



ABN 96 009 217 154

9<sup>th</sup> October 2017

**ASX Limited**

**Electronic lodgement**

---

## **Xstate Company Update**

---

### **Summary**

- **Dempsey 1-15 (XST 10% WI) exploration drilling activities have been completed and production testing with a completion rig is expected to commence towards the end of October 2017**
- **The well encountered several gas saturated sands consistent with significant gas shows**
- **Ongoing success at Dempsey 1-15 will enhance the potential of follow up leads and prospects along the Dempsey trend in which Xstate has significantly greater working interest (24%)**
- **Planning is underway to determine how best to evaluate the 1,500 metres of gas shows encountered in the Alvares -1 well**

### **Comments**

Xstate Resources Limited (**ASX: XST**) ("**Xstate**" or "**the Company**") is pleased to provide the following Company update.

The Dempsey 1-15 appraisal and exploration well has been cased for future production testing, which is anticipated to take place towards the end of October 2017. The well reached a total depth of 9,740 feet (2,970 metres) and a 5 1/2" liner has been run and cemented to protect all potential reservoirs beneath the existing 9 5/8" casing.

Multiple sandstone reservoirs were targeted including the shallow objective which have been cased and cemented for future production.

Wireline logging runs have been completed and confirmed numerous gas zones of interest. The forward plan is to production test these zones sequentially from lowest up for operational reasons (not in priority of interpreted significance) and will cease once sufficient commercial flow is established for production. Due to the absence of regional historical production performance from these reservoirs or the existence analogue producing analogues, the joint venture is unable to provide any further guidance on well performance until production testing operations are completed.

The perforation and flow test of the first reservoir is programmed to take place towards the end of October 2017. In order to enable the measurement and sale of the JV owned meter station which is adjacent to the Dempsey location is being readied for gas flows from the Dempsey well.

### **Dempsey 1-15 Appraisal and Exploration Well Working Interests**

<b>Xstate Resources Limited (ASX: XST)</b>	<b>10%</b>
Sacgasco Limited (ASX: SGC) (Operator)	50%
Pancontinental Oil and Gas NL (ASX: PCL)	10%
Empyrean Energy PLC (LON: EME)	30%

Xstate is encouraged with the Dempsey 1-15 results and now looks forward to production testing which is planned to determine productivity of the zones of interest intersected in the well.

The Dempsey discovery is part of a portfolio of acreage, and prospects which the joint venture has secured in the Sacramento Basin. The Operator (Sacgasco Limited; ASX: SGC) has now completed seismic and geological mapping of three Dempsey lookalike prospects with hundreds Bcf-scale potential. Xstate is very well positioned in the gas play which has been established by the Dempsey well because it has a significantly greater working interest (24%) in the wider Dempsey Area of Mutual Interest.

Ongoing success at Dempsey will therefore enhance the potential for Xstate in follow up leads and prospects along the Dempsey trend.

#### **Dempsey Area of Mutual Interest Working Interests**

<b>Xstate Resources Limited (ASX: XST)</b>	<b>24%</b>
Sacgasco Limited (ASX: SGC) (Operator)	36%
Pancontinental Oil and Gas NL (ASX: PCL)	10%
Empyrean Energy PLC (LON: EME)	30%

Once flow-testing of the Dempsey 1-15 well has been completed the JV will turn its attention to evaluating the 1,500m of gas shows encountered in the Alvares -1 well gas discovery.

Xstate holds a 21% working interest in the Alvares Gas project which the operator estimates to contain a total (100%) recoverable unrisks prospective gas resource on a best estimate deterministic basis of approximately 2.4 Tcf<sup>1</sup>. (400 million barrels of equivalent oil “mmboe”).

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.

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.

Alvares lies on trend with the Tulainyo well drilled in 2015 which is located south of Alvares. The operator of the Tulainyo well reported “drilling in 2015 to test a 50 square mile (130 square kilometre) four way closure that was mapped on proprietary 2D seismic data”. It was reported that “this conventional exploration well encountered multiple stacked gas bearing reservoirs” at depths of less than 1,800 metres.

