

14 February 2013

ASX Limited

Electronic lodgement

Acquisition of Producing Oil Field

Xstate Resources Limited (ASX: XST) advises that it has signed a memorandum of understanding ("MOU") to acquire 100% of privately owned Blue Sky Langsa Ltd ("BSL") effective 1 January 2013.

Additional detail on the assets and transaction are included in the presentation which forms part of this release.

The Asset: Xstate Resources Limited ("Xstate") will acquire 100% of the Langsa Technical Assistance Contract (TAC) with Pertamina, located in 70 to 100 metres of water, 50 kilometres offshore North Sumatra, Indonesia. The Langsa TAC (refer to location map) includes the 'L' and 'H' Oil Fields and related oil field equipment inventory. Production is from limestone reservoir rocks about 1600 metres below the sea surface.

These fields have been developed with 6 subsea wells, and are currently producing profitability at a rate of approximately 340 barrels of oil per day and zero water-cut from one well via a dedicated leased Floating Production and Storage and Offloading ("FPSO") Vessel. The remaining development wells are shut-in and are workover candidates to recover additional oil.

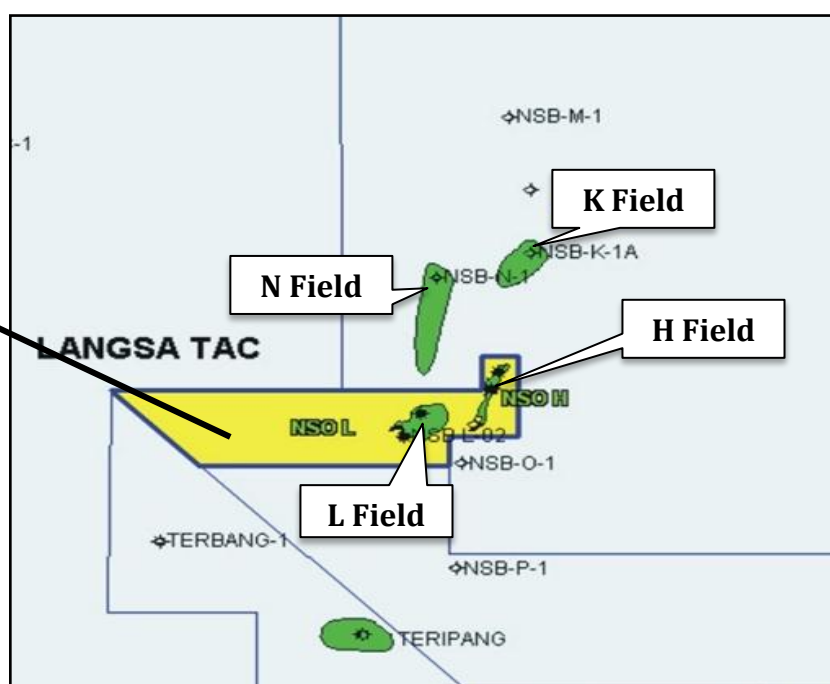


"PTAP-One" – Leased Production Facility on Langsa Oilfields

The plan is to increase production from the fields.

Planning is advanced to complete the suspended H-3 well for production of oil from the undeveloped northern part of the H Field, and to workover selected shut-in wells (together referred to as "Workover Program"). The H-3 exploration well drilled by Mobil tested oil at rates of over 3500 bopd before being suspended for future production.

The expectation is that after a successful Workover Program the field could be producing at an initial rate in excess of 3000 bopd.



Location: Langsa TAC

Note: L & H Oil Fields are developed and are in the Langsa TAC while the undeveloped N & K Oil Fields are in an adjacent permit and may provide a future project opportunity

Value: The transaction is based on the following approximate valuations:

Xstate: - ASX listed entity with approximately \$750,000 cash, after Tunisia Sale proceeds are received:.	\$2 million
BSL: Langsa TAC 100% interest including reserves, and \$3 million equipment inventory:	\$9.1 million

An independent competent person's report (CPR) will be prepared prior to a shareholder meeting. This report will determine the value of the remaining reserves in the Langsa Oil Fields.

