

15 November 2016

ASX Announcement

Electronic lodgement

Los Angeles Basin Oil Field Acquisition Update

- **Xstate is acquiring low cost reserves that will become cheap flowing barrels over time.**
- **Proven (1P) reserves of 6.2Mmboe and Proven & Probable (2) reserves of 9.9Mmboe net to Xstate that have been independently certified by respected global firm Netherland, Sewell & Associates, Inc.**
- **The implied reserve acquisition multiple based on 1P reserves is an attractive US\$2.10/bbl.**
- **The implied per flowing barrel metric is anticipated to be US\$56,750 per flowing bbl at Closing assuming 1,100 barrels of oil per day of gross production (“bopd”).**
- **The Sansinena field has significant existing strategic infrastructure for future planned production growth and associated real estate property that can be sold to fund planned development costs.**
- **Subject to due diligence, Xstate considers the price reflects outstanding value for existing reserves and production with high potential upside, particularly associated with the low risk infill drilling program.**

Xstate Resources Limited (ASX:XST) (“Xstate” or “the Company”) is pleased to provide an update and further material information in regards to the Los Angeles Basin Oil Fields transaction announced on 4 November 2016.

The Xstate Board and management consider the proposed transaction to be a transformational event for the Company. The acquisition of the Sansinena oil field provides shareholders with immediate production, cash flow and low cost reserves that have been certified by Netherland, Sewell & Associates, Inc. (NSAI), one of the most respected global firms in independent reserves reporting.

Xstate is acquiring access to value accretive production based on future production growth. The implied per flowing barrel metric is anticipated to be US\$56,750 at financial close, assuming production of 1,100 gross bopd.

The joint venture has plans to grow production to 2,000-5,000 gross bopd from future cash flows in the medium to long term. Existing infrastructure at Sansinena is sufficient to support production at the upper end of this range.

Sansinena is a world-class asset with significant development drilling upside that represents a multi-year drilling opportunity in conventional oil wells. The new Operator, Matrix Oil Corp., has identified numerous production enhancement opportunities and has gained access to significant reserves by lowering LOEs and drilling costs.

Importantly these costs reductions are sustainable and will allow the joint venture to target a vast number of new Proven Undeveloped (PUD) infill drilling locations. It is important to note these PUD targets aren’t exploration targets but rather identified wells targeting proved productive undrained reservoirs.

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Development drilling is currently underway to substantially increase production from current levels (500bopd as at 31 October 2016) to +1,100bopd by financial close based on existing well enhancements and three new in-fill wells (PUDs).

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

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.

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LA BASIN OIL FIELDS ACQUISITION

LONG-LIFE PRODUCTION ASSETS IN CALIFORNIA

WITH MATERIAL RESERVES BASE



Investor Briefing Pack

November 2016

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Los Angeles Basin Oil Fields Acquisition

Transaction Highlights



- **Xstate has entered into a Letter of Intent to acquire a working interest in two producing oil fields with materially undervalued reserves located in the prolific Los Angeles Basin.**
- **Transaction Details:**
 - Two Oil Fields: - Sansinena and East Los Angeles;
 - Equity Interest: - 24.5% (Working) / 20.8% (Net Revenue);
 - Acquisition Cost: - US\$13.0MM; and
 - Key Dates: - Financial close, 3/2/2017 with effective date 1/11/2016.
- **The acquisition portfolio includes the following based on an Independent Audit:**
 - Reserves Range (gross): 1P of 25.3 Mmboe; 2P of 40.2 Mmboe; and 3P of 64.5 Mmboe¹;
 - Existing low cost oil production: ~500 gross bopd and growing²;
 - Near term estimated oil production growth: +1,000 gross bopd by financial close³;
 - Medium term estimated oil production growth: +2,000 – 3,000 gross bopd 2018/2019; and
 - Significant and strategic infrastructure assets and associated real estate property.
- **The assets provide Xstate with low risk production growth and access to a large reserves base at a low cost in line with the Company's stated growth strategy.**

Source: ¹ Netherland Sewell & Associates (NSAI) as September 30, 2015. Any Reserves booking by Xstate is subject to the completion of the Purchase Sale Agreement and will be made as part of separate reporting; ² Production as at 31 October 2016; ³ Matrix Oil Corp estimates