It has recently been reported by Pancontinental Oil and Gas NL (ASX: PCL) that the Tulainyo 2-7 appraisal well is being spudded at the end of October 2017<sup>2</sup>. The Tulainyo 2-7 well will appraise a potentially giant-scale, overpressured gas discovery in similar age rocks to those about to be tested in the Dempsey-1 well and the previous Tulainyo well.

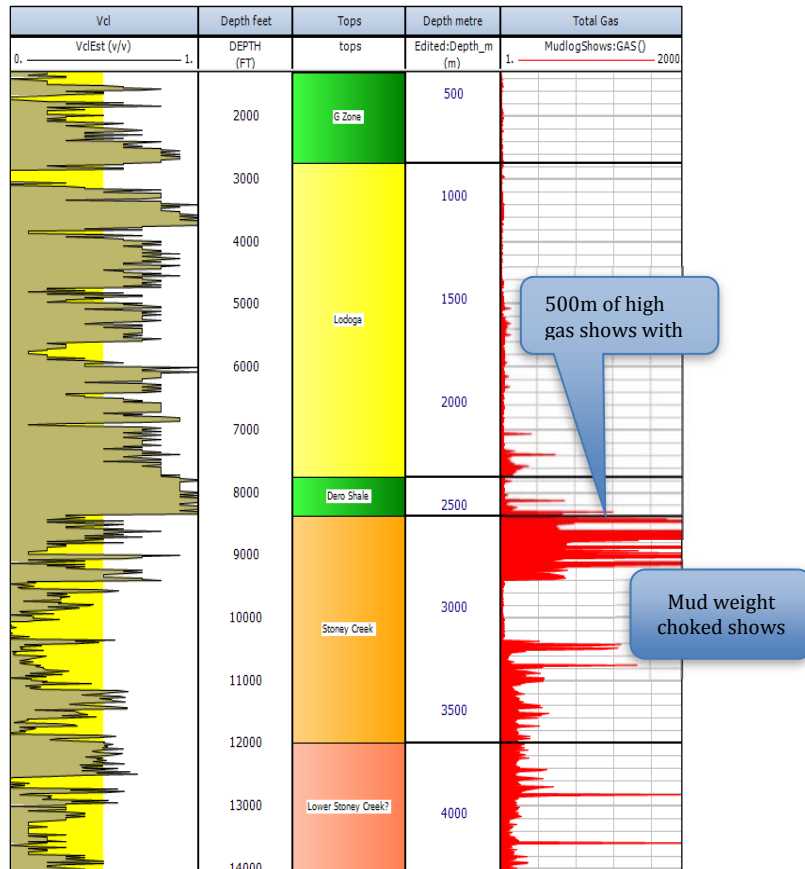
Xstate is also highly encouraged by the appraisal drilling of the Tulainyo gas discovery which has direct implications for Alvares. As announced by the Operator of the Alvares Gas appraisal project a potential re-entry of the Alvares-1 well and/or a new re drill well to production flow test the Alvares-1 gas discovery<sup>3</sup> is planned. Xstate has retained a 21% working interest in the Alvares Gas Appraisal project.

The well bore of Alvares 1 will be assessed for its suitability for re entry and the drilling a side-track as a cost effective way of evaluating the potential of extensive high pressure 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.

**Alvares Appraisal Working Interests**

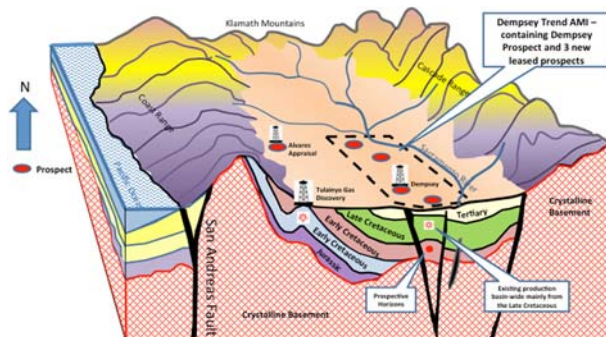
<b>Xstate Resources Limited (ASX: XST)</b>	<b>21%</b>
Sacgasco Limited (ASX: SGC) (Operator)	39%
Pancontinental Oil and Gas NL (ASX: PCL)	15%
Emprean Energy PLC (LON: EME)	25%