The report will assume that Xstate carries out a successful well Workover Program. The cost of the program is estimated to be US\$25 million. The high equity and mature nature of the asset provides the flexibility for Xstate to finance the workover program via farmout, equity sale, debt and / or equity (i.e. issuing additional shares) financing.

The value of production from Langsa is enhanced by a \$US 55 million unrecovered cost pool.

A key value condition that must be satisfied before the transaction can be completed is that the independently assessed Present Value (using 10% discount rate) of the reserves that are projected to be produced from the Langsa Oil Fields in the next 4 years, is greater than US\$50 Million. This value is after recovery of the \$25 million investment in the Workover Program.

This value could be compared directly with the A\$9.1 million BSL asset vend valuation above, (which includes around \$3 million of oilfield equipment inventory leading to a net value of approximately \$6.1 million), to give an appreciation of potential value of the Langsa TAC acquisition for Xstate shareholders.

Conditions: Pursuant to the MOU, Xstate shall conduct further due diligence on BSL, the FPSO facilities and equipment inventory, and obtain an independent oil and gas reserve report.

Final agreement will be contingent on Xstate being satisfied with the independent reserves, the FPSO and contractual arrangements related to the FPSO, and financial due diligence

The agreement is conditional upon Xstate obtaining all necessary regulatory and shareholder approvals.

Xstate Shares: At completion, the transaction involves Xstate issuing 459,570,594 new Xstate shares (ASX: XST) to BSL shareholders so that BSL shareholders will own 82% of Xstate shares after the transaction completes.

The "Current" and "Post-Acquisition" capital structures of Xstate are shown in the table below:

Current Capital Structure:		Capital Structure Post-Acquisition	
XST shares:	100,881,350	Current XST shareholders:	100,881,350
XSTO 24c June 30 2013 Options:	48,438,061	BSL Shareholders:	459,570,594
		Total Shares:	560,451,944
		XSTO 24c June 30 2013 Options:	48,438,061

The Vendor: The entrepreneur behind BSL is Mr Ilyas Chaudhary, who has an engineering background and extensive oil patch experience, starting with 8 years with Schlumberger in Canada and then he was involved in structuring and operating oil and gas exploration and production assets in both private and public company capacity, primarily in the USA and Indonesia.

"It is intended that Xstate be the preferred future vehicle for BSL's current major shareholders' investment in offshore oil and gas assets and BSL shareholders will work with Xstate on a preferential basis to increase its market capitalization through appropriate asset acquisitions and capital support."

Mr Ilyas Chaudhary - BSL President

After completion of the transaction Blue Sky Langsa will nominate two directors, including the Mr Ilyas Chaudhary as Chairman, to the Board of Xstate. Gary Jeffery will continue as Managing Director.

Summary:

Managing Director Gary Jeffery stated: “This acquisition provides an excellent platform from which Xstate can grow. Expected cash flow from the Workover Program can be used for exploration on the Langsa TAC and other projects that are under consideration. The location of the Langsa TAC adjacent to other oil discoveries also provides opportunities for growth.

Having an enthusiastic major shareholder, who prefers that shareholders’ funds are used for oil field development rather than being transferred out of the company as vendor consideration, is a significant advantage for existing shareholders.

As a result all shareholders interests are aligned.

Shareholders are encouraged to review the separate presentation document which includes additional information ”

Additional information will be made available to shareholders prior to shareholders being requested to vote on the transaction.

For and on Behalf of the Board

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Production Acquisition – Foundation for Growth

