

29 February 2024

Announcement to ASX

Electronic lodgement

ASSET DIVESTMENT – RED EARTH, CANADA

HIGHLIGHTS

- Xstate disposes its Red Earth assets for US\$2.73m cash

Xstate Resources Limited (**ASX:XST**) (**Xstate** or **the Company**) is pleased to advise that its wholly owned Canadian subsidiary, Xstate Energy Limited (**Xstate Energy**), has entered into an agreement to sell its 25% working interest in the Red Earth Assets in Alberta, Canada (**the Project**) to Blue Sky Resources Limited (**Blue Sky**) for cash consideration of US\$2.73m (approximately A\$4.17m) (**Agreement**).

The sale consideration will be paid as follows:

- US\$100,000 non-refundable cash deposit paid on signing of sale agreement;
- US\$300,000 paid on 29 March 2024;
- US\$1,000,000 paid within 10 days of shareholder approval;
- US\$1,327,273 paid 60 days after the third tranche payment of US\$1,000,000.

The Effective Date of the transaction is 1 January 2024 with an anticipated Closing Date of 29 March 2024. The agreement was entered into after close of trading on 26 February 2024.

Xstate will be retaining its 25% Working Interest in the Crest Jinn assets, which were acquired in early 2023 and re-entered during Q2 2023¹. The Company considers these assets prospective for further development and intends to work with the operator on potential exploration programs in the Keg River area.

The Agreement is subject to the Company receiving shareholder approval under ASX Listing Rule 11.2 for disposal of a main undertaking. Xstate has consulted with ASX on this divestment and will be holding a Shareholder meeting as soon as possible for Shareholders to vote on the transaction. There are no other material conditions precedent to be satisfied for the transaction to progress.

Under section 4.7 of ASX Guidance Note 12, Xstate has an ongoing obligation to satisfy ASX that its level of forward operations and its financial condition is sufficient to warrant the continued listing and quotation of its securities. ASX generally continues quotation of an entities securities for a period of up to six months from the date of agreement to dispose of its main undertaking. The ASX has advised that Xstate has until 26 August 2024 from the date of the sale agreement to ensure it is compliant with this Guidance Note.

¹ Refer to ASX announcements 3 February 2023 and 26 April 2024

To this end, the Company is confident of its ability to satisfy ASX that its operations moving forward are sufficient via the suite of projects being assessed by the Board at present, comprising:

- Continued Californian exploration opportunities being operated by Sacgasco Limited;
- Continuing oil prospect exploration in Austria by operator ADX Energy Limited;
- Further assessment and potential exploration and appraisal work on the Company's Crest Jinn assets; and
- Assessment of potential asset acquisitions for exploration advancement during 2024.

Furthermore, the Company is confident of its ability to satisfy ASX regarding an adequate financial position from cash flows that will be received from this asset divestment and estimated continuing cash flows from the Company's Crest Jinn and Anshof Operations. It is noted however that there is no certainty that ASX will be satisfied as to the level of its operations and financial condition such that Xstate's securities will not be suspended 6 months from the date of this agreement.

The Company intends to utilise the funds received in progressing exploration opportunities within its existing portfolio of assets, for potential asset acquisitions for exploration advancement, and for working capital purposes.

Blue Sky is a privately owned Canadian entity that owns and operates various oil and gas assets located in Alberta and British Columbia, Canada, including its 40% working interest and operatorship of Red Earth. Blue Sky presently produces close to 8,500 boe/d from its assets. Xstate has been engaged with Blue Sky since acquisition of Red Earth back in 2020/2021, and as such, this tenure of relationship with the operator has been considered a factor of due diligence efforts performed on the capacity to perform their obligations in relation to the transaction.

Xstate's Chairman Andrew Childs commented:

"The timely sale of Red Earth has enabled the recapitalisation of the Company without incurring any additional shareholder dilution.

The proceeds from this transaction are intended to be deployed to prosecute the acquisition and advancement of high-impact exploration and appraisal opportunities."

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 oil production interests in Alberta Canada and Austria, and exploration assets located in the Sacramento Basin, California. Xstate is presently pursuing new opportunities in the oil and gas sector globally.