Los Angeles Basin Oil Fields Acquisition

Financial Metrics

- Acquisition Cost US\$13.0MM
- **Material certified independent Reserves at Sansinena acquired at an attractive price:**

Net to Xstate	Oil & Gas ¹ (Mmboe)	Acquisition Multiple US\$/boe	NPV10 ² (US\$MM)
Proven	6.2	\$2.10	\$49.6
Proven & Probable	9.9	\$1.32	\$80.9
Proven, Probable & Possible	15.8	\$0.82	\$108.1

- **Per flowing barrel (“bbl”) metric forecast at financial close:**
 - Forecast production net to Xstate US\$56,750 per flowing bbl (1,100 bopd gross³)
- **Subject to due diligence, Xstate considers the price reflects outstanding value for existing reserves and production with high potential upside, particularly associated with the low risk in-fill drilling program.**

Source: ¹ & ² Netherland Sewell & Associates (NSAI) as September 30, 2015. Any Reserves booking by Xstate is subject to the completion of the Purchase Sale Agreement and will be made as part of separate reporting

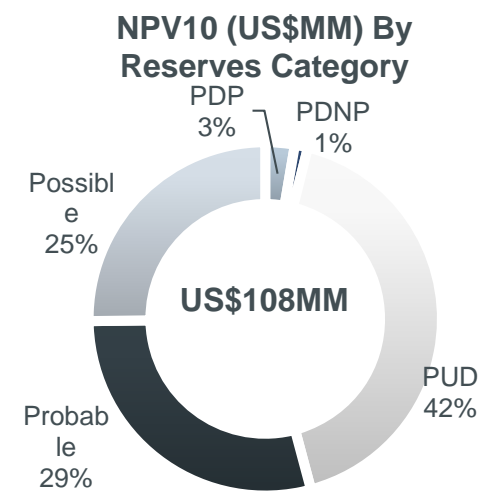
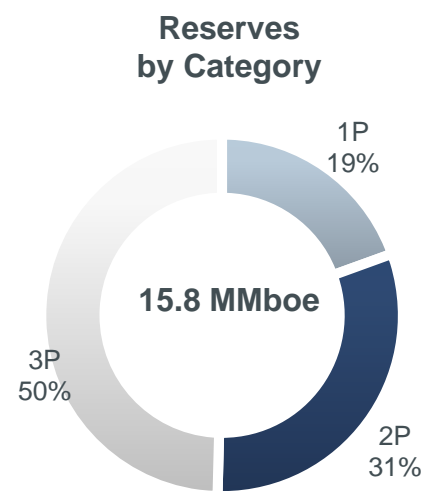
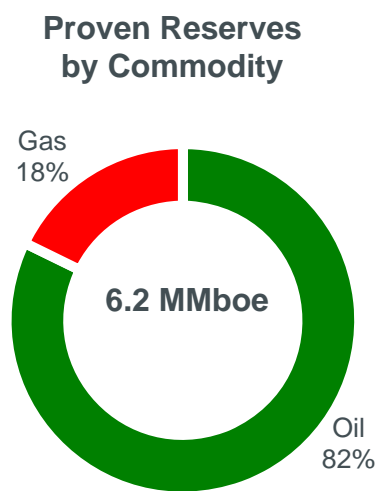
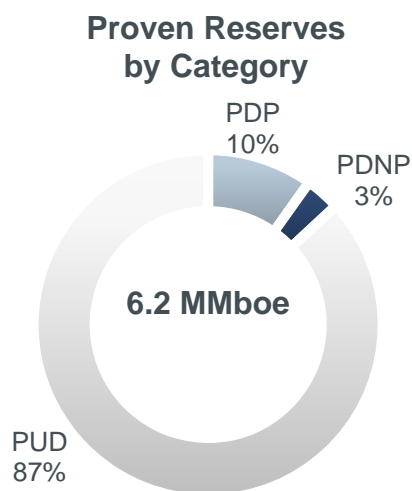
Los Angeles Basin Oil Fields Acquisition