*Langsa Producing
Oil Field*



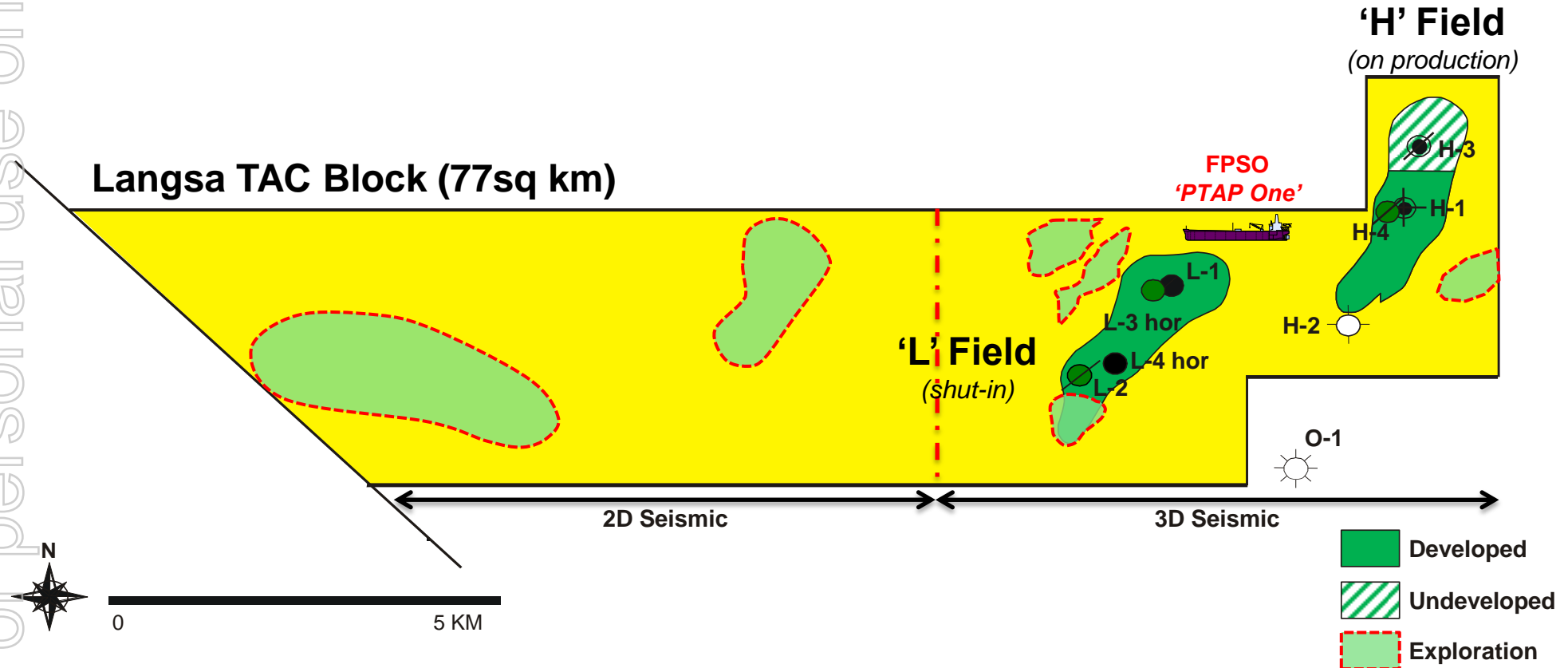
FPSO "PTAP ONE" - Production Facility on Langsa Oil Fields

Why Langsa?

- ✓ Profitable light, sweet crude oil (40+°API) production of over 340 bopd –sold at premium price
- ✓ Near-term upside production potential via undeveloped field area well completion and well work-overs
- ✓ Medium-term exploration upside - targets delineated on 2D and 3D seismic within the block
- ✓ Immediately adds reserves to XST – estimated over 3 million barrels
- ✓ Increased production potential provides cash flow for future expansion
- ✓ 100% equity position allows multiple financing options
- ✓ Technically uncomplicated reservoir and reliable production system
- ✓ Solid, ‘foundation’ asset for rebuilding of XST asset portfolio
- ✓ Early return on investment – benefits from US\$55 million unrecovered cost pool , and cash flow from 1 January 2013
- ✓ Adjacent undeveloped oil fields present further opportunities
- ✓ Established, experienced operating team
- ✓ Utilises Xstate management’s strengths

