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ASX Limited

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Sacramento Basin Update – Drilling to Commence late July 2017

- **Dempsey 1-15 appraisal and exploration well (XST 10%) to be drilled late July 2017.**
- **The well is targeting seven (7) gas reservoirs mapped using 3D seismic, targeting cumulative unrisks recoverable Best Case Prospective Resources of 1 Tcf¹ gross (based on Operator's estimates).**
- **Several prospects and leads have been mapped on-trend to Dempsey 1-15, which would be significantly revalued by any drilling success. Xstate holds working interests in these prospects ranging from 24% to 30%.**
- **Dempsey 1-15 is strategically located to nearby joint venture owned infrastructure which would provide the potential to deliver near term cash flow.**

Xstate Resources Limited (**ASX: XST**) ("**Xstate**" or "**the Company**") is pleased to provide the following update in relation to the drilling of the Dempsey 1-15 appraisal and exploration well located onshore California in the northern Sacramento Basin.

Xstate's holds a 10% working interest in the Dempsey 1-15 prospect and between 24% to 30% working interest in follow up leads and prospects on trend to Dempsey 1-15. The well has an estimated cost to drill and complete for production of US\$4.4mil gross (net US\$0.44mil to Xstate's 10% WI).

The joint venture plans to drill the Demspey 1-15 well late July 2017 and has received all drilling permits by relevant authorities (County and State). Initial drilling site preparation work has commenced.

The well will be drilled to 3,200 metres (~10,500 feet) and is targeting seven (7) gas reservoirs mapped with 3D seismic. The targets range from the shallow producing Forbes Sandstone reservoir and extend down to total depth through a series of older Cretaceous sandstone reservoirs. These reservoir rocks exhibit structurally consistent amplitude anomalies analagous to those that are observed on seismic elsewhere in the basin.

According to the operator, individual unrisks Deterministic Best Case Recoverable Prospective Resources for these primary targets range from 116 - 352 Bcf of gas for a 100% interest. Should all the stacked reservoirs be full of gas, the cumulative unrisks Best Case Recoverable Prospective Resources within the prospect could exceed 1 Tcf¹ gross (net 100 Bcf to Xstate's 10% WI).

Xstate's Board looks forward to the drilling of the Dempsey 1-15 well, which is a key milestone for the Company. The Dempsey well represents a highly attractive opportunity with near term cash flow potential and significant reserve additions. Furthermore, any success will enhance the potential of follow up leads and prospects along the Dempsey trend in which Xstate has significantly greater working interest levels (more than 20%).

Dempsey 1-15 Appraisal and Exploration Information

The Dempsey Prospect is located in the central, Northern Sacramento Gas Basin in an area of producing gas fields connected to the California gas network. Dempsey is the first of several projects planned to appraise existing gas discoveries that Xstate holds various working interest ranging from 24% to 30%.

The Dempsey structure is part of a regional high trend that is located in a favourable position for hydrocarbon charge from mature source rocks in a kitchen area to the west.

The Dempsey structure is mapped on good quality 3D seismic data, regional 2D seismic and tied to well control. Seismic interpretation shows a robust, 3-way dip, fault bounded closure up to 15km² (3,700 acres) in area, with conventional sandstone reservoir targets mapped at seven stacked levels. A number of the reservoir targets show amplitude anomalies that may represent the presence of gas. Individual closures vary from 80 to 3,700 acres.

Estimates of reservoir quality and thickness are based on in-field well control from two shallower, potential gas field extension levels. In addition, data from 16 regional wells has been used to estimate the prospective resource in the deeper, older Cretaceous aged reservoirs.

The principal technical risk for the larger, deeper reservoir targets is considered to be reservoir quality. The joint venture believes that the chance of encountering gas at the shallow levels is high with some risk that the reservoirs have been depleted. At the deeper target levels the joint venture assesses the chance of discovering gas at ~40%, which is considered high by industry standards for exploration targets.

Due to the strong local gas market and ready access to producing infrastructure, if gas resources in the range estimated are discovered then a commercial development at Dempsey is highly likely.

An existing gas plant owned by the Dempsey Joint Venture, through which Sacgasco Limited (ASX:SGC) (the Dempsey project operator) is producing and selling gas, could be used to fast-track the development of any gas reserves proved by Dempsey 1-15.

The operator has advised that a drilling contract has been signed with Paul Graham Drilling of Rio Vista, Graham Rig No. 9 (fig: 5) will be used for the drilling of the Dempsey 1-15 well. The operator advises that Rig 9 is a high capability rig with a depth rating of up to 16,500 feet. The drilling equipment will be combined with a 10,000 psi well head and stack to allow for a wide range of outcomes from the under-explored primary sandstone targets in Dempsey.

Subject to completion of farmins by Bombora Natural Energy Pty Ltd and AIM listed Empyrean Energy PLC, respective working interests in the Dempsey 1-15 well will be:

Company Name	Working Interests	Well Cost Exposure
Sacgasco Limited (ASX:SGC) (operator)	50%	12%
Xstate Resources Limited (ASX:XST)	10%	10%
Bombora Natural Energy Pty Ltd*	10%	20%
Empyrean Energy PLC (LON:EME)	30%	58%

* Note Bombora Natural Energy Pty Ltd is undergoing a merger with Pancontinental Oil and Gas NL (ASX:PCL).

An investor briefing pack containing further details of Xstate's Sacramento Basin gas assets forms part of this announcement.