Sansinena Net Reserves to Xstate's 24.5% WI



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Category NSA September 2015	Net Xstate Working Interest ("WI") Reserves			
	Oil (Mbbbl)	Gas (MMcf)	Total (Mboe)	NPV10 (\$MM)
Proven Developed Producing	511	589	609	\$2.9
Proven Developed Non Producing	173	171	202	\$1.3
Proven Undeveloped	4,418	5,853	5,394	\$45.4
Total Proven (1P)	5,103	6,613	6,205	\$49.6
Probable	2,955	4,189	3,653	\$31.3
Total Proven & Probable	8,058	10,802	9,858	\$80.9
Possible	4,835	6,703	5,953	\$27.2
Total Proven, Probable & Possible	12,893	17,505	15,811	\$108.1



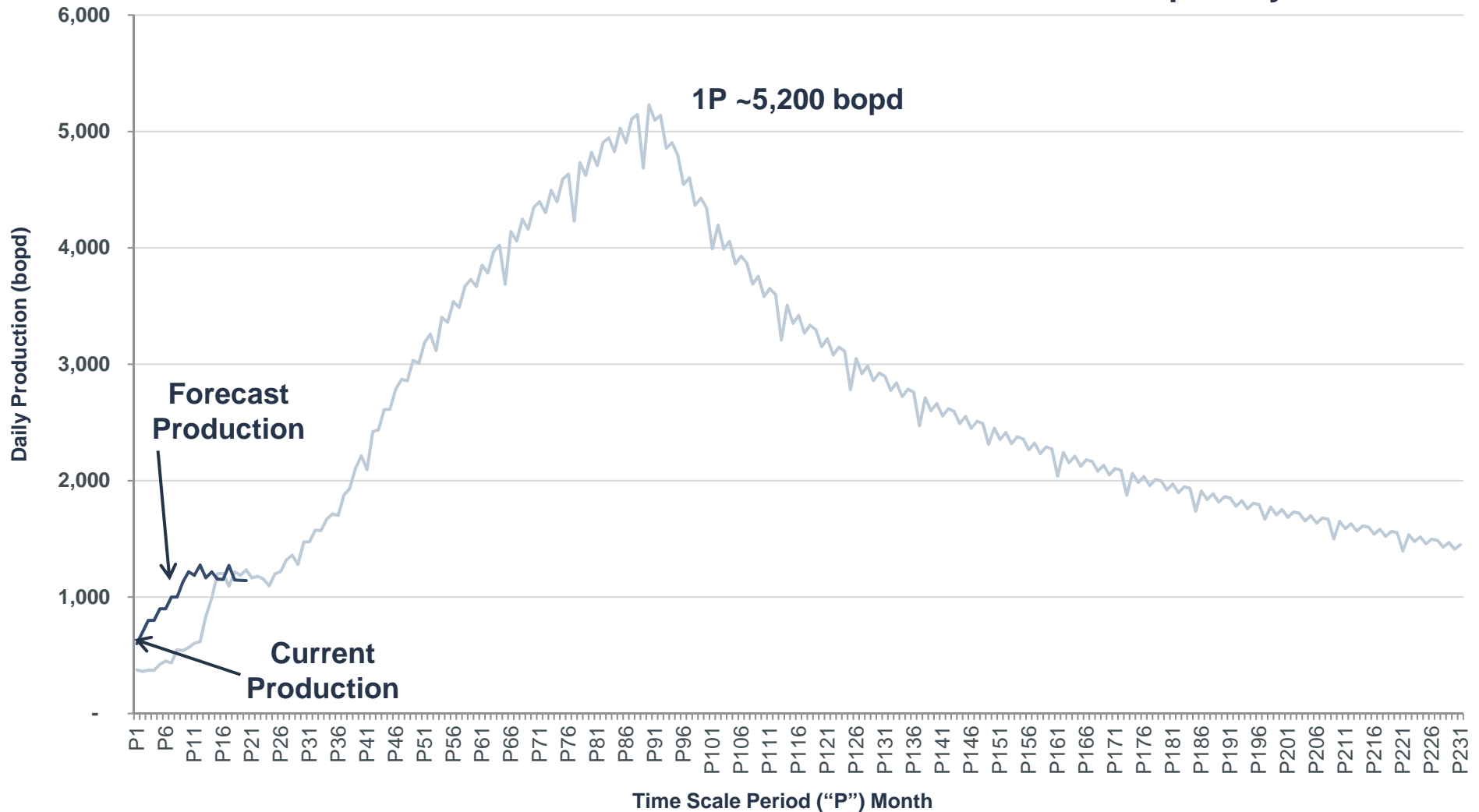
Los Angeles Basin Oil Fields Acquisition