Langsa Technical Assistance Contract (TAC) w/ Pertamina

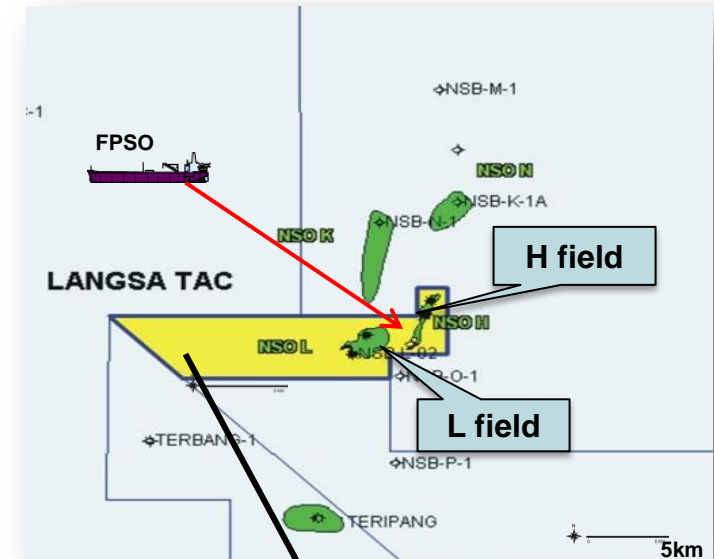
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Multiple opportunities to add substantial production and reserves via near-term undeveloped area well completion and shut-in well workovers, and medium-term exploration

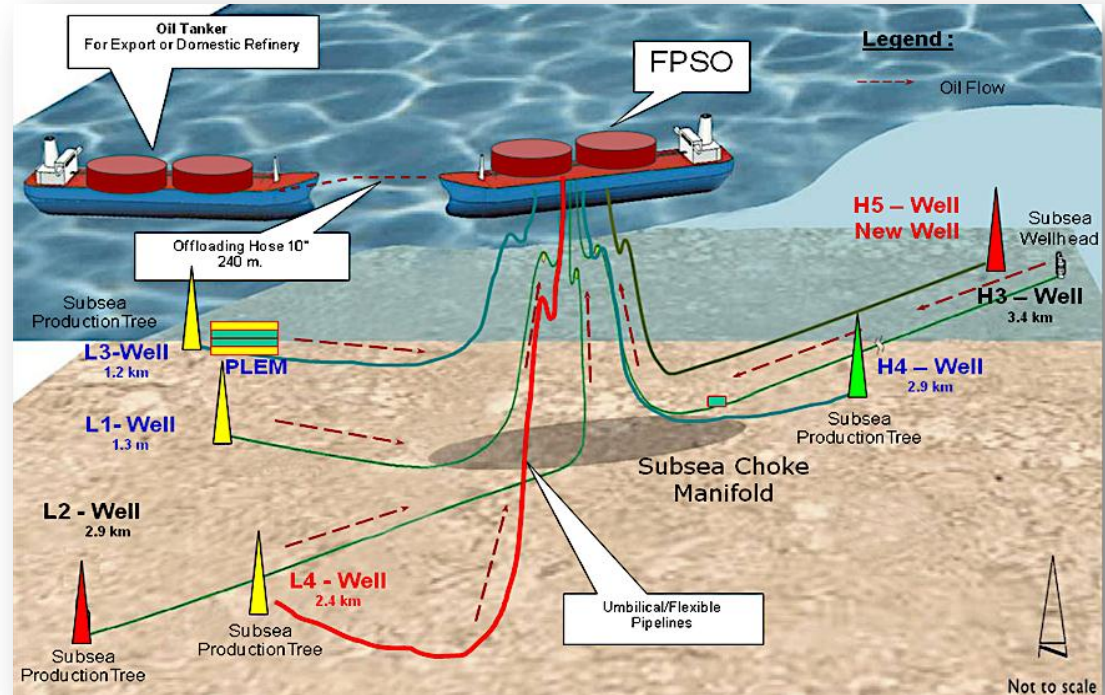
Langsa TAC Overview

Block Type	Technical Assistance Contract (TAC) with Pertamina		
Location	Approx. 50km offshore, North Sumatra Basin		
Water Depth	70-100 metres		
Working Interest	Blue Sky Langsa Ltd (100%)		
Contract	20 years from 15 May 1997		
Fields	L & H oil fields		
Reservoirs	Malacca Limestone (primary) & Baong Sandstone (secondary) (Lower Miocene) around 1,600 metres depth		
Seismic Coverage	3D & 2D coverage		
Wells	Producing:	1 well	(H-4)
	Shut-in:	5 wells	(L-1, L-2, L-3, L-4 & H3)
Production History	Nov 2001	Initial >7,000bopd from L-1 and L-2	
Current Production	Feb 2013	H4 well producing >340 bopd; no water	
Cumulative Production	More than 4 Million barrels of high value 40-46°API oil		
Remaining Reserves	3+ MMbbl (To be confirmed by Competent Persons Report)		

