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ASX Limited

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## Los Angeles Basin Oil Fields Acquisition Successful Completion of Due Diligence

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- **Xstate has successfully completed its due diligence and executed a Purchase and Sales Agreement (“PSA”) to acquire two producing oil fields in the Los Angeles Basin.**
- **The Company has agreed to acquire a 24.5% working interest for US\$13 million in the Sansinena and East Los Angeles oil and gas fields.**
- **Under the revised terms of the PSA, the Closing date is now February 17, 2017 and the transaction effective date has been adjusted to January 1, 2017.**
- **As previously announced, Xstate has secured financing commitments for A\$25m at 3.8 cents per share to fund the acquisition and future capital development expenditures.**

Xstate Resources Limited (ASX:XST) (“Xstate” or “the Company”) is pleased to announce that it has executed a Purchase and Sales Agreement (“PSA”) to acquire the Sansinena and East Los Angeles oil and gas fields following the successful completion of its due diligence.

The Company has agreed to acquire a 24.5% working interest (20.8% net revenue interest) for US\$13m as previously advised. Under the terms of the PSA, the Closing date is now February 17, 2017 and the transaction effective date has been adjusted to January 1, 2017.

During due diligence, Xstate was extremely impressed with the quality of the asset and Matrix Oil Corp. (“Matrix”) the operator. Matrix has accomplished significant recent productivity gains and cost reductions leveraging their own experience from the successful optimisation of adjacent fields, which are in analogous reservoir settings. Importantly a significant percentage of the productivity gains and cost reductions are sustainable in the long term thereby providing an excellent platform from which the joint venture can pursue Sansinena’s multi well inventory of proven undeveloped drilling locations.

The unique nature of the multilayered reservoirs in the North East position of the LA basin where oil pay is encountered at depths from 200 - 500 metres with up to 1500 meters of gross pay, means that wells recover substantial reserves on a per well basis from a relatively small drainage area. As a result a substantial reserve of undrained oil potential exists within close proximity to existing well bores with low technical risk. Importantly the commerciality of proven but yet to be developed reserves (“PUDs”) is enhanced by the shallow and predictable nature of drilling, the ability to use existing well bores, as well as existing drilling pads and surface facilities.

Netherland Sewell & Associates Inc. (“NSA”) has completed its analysis of the Sansinena field, which supports our prior analysis. The Proven reserves are in line with prior estimates, however the Probable and Possible reserve categories have been revised downwards (between 5-10%, mostly due to more conservative oil pricing assumption) which the Company considers immaterial to the overall transaction given the large premium of asset value to acquisition cost.

Xstate has secured funding for the acquisition as previously announced on December 19, 2016. The company has secured funding commitments for A\$25m at 3.8 cents per share to fund the acquisition and future capital development expenditure.

**For and on behalf of the Board of Xstate Resources Limited**

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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.