Sansinena Proven Production Outlook (NSA Estimates¹)



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Sansinena Proven Production Outlook – barrels of oil per day



Source: ¹ Netherland Sewell & Associates (NSAI) as September 30, 2015; Note P1 = October 2016

Los Angeles Basin Oil Fields Acquisition Forward Plan for Transaction



- Financial close 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 be booked following completion of financial close.

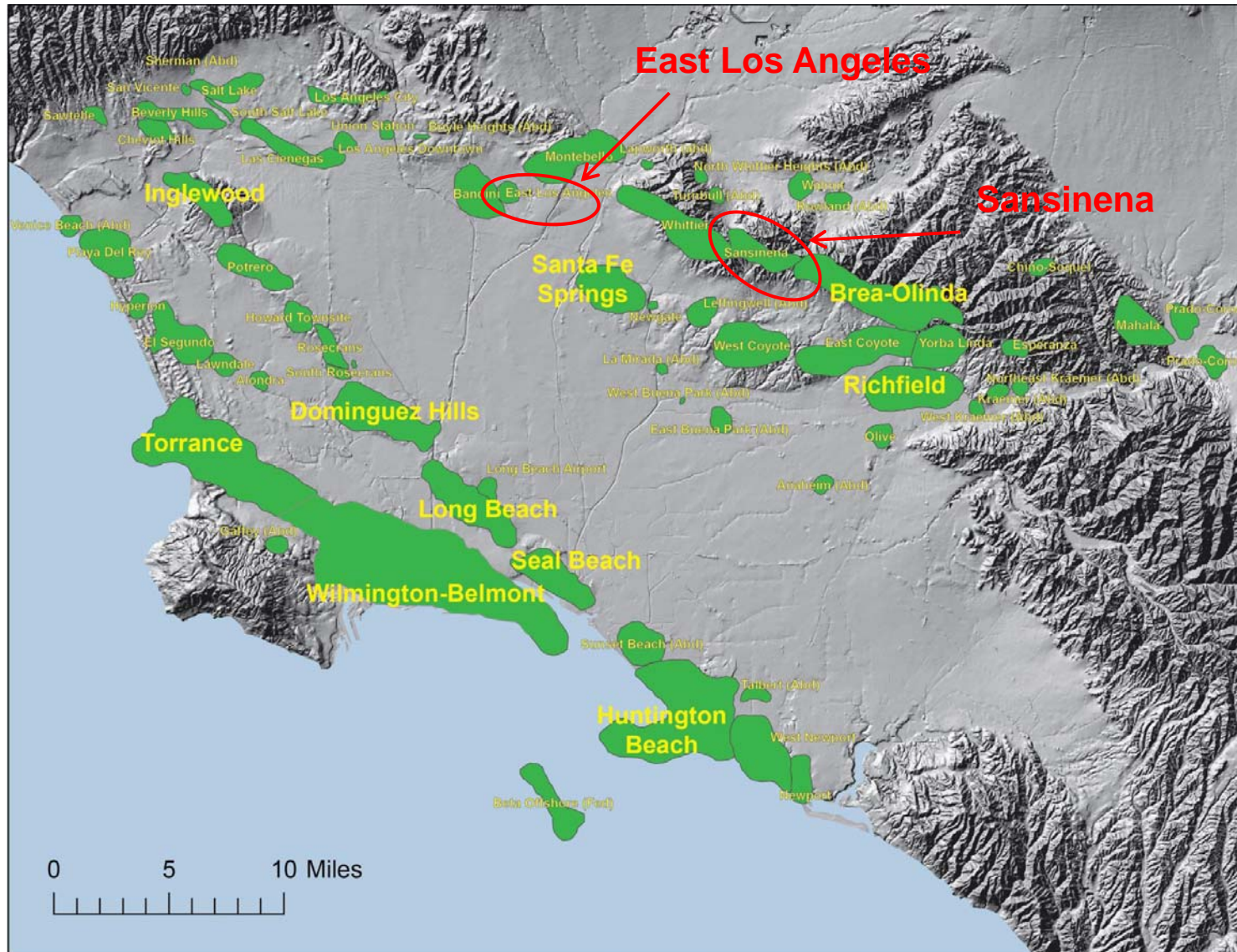
Indicative Timetable

	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	Light Green	Light Green	Light Green	Light Green	Grey	Grey	Grey	Grey	Grey	Grey	Grey	Grey	Grey
Purchase & Sales Agreement	Grey	Grey	Grey	Orange	Grey	Grey	Grey	Grey	Grey	Grey	Grey	Grey	Grey
Deposit Paid	Grey	Grey	Grey	Orange	Grey	Grey	Grey	Grey	Grey	Grey	Grey	Grey	Grey
Due Diligence Phase 2	Grey	Grey	Grey	Grey	Light Green	Light Green	Light Green	Light Green	Light Green	Light Green	Light Green	Grey	Grey
Notice of Meeting Dispatched	Grey	Grey	Grey	Grey	Grey	Grey	Red	Red	Red	Red	Red	Grey	Grey
Shareholder Meeting	Grey	Grey	Grey	Grey	Grey	Grey	Grey	Grey	Grey	Grey	Red	Grey	Grey
Closing	Grey	Grey	Grey	Grey	Grey	Grey	Grey	Grey	Grey	Grey	Grey	Grey	Dark Green

