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ASX Limited

Electronic lodgement

XSTATE SECURES A WORKING INTEREST IN A PRODUCING CONVENTIONAL OIL FIELD DEVELOPMENT OPPORTUNITY IN CALIFORNIA

- **Xstate has entered into a Letter of Intent (“LOI”) to acquire a working interest in a producing conventional oil field located in the prolific Los Angeles Basin onshore California with existing production and an independently certified reserve report provided by the Operator.**
- **The transaction is subject to funding and due diligence by Xstate which is structured in two phases. Under Phase 1 Xstate has a 30-day period to complete its due diligence from signing of the LOI followed by an additional period to complete financial close by February 3rd, 2017. The transaction effective date is November 1, 2016.**
- **Under the terms of the acquisition Xstate has agreed to pay US\$13.0m for a 24.5% gross working interest in both the Sansinena Oil Field located 30 miles west of LAX Airport in the City of La Habra and the East Los Angeles field located downtown Los Angeles.**
- **The deal provides Xstate entry to a share of existing production (450 barrels of oil per day¹), access to high quality facilities, likely significant production increases, producing reserves growth and yet to be developed contingent resources at a low entry cost. The reserve and resource potential of assets will be fully described at the conclusion of Phase 1 due diligence.**
- **As Operator of the fields Matrix Oil Corp. (“Matrix” or the “Operator”) has existing operations in nearby fields providing economies of scale and extensive local knowledge of the geology, operating conditions and regulatory environment in California.**
- **Significant Lease Operating Expense (“LOE”) reductions have been implemented at Sansinena by the Operator since it assumed operatorship, through increased production volumes, field efficiencies and operating costs reductions. It is estimated that LOE’s are below US\$15 barrel.**
- **The transaction places Xstate in an ideal position to take advantage of any increases in oil price, further field productivity gains and reserves growth, while limiting exposure to the downside. As a result Xstate shareholders can expect several value creation milestones during late 2016 and 2017 relating to increases in production rates and corresponding increases in field revenues.**
- **Should Xstate acquire the asset the initial focus of the Joint Venture will be on substantially increasing production levels with the potential to increase production to over 1,000 bopd. The Operator has identified numerous production enhancement and associated development drilling potential. Importantly the field has the necessary land access rights, drilling permits and extensive infrastructure to achieve its potential.**

Source: 1 Californian Division of Oil, Gas, and Geothermal for the month of September 2016;

Comments

Xstate Resources Limited (“Xstate” or the “Company”) is pleased to announce that it has entered into a Letter of Intent “LOI” subject to funding and due diligence to acquire a working interest in two Los Angeles Basin oil fields. The Sansinena oil field located nearby the City of La Habra, and the East LA oil field located in Los Angeles.

The acquisition secures existing production, production enhancement and associated development drilling potential as well as appraisal opportunities within the Sansinena Field. The fields are operated by Matrix Oil Corp (“Matrix”), which holds a 50% equity interest in the fields. Xstate intends to acquire its working interest from a private investor group that will retain a 25.5% gross working interest in the oil fields.

Xstate previously announced a strategic shift to focus on low risk conventional production opportunities onshore USA targeting underperforming at or near the bottom of the oil price cycle. The Sansinena field is the first step towards transforming Xstate into a USA conventional oil and gas producer and explorer focused on building a material cash flow and production asset base with the potential for significant growth to complement its existing exploration portfolio.

The Sansinena field represents an ideal investment opportunity for Xstate that is well suited to its growth strategy. The field already has economic production with numerous low risk well recompletion and development drilling opportunities as well as exploration potential. The current production and future development opportunities exist in proven reservoirs between 1,500 to 5,000 feet containing 15 - 32 degree API oil. The fields contain a large independently assessed undeveloped reserve potential as well as a large acreage position of approximately 3,450 gross acres. The economics of the field are enhanced by low royalties (approximately 15%) low well decline rates (2-3% per annum). The reserve and resource potential including the forecast production profile will be fully described at the conclusion of Phase 1 due diligence.

This acquisition with associated drilling investment options provides an excellent platform from which Xstate can grow. Expected cash flow from the workover program can be used for further development and appraisal activities and other projects that are currently under review. The location of the assets adjacent to other oil discoveries also provides opportunities for growth and aggregation.

This acquisition provides cash flow, production infrastructure and more importantly access to growth opportunities consistent with Xstate’s revised business strategy to generate value for shareholders through low risk field development, appraisal and production enhancement opportunities.

It is vitally important when working in the USA for joint venture interests to be aligned. Xstate will have the opportunity to work with an experienced onshore Californian operator, Matrix Oil Corp. who has partnered with a sophisticated financial investor. The joint venture will benefit from the operator’s management teams past activities at the adjacent Whittier Main and West fields, providing economies of scale in operating costs and production operations.

As a result of this transaction Xstate will develop on the ground operational capability and gain access to commercially aligned operational relationships in California, which will enable the identification, purchase and enhancement of additional production opportunities in line with the Company’s investment strategy.

An investor briefing pack containing further details of the acquisition forms part of this announcement.

Proposed Gross Working Interests¹	Sansinena Field	East Los Angeles Field
Matrix Oil Corp. (Operator)	50.0%	50.0%
Private Group	25.5%	25.5%
Xstate Resources Limited	24.5%	24.5%

¹ Post financial close February 3, 2017

Los Angeles Basin – Field Location Map



Source: Californian Division of Oil, Gas, and Geothermal

Forward Plan

- Completion targeted by February 3, 2017
- Effective date is November 1, 2016
- Acquisition is subject to customary due diligence and mutually satisfactory Purchase and Sales Agreement
- Reserves to booked following completion of financial close

Indicative Timetable													
	Nov 2016				Dec 2016				Jan 2017				Feb 2017
	Week 1	Week 2	Week 3	Week 4	Week 1	Week 2	Week 3	Week 4	Week 1	Week 2	Week 3	Week 4	Week 1
Due Diligence Phase 1	Green	Green	Green	Green									
Purchase & Sales Agreement				Orange									
Deposit Paid				Orange									
Due Diligence Phase 2					Green	Green	Green	Green	Green	Green	Green	Green	
Notice of Meeting Dispatched							Red	Red	Red	Red	Red	Red	
Notice of Meeting											Red		
Closing													Green

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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.

About Matrix Oil Corp.

Matrix Oil Corporation (“Matrix”) is a private independent oil and natural gas production company based in Santa Barbara, CA. Since 1999, Matrix has acquired properties that have long-term and low-risk production. Currently, the company owns and operates oil-producing properties in the Los Angeles and San Joaquin Basins of California. It owns natural-gas producing properties in the Sacramento Basin and oil-producing royalty and non-operated properties in the Permian Basin of West Texas. In these focus areas, Matrix has lease and fee ownership in 15 producing fields in approximately 28,000 acres that hold in excess of 200 Matrix-interest wells.