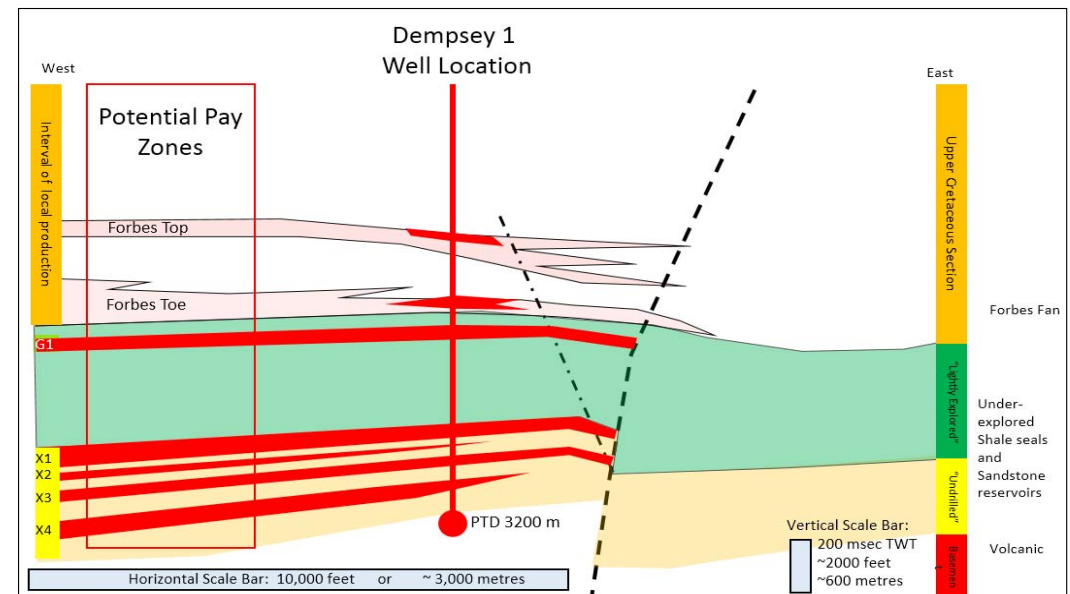
Mapped from 3D seismic



May 2016



Individual reservoirs 80 – 3,700 acres



Forward Program – Sacramento Basin



- **Secure farmin partner for Dempsey and Alvares prospects**
 - Drill Dempsey (~1 TCF gas – via farmout)
 - Drill Alvares (>2 TCF gas – via farmout)
- With follow-up locations, a portfolio of high impact prospects**
- Potentially secure additional interests over Dempsey and other 3D prospects
 - Work with our local joint venture partners to access extensive database of seismic and well data
 - Continue to generate new prospects and lease land around our core assets in the Sacramento Basin
 - Identify production acquisitions targeting gas opportunities

Conclusions



- Xstate has a solid base from which to build an E&P company onshore in the USA
- The company is focused on strategic value creation rather than activity
- In the current low oil price environment XST continues to seek a suitable farminee – at the same time prudently managing its cash
 - Existing assets in the Sacramento Basin provide for near term high impact exploration drilling
 - Targeting low risk and/or multi -TCF prospects in California
 - Several prospects identified - fully or partially leased
 - Two (2) high value prospects
- Building a production project portfolio with diversity, materiality and follow-up potential focused on low risk conventional production enhancement and development drilling
 - Active negotiation, near-mid term production and development onshore USA
 - Screen and pursue the acquisition of low risk production assets in multiple proven hydrocarbon basins
- Several value catalysts emerging during 2016

Thank You



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This presentation 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 Chris Hodge, Managing Director of Xstate Resources Limited. He is a qualified geologist with over 30 years technical, commercial and management experience in exploration for, appraisal and development of oil and gas. Mr Hodge 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.