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Appendix

Los Angeles Basin - Field Location Map



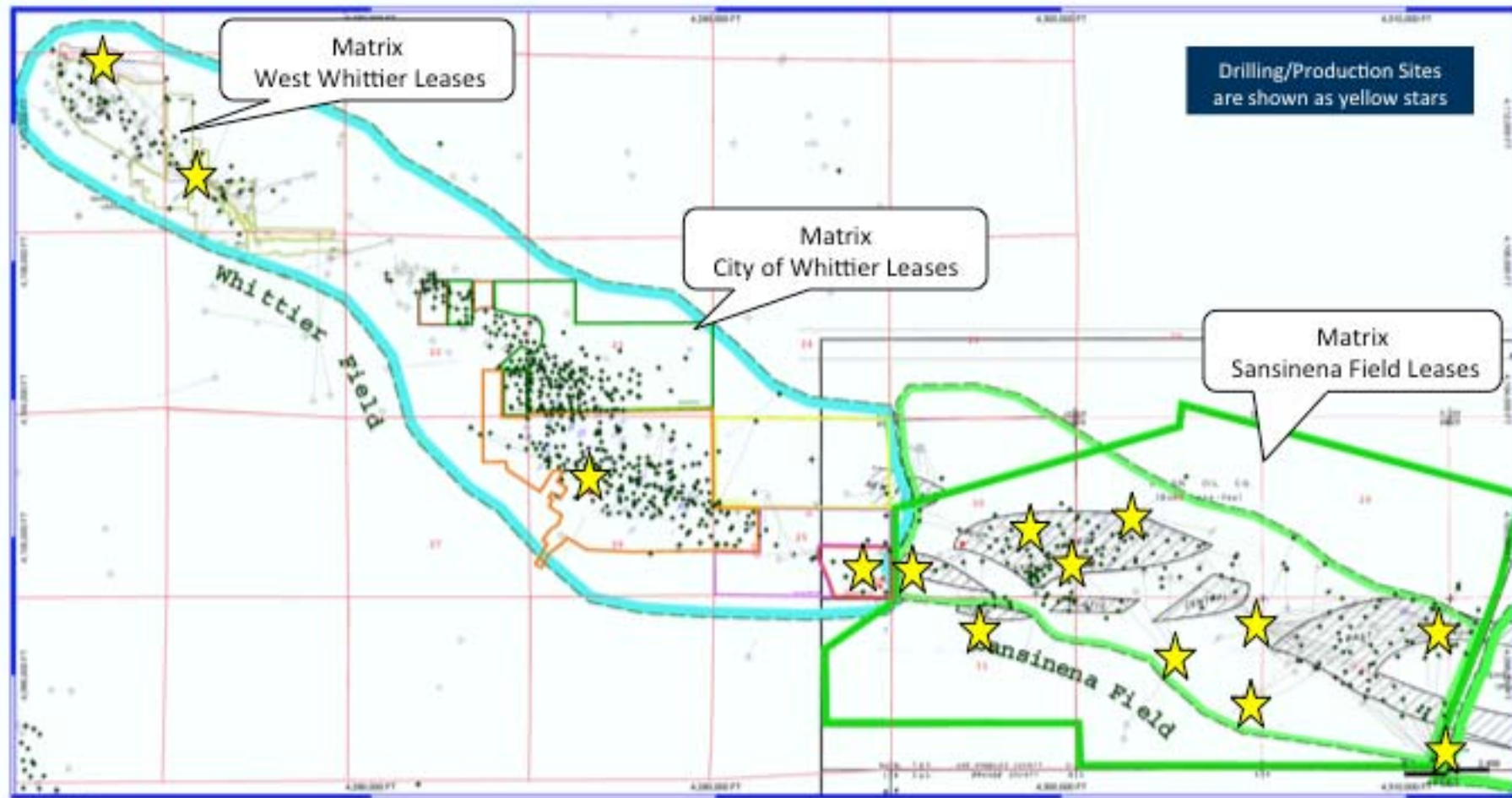
Source: U.S.G.S; April 2012

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Appendix

Sansinena Field Location Map

- The Sansinena oil field is located east of the City of Los Angeles, on trend to the Whittier West, Whittier Main and Brea fields.
- Sansinena is 3 miles long, approx. 3,450 acres HBP and includes 100 freehold acres.



Source: Matrix Oil Corp. Represent Drilling Pad locations.

Appendix Sansinena Field Highlights

- Sansinena is a world-class asset with significant development drilling upside that represents a multi-year drilling opportunity in conventional oil wells.
- Upside in large contiguous position – Sansinena is 3 miles long and ~3,450 gross acres HBP.
- Long-life production profile - estimated +50 years of remaining production.
- Low recovery factor to date – 60 years of shallow vertical drilling has recovered a mere 7.3% (60 mmbo of production) of OOIP (830 MMboe¹); fields in the LA Basin typically recover 20%.
- Significant resource base – potentially +100 MMbbl of recoverable oil². The operator is targeting a minimum 25 MMboe of Proven recoverable oil reserves in its low case.
- Existing pipelines & processing infrastructure to support production growth. Includes ownership and access to 10 strategic drilling pad locations and access to a nearby gas storage facility.
- Surplus real estate – ~100 acres of non-core real estate that could be sold to fund future development.
- Current production ~575 boepd³; 60% oil and 40% water cut; low natural decline of 2.5% to 3.0% per annum.
