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Announcement to ASX

Electronic lodgement

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## CANADIAN OIL DEVELOPMENT DRILLING UNDERWAY

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- **First of 3 Planned Oil Development Wells preparing to set Intermediate casing in target reservoir**
- **Drilling ahead of schedule, intersected target with expected oil and gas shows**
- **Drilling program funded by Canadian cashflow**
- **Targeting 10% increase in oil production from 3 well program**

Xstate Resources Limited (**ASX: XST**) ("**Xstate**", "**XST**" or "**the Company**") is pleased to provide its shareholders and the market with an update on the first of 3 planned oil development wells.

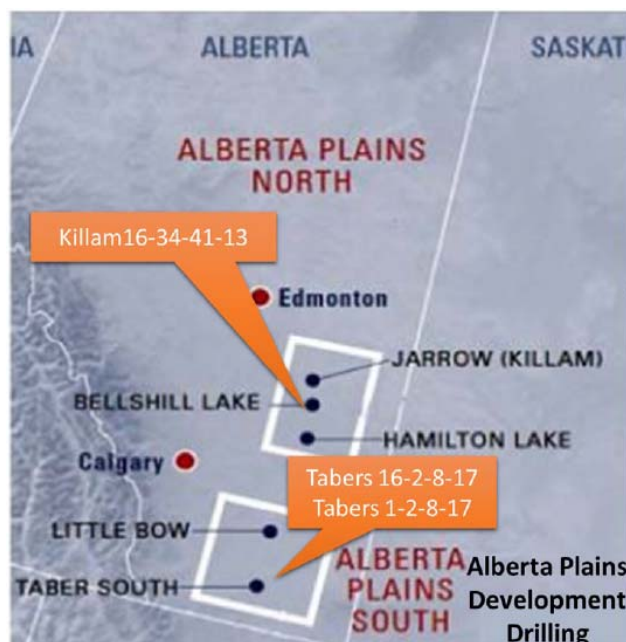
The Tabers 16-2-8-17 well has been drilled to intermediate casing point ahead of schedule. The well has intersected the target sandstone reservoir as expected with oil and gas shows.

The well is being drilled using a Bonanza Drilling Inc Rig 3 (Pictured below on the Taber location).



The next planned operation is to run intermediate casing and then drill a near horizontal lateral through the reservoir section.

This is the first of 3 oil development wells that Sacgasco intends to participate in drilling in SGC's Alberta Plains Asset. The drilling program will be funded from the net cashflow resulting from production in Canada.



The planned development wells are:

1. Tabers 16-2-8-17: Targeting Proved Undeveloped Reserves
2. Tabers 1-2-8-17: Targeting Probable Undeveloped Reserves
3. Killam 16-34-41-13: Targeting Probable Undeveloped Reserves

The wells are considered independent of each other.

The cost the 3 well development program is estimated at A\$2.7 million (gross), which will be A\$560,000 net to Sacgasco. We anticipate a gross increase in production of 200 BOPD (gross) which is 40 BOPD net to SGC. Given the current benchmark oil price of around US\$100/bbl, these wells are projected to pay back the capital expenditure in less than 12 months.

The Alberta Plains Working Interests are:

<b>Xstate Group (ASX:XST)</b>	<b>35%</b>
Sacgasco Group (ASX:SGC)	20%
Blue Sky Resources	45%

**Xstate Executive Chairman Mr Andrew Childs commented:**

*"It is pleasing to report that the drilling of the first well is ahead of schedule and delivering the expected results."*

The Company looks forward to providing shareholders with updates on further progress of its assets shortly with a number of initiatives gathering momentum.

**This release was approved by the board of the Company**

**Andrew Childs**

**Executive Chairman**

Xstate Resources Limited

Tel Office: +61 8 9435 3200

***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 associated gas production interests together with production interests in Alberta, Canada. Xstate is presently pursuing new opportunities in the oil and gas sector globally.*