Fig 1: Location of Sacramento Basin Projects

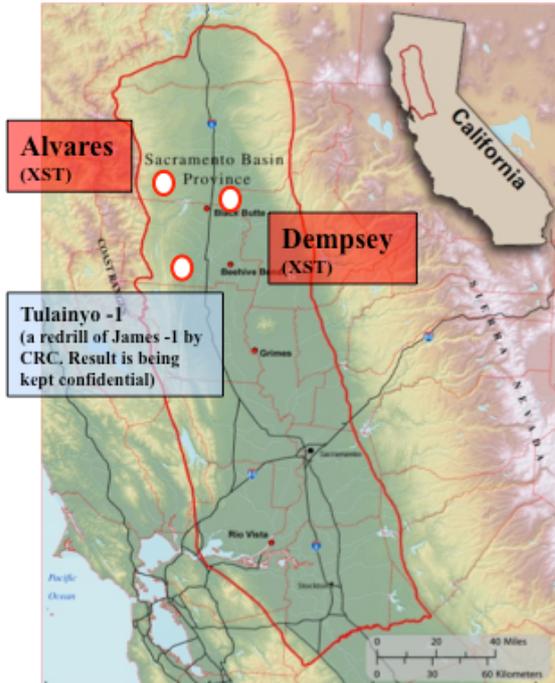


Fig 2: Mapped from 3D Seismic

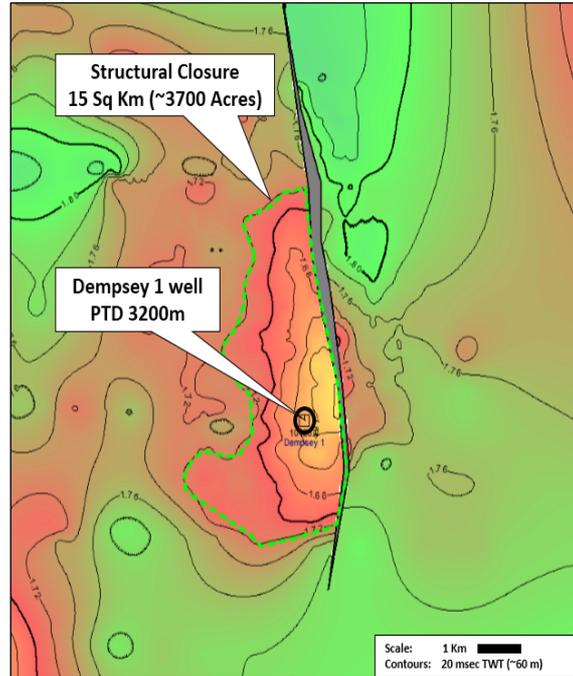
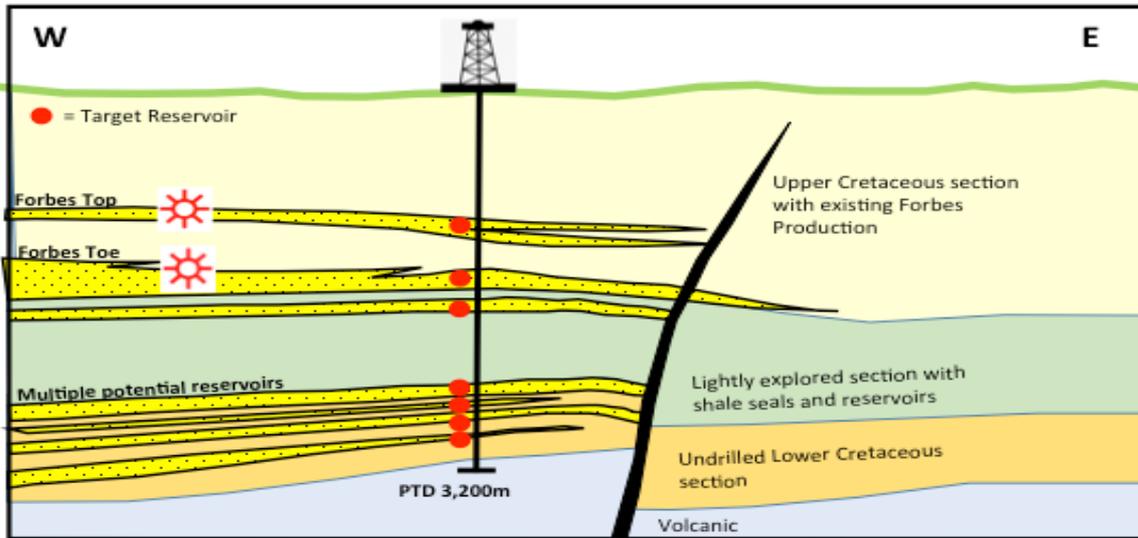


Fig 3: Cross Section of the Dempsey 1-15 Prospect



Source: Sagsasco Limited and Xstate Resources Limited

Fig 4: Dempsey 1-15 Drill site



Source: Sagsasco Limited

Fig 5: Paul Graham Rig 9



Source: Sagsasco Limited

Cautionary Statement

¹ Further details were included in the operator's, Sargasco Limited (ASX:SGC) Company's 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.

Glossary

Tcf: trillion cubic feet

Bcf: billion cubic feet

mmbbl: million barrels

mmboe: million barrels oil equivalent

JV: joint venture

WI: working interest

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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.