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ASX Limited

Electronic lodgement

Sale of Dempsey Project Working Interests

Summary

- Xstate has agreed to divest its Dempsey project working interests for part cash and shares to Raven Energy Limited.
- The divestiture includes the recently drilled Dempsey 1-15 which is the subject of ongoing assessment, surrounding leases and associated production and infrastructure.
- Proceeds from the sale will be utilized to fund Xstate's participation in the Alvares appraisal well, in which Xstate holds a 21% working interest.
- The sale of the Dempsey project area is part of the Company's strategy to derisk from high risk exploration to appraisal, development and production orientated opportunities.

Comments

Xstate Resources Limited (**ASX: XST**) ("**Xstate**" or "**the Company**") is pleased to provide the following update in relation to its working interest in the Dempsey Project Area ("Dempsey Project").

Xstate has entered into a Binding Letter of Intent ("LOI") with Raven Energy Limited ("**Raven**"; **ASX:REL**) an ASX listed company. Raven has agreed to acquire Xstate's wholly owned subsidiary XGas LLC ("**XGas**"), that holds interests in leases, land, mineral ownership, wells and related production and infrastructure in the Dempsey Project in the Sacramento Basin, California.

Under the terms of the LOI Xstate has agreed to divest its interests in the Dempsey project for upfront cash consideration of US\$500,000 plus a deferred payment of A\$500,000 in cash or Raven shares within 90 days of closing. The deferred payment method is at the sole discretion of Raven.

As part of the divestiture and post completion, Xstate and Raven have agreed to jointly pursue oil and gas opportunities onshore California. The parties have agreed to enter into a formal cooperation and services agreement post completion of the Dempsey sale, whereby Xstate will assist Raven with business development opportunities and technical expertise. As part of the two companies joint collaboration Mr. Cosimo Damiano will be appointed to the board of Raven's USA subsidiary.

The sale of Dempsey will allow Xstate to focus its efforts and capital on the Alvares project where the company holds a higher working interest of 21% in the Alvares appraisal well and 30% in the surrounding lease area.

In addition to the Sacramento Basin activities the Company continues to pursue new production opportunities onshore California that have the potential to add significant value to the Company.

Transaction deal terms

Under the LOI, Raven has agreed to purchase all of the issued capital in XGas and its working interests in the Dempsey Project from Xstate, on the following terms and conditions:

- (a) Raven will pay Xstate a cash payment of US\$500,000 payable as follows:
 - (i) a non-refundable deposit of US\$35,000, payable within five business days of execution of the LOI; and
 - (ii) the balance of US\$465,000 is payable on completion of the Acquisition, expected to occur on July 15, 2018,
- (b) Raven has also agreed to pay Xstate an additional payment of A\$500,000 within 90 days of closing either in cash or Raven fully paid ordinary shares at A\$0.0018 per share and subject to a 12 month voluntary escrow period.

The Acquisition is subject to due diligence and certain conditions precedent which must be satisfied prior to completion.

Completion of the Acquisition must occur on or by July 15, 2018 unless extended by written agreement between the parties. However, in the event that the Acquisition does not complete by July 15, 2018, Raven has the option to extend completion by 45 days to August 31, 2018 for an additional non-refundable deposit of US\$35,000 which is deductible from the final cash payment.

In 2017 the Dempsey project area contributed 29,906 mcf (819 mcf /day) of production to Xstate which was equivalent to A\$89,770 of gas sales revenue.

Additionally, upon Completion of the Acquisition and in the event that Xstate decides to divest all or part of its 24% working interest in the Alvares appraisal project, Xstate will provide to Raven at no additional cost the first right of refusal of its interest in the Alvares appraisal well and project area.

Sacramento Basin Appraisal and Exploration Activities – Alvares Project

The Alvares joint venture is evaluating appraisal options for the 1,500m of gas shows encountered in the Alvares -1 well gas discovery. The Alvares Conventional Gas Prospect is an appraisal project testing the Alvares-1 gas discovery drilled in 1982 on a large structure mapped on 2D seismic.

Xstate holds a 21% working interest in the Alvares Gas project which the operator estimates to contain a total (100%) recoverable unrisked prospective gas resource on a best estimate deterministic basis of approximately 2.4 Tcf (400 million barrels of equivalent oil “mmboe”).

The Alvares Joint Venture is currently evaluating how best to test strong gas shows recorded over more than 1,500 metres below a thick, sealing shale at 2,350 metres. Wireline log data from the Alvares-1 well indicates several zones with conventional gas reservoir potential.

The well bore of Alvares 1 will be assessed for its suitability for re entry and a possible production test as a cost effective way of evaluating the potential of extensive gas shows encountered in the discovery well while drilling for oil in 1982. The upper 500 metre thick interval of the best gas shows were not previously evaluated due to logging difficulties related to high-pressure gas influx.

XSTATE RESOURCES LIMITED – SACRAMENTO BASIN TENEMENT LIST NORTHERN CALIFORNIA		
Project name	Category	Working Interest (WI)
Alvares Appraisal Well	Appraisal	21%
Alvares Project	Exploration & Appraisal	24%
Dempsey 1-15 Well	Exploration & Appraisal	10%
Dempsey AMI	Active leasing 3 large prospects	24%
Rancho Capay Field	Production	10%
Malton field	Production	30%
East Rice East Creek Field	Production	10%
Los Medanos Gas Field	Production	10%
Dutch Slough Field	Production	30%
Denverton Field	Production	30%
Northern California AMI	Active Prospect Generation	30%
Projects are continuously reviewed for their strategic fit and are expected to be modified over time to reflect industry conditions.		

Disclaimers

Exploration in the USA is conducted on leases grant by Mineral Right owners, in Xstate's case primarily private individuals or groups. Leases can vary in size from very small parcels (part of an acre) to large landholdings (covering a few square miles). Leases generally are for 5 years and rentals are paid annually. There are no work commitments associated with the leases. Some leases are 'Held By Production' and royalties, generally less than 20% of revenues, are paid to mineral right owners in lieu of rentals. Xstate has not listed all it leases as it is impractical and not meaningful for potential project value assessment in a conventional gas play. A detailed listing of leases may also lead to a loss of competitive advantage and consequent reduced value to Xstate shareholders.

Competent Persons Report

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 many variables which could cause actual results or trends to differ materially. The technical information provided has been reviewed by Mr Chris Hodge, Non Executive 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.

Glossary of Terms

Tcf: trillion cubic feet
 mmbbl: million barrels
 JV: joint venture

AMI: area of mutual interest

Bcf: billion cubic feet
 mmboe: million barrels oil equivalent
 WI: working interest
 mcf: thousand cubic feet gas

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 associated gas production. Xstate is presently pursuing new opportunities in the oil and gas sector onshore North America.