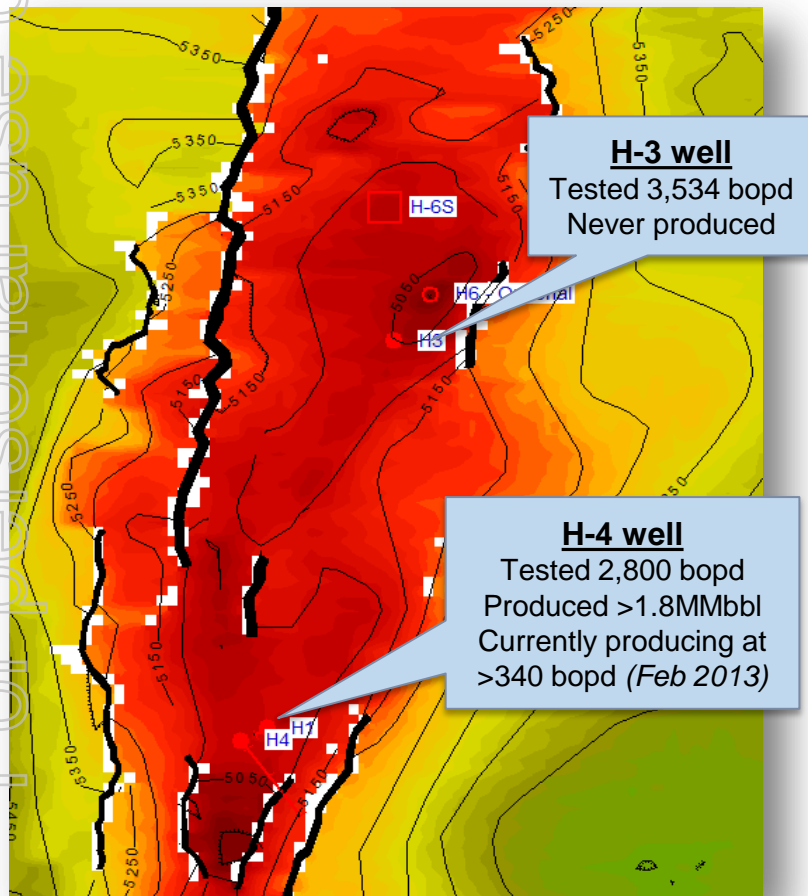


Field Operations Schematic

- FPSO and infrastructure are operating on location in the northern part of the L Field
- FPSO leased from PT Arah Prana (PTAP) – flexible contract
- FPSO 'PTAP ONE'
 - Spread moored with floating offtake hose
 - Connected by flexible flowlines and risers to three wells (L1, L2 and H4)
 - Wells completed with subsea trees
 - Storage and processing capacities:
 - Storage: 227,000bbl
 - Oil: 15,000bopd
 - Water: 10,500bopd
 - Gas: 12MMscf/d
 - FPSO has capacity for future expansion and additional well flowlines.



Work Program – 2013 to increase production to > 3000 bopd



H FIELD

- H-4 well currently producing over 340 bopd, no water
- Northern part of 'H Field' has been tested but never been produced – *excellent incremental production opportunity*
- Re-enter H-3 discovery well, complete for production and install production flowline to FPSO
 - Estimated reserves of 1.5 million Barrels
 - Estimated initial production rate- 2,000 bopd