- Significant oil column with associated gas, 4,000 feet thick in multiple reservoirs (crude quality 15-32 API).
- Experienced operator – Matrix Oil Corp. is an established basin operator with existing operations in the area and a track record of creating value in California.

¹ Californian Division of Oil, Gas, and Geothermal; ² Matrix Oil Corp estimates; ³ Californian Division of Oil, Gas, and Geothermal.

Appendix

Sansinena - Opportunities Beyond Current Production

- 54 active wells producing approx. 575boepd (as of 31/10/2016); 60% oil.
- 44 identified RTP (Return to Production) Wells.
- These RTPs are typically part of a Repair and Maintenance program. In the PDP base and in a normal environment, the prior operator would have been unlikely to leave wells shut in. But given their bank covenants, they faced restrictions on capital expenditure.
- In addition to the RTP wells, Matrix has identified 20 wells with Behind Pipe potential.
- Capital cost for the recompletion is US\$70,000/well (5 projected in 2016) and a number have already been completed exceeding Matrix's expectations.
- Proven Undeveloped (PUD) upside: 70 new in-fill drilling locations identified into proved productive undrained reservoirs to increase production and reserves. This is not exploration.
 - US\$1.1 million drilling and completion costs (was US\$1.7 million)
 - 58 of the PUDs have IP of 175 BO/d and 300 MBO EUR
- Development drilling underway to substantially increase production from current levels to +1,100 bopd by financial close based on existing well enhancements and three new in-fill wells.
- Operating Permits allow wells to be re-drilled at any time.