**Figure 1: Composite well log from Alvares – 1 showing the lithology (yellow is sandstone, brown is shale) and the strong gas shows**

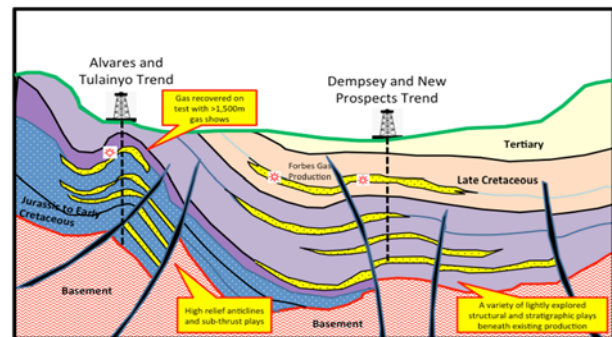


Source: Sacgasco Limited

**Figure 2: Sacramento Valley Schematic Prospects and Geology of Sacramento Basin**



**Figure 3: Sacramento Basin Gas Plays A tale of Two Trends**



## Legal Proceedings

In relation to Xstate's legal claim for damages against the four defendants, Tanzil Hidayat, Chloe Kowk Yun Qing, Hong Hung Thiam and Kevin Lim Gunawan the Company is continuing its efforts to reach a satisfactory and swift resolution of its claim for damages including damages for loss of opportunity relating to the investors' breach of contract and the consequential losses suffered by the Company.

Despite the defendants having consented to the revised timetable of events and Court orders being made to that effect, the defendants have failed to lodge any affidavits and have requested an additional four weeks. Xstate has categorically declined the defendants request for the additional four weeks.

The Company is concerned that the defendants have continuously sought to find excuses to delay the progression of the Proceedings. This is despite repeated representations by the defendants that the subscription monies would be paid. Furthermore, at no time have the defendants indicated the substance or the nature of any purported defence to Xstate's summary judgment application.

Xstate will keep the market fully informed of any further changes.

## Forward Activities Outlook

Activity/Event	October 2017	November 2017	December 2017
<b>Dempsey 1-15 Well</b>			
Initial Production Test			
Extended Production Operations			
<b>Litigation Update (subject to change)</b>			
Xstate response to Defendants Claim			
Written Submissions Both Parties			
Special Appointment			
<b>Other</b>			
3Q Activities & Cash Flow Report			

---

**Cautionary Statement**

<sup>1</sup> Further details were included in the Operator's, Sacgasco Limited (ASX:SGC) ASX release dated 4 September 2014.

**Prospective resources**

The estimated quantities of petroleum that may potentially be recovered by the application of a future development project(s) relate to undiscovered accumulations. These estimates have both an associated risk of discovery and a risk of development. Further exploration appraisal and evaluation is required to determine the existence of a significant quantity of potentially movable hydrocarbons.

**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 a 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.

**Notes**

<sup>1</sup> Sacgasco Limited (ASX: SGC) Company's ASX announcement dated 4 September 2014

<sup>2</sup> Pancontinental Oil and Gas NL (ASX: PCL) Company's ASX announcement 20 September 2017

<sup>3</sup> Sacgasco Limited (ASX: SGC) Company's ASX announcement dated 7 June 2017

**Glossary of Terms**

Tcf: trillion cubic feet

Bcf: billion cubic feet

mmbbl: million barrels

mmboe: million barrels oil equivalent

JV: joint venture

WI: working interest

AMI: Area of Mutual Interest

**For and on behalf of the Board of Xstate Resources Limited****For further details please contact:****Cosimo Damiano**

Managing Director

Xstate Resources Limited

Tel Office: +61 8 9435 3200

Email: [cosimodamiano@xstate.com.au](mailto:cosimodamiano@xstate.com.au)

**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.