L FIELD

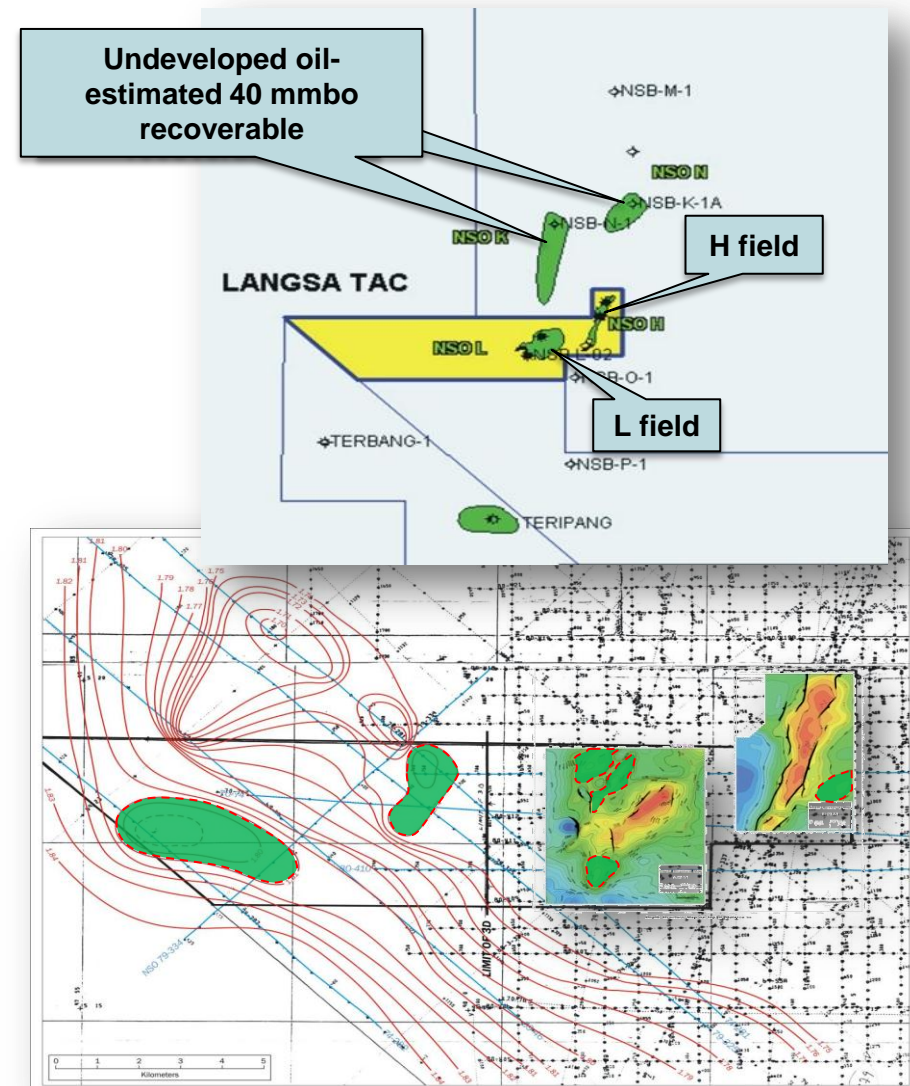
- Workover L-3 to repair control valve and return to production
 - Estimated initial production rate- 500 bopd
- Workover L-4 (horizontal well) and return to production
 - Estimated reserves of 2.2 million barrels
 - Estimated initial production rate- 2,000 bopd