Appendix

Sansinena Modeled Resources – Matrix estimates

Most likely case, 20% recovery factor

- Total STOOIP, all Miocene reservoirs 846.1MMboe (up to 1100' from wells)
- Total STOOIP between 250' and 1100' from wells = 507MMboe
- @20% recovery factor= 101.4 MMboe incremental recoverable (5 acres spacing)

Worst case, 10% recovery factor

- Total STOOIP, all Miocene reservoirs 846.1MMboe (up to 1100' from wells)
- Total STOOIP between 500' and 1100' from wells = 221MMboe
- @10% recovery factor= 22.1MMboe incremental recoverable (20 acres spacing)

Producing Interval (MMboe)	P50 Model STOOIP	Recoverable Resources (10% Recovery)	Recoverable Resources (20% Recovery)
Miocene C	241.6	24.2	48.3
Upper Miocene D	203.7	20.4	40.7
Lower Miocene D	400.8	40.1	80.2
Total Resources	846.1	84.6	169.2
Prior Production		(60.8)	(60.8)
Remaining Recoverable Resources		23.8	108.4

Appendix

Sansinena Non-Core Assets – Beyond Oil Production

- Over US\$8 million invested in surface infrastructure since 2007.
- Improvements include replacing storage tanks, vessels holding pressure, vapor recovery systems, and natural gas processing equipment, significantly decreasing future maintenance capex requirements.
- Approximately 5 years after acquiring the underground mineral rights, the former operator acquired 83 acres (in addition to 13 previously owned) in the city of La Habra Heights.
- The land was appraised for \$9.1MM in 2010 and the prior operator purchased this surface acreage in 2011 for approximately \$11.5MM¹.
- Surplus real estate, including 6 acres where the current employee field office resides, could be sold to residential real estate developers.

Sansinena Field Office



¹ Matrix Oil Corp

Sansinena Road Access Field Office



Appendix Sansinena Field Photos

Sansinena Drill Pad & Tanks



Sansinena Field Office



Sansinena Drill Pad



Sansinena Tanks



Sansinena Road Access Field Office



Sansinena Drill Pad



Sansinena Tanks



Sansinena Drill Pad



Sansinena Drill Pad



Source: Matrix Oil Corp.

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Appendix

Defined Terms Used in Presentation

“boe” is defined as barrel of oil equivalent, using the ratio of 6 mcf of Natural Gas to 1 bbl of Crude Oil. This is based on energy conversion and does not reflect the current economic difference between the value of 1 MCF of Natural Gas and 1 bbl of Crude Oil.

Capital costs used in this report were provided by Xstate and are based on authorizations for expenditure and actual costs from recent activity.

“EUR” defined as estimated ultimate recovery.

Future net revenue is after deductions for Xstate's share of production taxes, ad valorem taxes, capital costs, and operating expenses but before consideration of any income taxes. “NPV10” is defined as the discounted Net Revenues of the Company's reserves using a 10% discount factor.

“m” is defined as a thousand.

“mm” or “MM” are defined as a million.

“mboe” is defined as a thousand barrels of oil equivalent.

“mmboe” is defined as a million barrels of oil equivalent.

Operating costs used in this report are based on operating expense records provided by Matrix.

Reserves are estimated in US dollars.

“1P Reserves” or “Proved Reserves” are defined as Reserves which have a 90% probability that the quantities actually recovered will equal or exceed the estimate.

“PUDs” or “Proved Undeveloped Reserves” and “PDP” and “Proved Developed Producing” are defined as Proved developed and Undeveloped Reserves which have a 90% probability that the quantities actually recovered will equal or exceed the estimate (respectively).

“Probable Reserves” are defined as Reserves that should have at least a 50% probability that the actual quantities recovered will equal or exceed the estimate.

“2P Reserves” are defined as Proved Reserves plus Probable Reserves.

“Possible Reserves” are defined as Reserves that should have at least a 10% probability that the actual quantities recovered will equal or exceed the estimate.

“3P Reserves” are defined as Proved Reserves plus Probable Reserves plus Possible Reserves.

“WI” is defined as Working Interest

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