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Announcement to ASX

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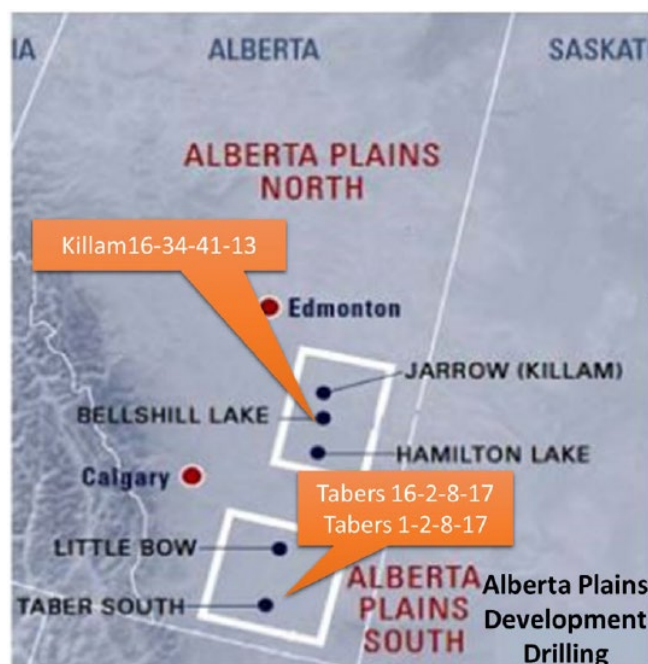
2nd CANADIAN OIL DEVELOPMENT WELL IN RESERVOIR

- **Second of 3 Oil Development Wells Spudded 7 April**
- Setting Intermediate Casing in top of Sand Reservoir
- Oil and gas shows and free oil reported in mud system
- Next step is to drill near horizontal lateral through sandstone reservoir
- **Drilling program funded by Canadian cash flow**
- **Targeting 10% increase in oil production from 3 well program**

Xstate Resources Limited (**ASX: XST**) ("**Xstate**", "**XST**" or "**the Company**") is pleased to provide its shareholders and the market with an update on the planned oil development wells.

The second well, Tabers 01-03-08-17 spud on 7 April and has been drilled to the intermediate casing point 1.5 metres into the reservoir sand. The sand exhibited porosity of 12-18%, strong oil and gas shows, with free oil in drilling mud system samples. After setting the intermediate casing a near horizontal lateral will be drilled through the reservoir sands.

The drilling program will be funded from the net cashflow resulting from production in Canada.



The planned development wells are:

- | | |
|-------------------------------|--|
| 1. Tabers 16-2-8-17: | Drilled to Produce Proved Undeveloped Reserves |
| 2. Tabers 1-2-8-17: | Drilling ahead – target Probable Undeveloped Reserves |
| 3. Killam 16-34-41-13: | Targeting Probable Undeveloped Reserves |

The wells are considered independent of each other.

The cost of the 3 well development program is estimated at A\$2.7 million (gross), which will be circa A\$945,000 net to Xstate. The operator anticipates a gross increase in production of 200 BOPD, which is 70 BOPD net to Xstate. Given the current benchmark oil price of around US\$100/bbl, these wells are projected to pay back the capital expenditure in less than 12 months.

The Alberta Plains Working Interests are:

Xstate Group (ASX:XST)	35%
Sacgasco Group (ASX:SGC)	20%
Blue Sky Resources	45%

Xstate Executive Chairman Mr Andrew Childs commented:

“These three wells represent an opportunity to increase production and revenues for Xstate during the current period of high oil prices.

We are pleased to see the second development well drilled trouble free to the intermediate casing point. Blue Sky Resources is again proving itself as a quality drilling operator and we look forward to these wells being brought online.

The production from these wells is anticipated to supplement the 30% improvements in production rates achieved already this year from our Canadian oil and gas fields as reported in the latest Xstate Annual Report last week.

We believe further production increases are possible as our Blue Sky seeks and implements field work programs”

This release was approved by the Board of the Company

Andrew Childs

Executive Chairman

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 associated gas production interests together with production interests in Alberta, Canada. Xstate is presently pursuing new opportunities in the oil and gas sector globally.