Planning for work program in 3Q 2013 – staged execution

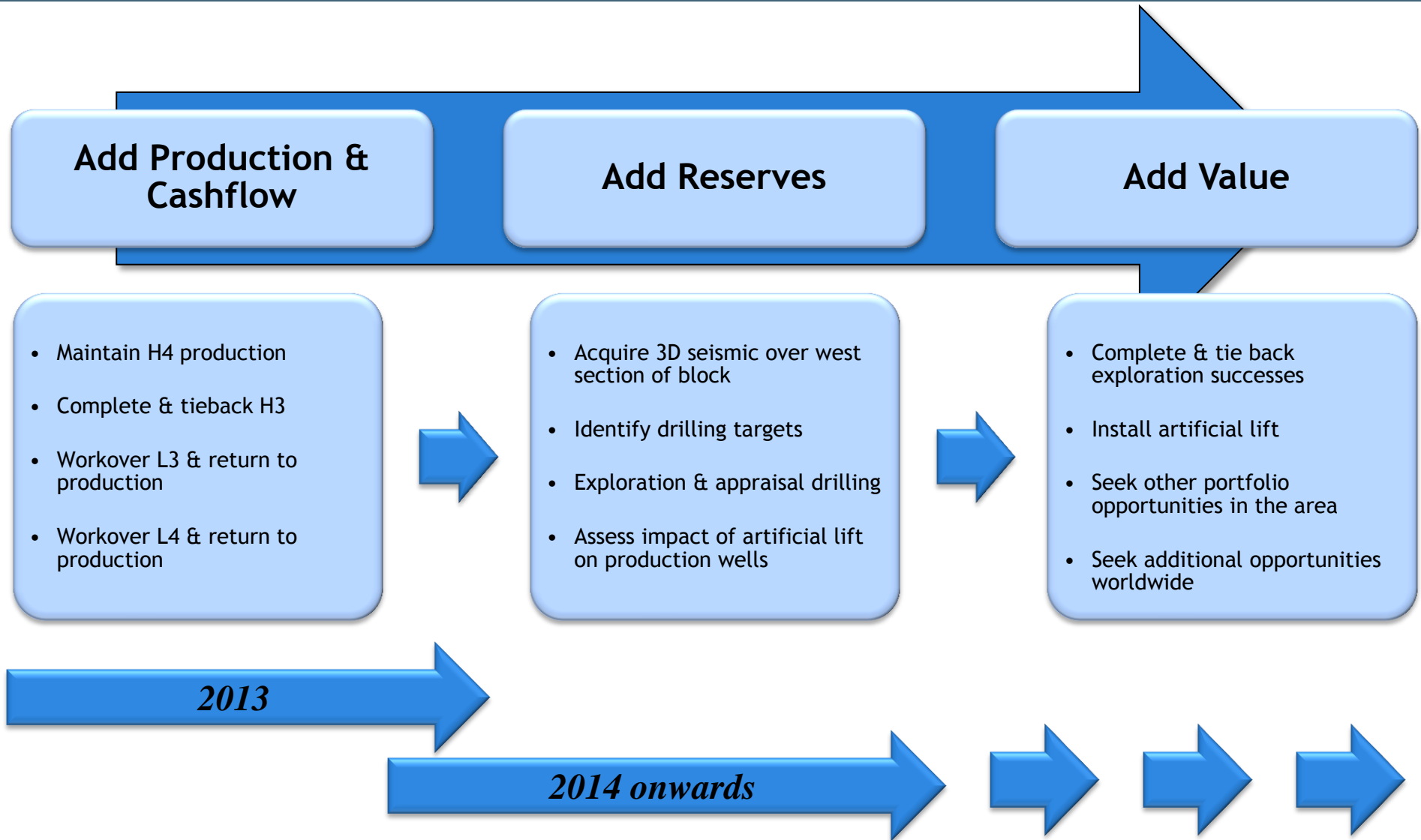
Estimated \$25 million total cost for workovers and well tie-back

Upside Potential – Development & Exploration

- **Acreage adjacent to FPSO has two undeveloped discoveries with estimated 40+ million barrels of oil (mmbo) recoverable – potential tie back to Langsa FPSO**
- **Data indicates potential upside in and around L and H Fields**
 - Malacca Limestone and Baong Sandstone Reservoirs
 - Proven and prolific producers in the area
- **Estimates of over 60 million barrels of oil in place in two exploration structures**
 - Estimate 25% recoverable with >15 million barrels potential
- **Baong sandstone overlies both fields**
 - Tested via DST - produced oil at 700+bopd in H1 well and produced gas in 3 DST in H3 well
 - Known to exist above L Field
 - Gaffney Cline & Assoc. identified potential (unassessed) upside in 2002
- **Other potential oil traps identified on 2D and 3D seismic data**
 - Drilling targets with potential for tie back to existing FPSO infrastructure



Xstate Strategy



The Deal...

Xstate purchase Blue Sky Langsa Ltd (BSL) for approx. 460 million XST shares

- 100% working interest in producing Langsa TAC
- More than 3 million barrels reserves
- US\$55 million unrecovered past cost pool enhances financial returns
- Operatorship
- Synergistic relationship with FPSO owner
- Production equipment inventory of approx. \$3 million included in \$9.1 million asset vend consideration
- Xstate valued at \$2 million
- Competent Persons Report to value 4 year projected oil production after successful Workover Program- \$50 million NPV10 minimum valuation required as a condition of closing the acquisition

Deal Structure

	Current	Post-Deal
Shares on issue:	101 million	560 million
Shareholding	100% XST	82% BSL shareholders 18% XST shareholders

Conditions Precedent (CP) for deal closing:

- Independent expert confirms 4 year production NPV(10) >US\$50 million
- Acceptable due diligence on FPSO, facilities and Blue Sky Langsa Ltd
- Xstate shareholders' approval

Xstate... *Before and After...*

Current

Board and Management	
Gary Jeffery	Managing Director
Ross Kestel	Non-Executive Director
Andrew Childs	Non-Executive Director
David McArthur	Company Secretary

Xstate Capital Structure	
Shares on issue (ASX: XST)	100.9 million
Listed Options (ASX:XSTO) @ 24c w/ 30 June 2013 expiry	48.4 million
Debt	Nil
Cash	\$0.75 million

Post-Acquisition

Board and Management	
Gary Jeffery	Managing Director
Ilyas Chaudhary	Non-Executive Chairman
Ross Kestel	Non-Executive Director
Andrew Childs	Non-Executive Director
David McArthur	Company Secretary

Xstate Capital Structure	
Shares on issue (ASX: XST)	560 million
Listed Options (ASX:XSTO) @ 24c w/ 30 June 2013 expiry	48.4 million
Debt	Nil
Cash	\$0.5 million

Next Steps

- **Complete independent Competent Persons Report (CPR)**
 - Confirm reserves and forecast production rates, and
 - Value reserves
- **Complete due diligence on assets, facilities and BSL**
- **Appoint experienced project manager**
- **Evaluate funding alternatives – farm out, equity sale, debt, and / or equity raising**
- **Prepare documentation for shareholder review**
- **Execute Sale and Purchase Agreement with BSL**
- **Seek shareholder approval at EGM**
- **Implement Workover Program and return shut-in wells to production**
- **Grow Xstate**



Deck of leased FPSO

Indonesia

Geography Archipelago of 17,508 islands (6,000 inhabited); straddles equator; strategic location astride or along major sea lanes from Indian Ocean to Pacific Ocean

Area 1.9 million sq km

Population 248 million (86% Muslim)

Government Democratic republic

Economy

- GDP approx. US\$895 billion
- GDP growth 6%

Petroleum

- Crude oil
 - Production 982,000bopd
 - Exports 293,000bopd
 - Proved reserves 4 billion bbl
- Natural gas
 - Production 2.9 Tcf pa (12th largest)
 - Exports 1.5 Tcf pa (10th largest)
 - Reserves 141 Tcf (12th largest)

“If you work with Pertamina, a major state company, you will be on a safe boat.”

Karen Agustawan
Wall Street Journal, 18 Dec 2012



- Indonesia is a former OPEC member with a well-established and stable upstream petroleum investment environment

Disclaimer, Risks, Competent Person Statement

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 effected by a variety of variables which could cause actual results or trends to differ materially, including but not limited to: price fluctuations, actual demand, currency exchange rate fluctuations, drilling rig availability and timing of drilling, drilling and production results, commercialisation and development progress, operating success and results, reserve estimates, loss of market, industry competition, environmental risks, physical risks, legislative, fiscal and regulatory developments, economic and financial markets conditions in various countries, approvals and accuracy or otherwise of cost estimates. Refer to Xstate website: www.Xstate.com.au for more detail on risks, resources and projects.

The technical information provided has been compiled by Mr Gary Jeffery, Managing Director of Xstate Resources Limited. He is a qualified geophysicist with over 40 years technical, commercial and management experience in exploration for, appraisal and development, and transportation of oil and gas and mineral and energy resources. Mr Jeffery has reviewed the results, procedures and data contained in this presentation. Mr Jeffery consents to the inclusion in this presentations of the matters based on the information in the form and context in which it appears.



Tanker unloading oil from Langsa leased FPSO