

Announcement to ASX

17 February 2021

Borba Prospective Resource and Operations Update

- Maiden Independent Prospective Resource Assessment completed
- Multiple stacked conventional sandstone objectives able to be tested with a single well with a Geological Chance of Success of 70%
- Mean unrisks recoverable gas Prospective Resource for Borba of 141 BCF (100%)
- Low risk play-opening well to explore “Tcf-potential” geological trend
- Sustained A\$5/Mcf gas pricing on the US West Coast
- Borba 1-7 well to spud this week

Xstate Resources (ASX:XST) (“Xstate” or “the Company”) is pleased to announce the results of an Independent Prospective Resources Report of the Borba Prospect, located in Glenn County, Sacramento Basin, California. The report, completed by ERC Equipoise Pte Ltd (ERCE), has assessed a Mean Unrisks Prospective Resource of 141 Bcf (Gross 100% JV) and 38 Bcf (Net XST Entitlement Share) of recoverable Natural Gas for the Borba Prospect. The chance of intersecting at least one gas zone has been estimated at 70%.

The rig move to the Borba location is well underway, and the Borba 1-7 well is expected to spud this week.

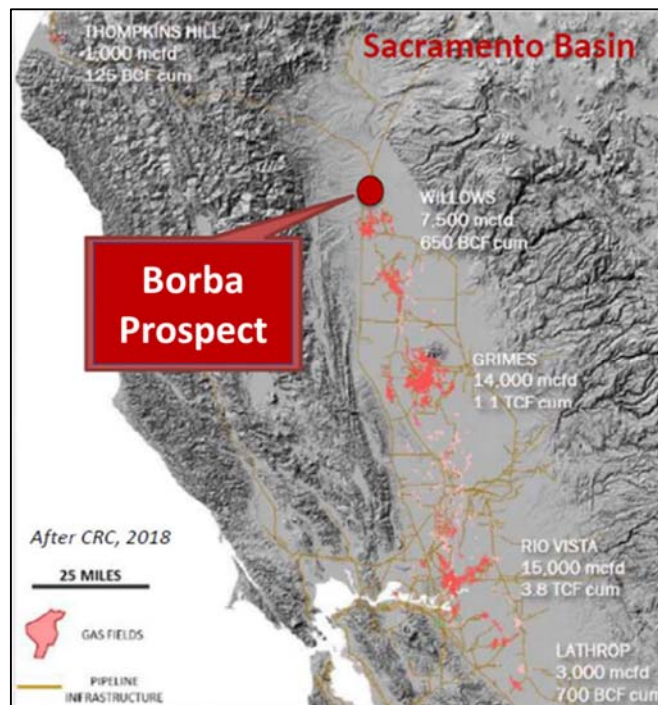


Figure 1. Location of Borba Prospect

The Joint Venture Working Interests (**WI**) over the Borba Prospect AMI after drilling Borba 1-7 well will be:

Sacgasco Limited (Operator) (ASX: SGC)	66.67%
Xstate Resources Limited (ASX: XST)	33.33%

ERCE Independent Prospective Resource

ERCE summarise Prospective Resource of the multiple objectives at Borba as follows:

Reservoir Interval	Unrisked Gas Prospective Resources (Gross -100% And Net after royalty to XST -26%)				Chance of Success COS
	1U	2U	3U		
	Low	Best	High	Mean	
	(Bscf)	(Bscf)	(Bscf)	(Bscf)	
Trough 2 to 3 -Gross 100%	2.0	6.3	17.7	8.6	17%
Trough 2 to 3 -Net to XST	0.5	4.7	4.7	2.3	17%
Trough 3 to 4 -Gross 100%	2.9	10.1	31.6	14.8	17%
Trough 3 to 4- Net to XST	0.8	2.7	8.3	3.9	17%
Trough 4 to 5 -Gross 100%	2.0	7.8	28.5	12.9	17%
Trough 4 to 5- Net to XST	0.5	2.1	7.5	3.4	17%
Trough 5-6 to 7 (TR16) -Gross 100%	0.9	3.9	14.9	6.7	17%
Trough 5-6 to 7 (TR16) - Net to XST	0.2	1	3.9	1.8	17%
Trough 7 to 8-Gross 100%	0.6	3.8	23.8	10.4	17%
Trough 7 to 8- Net to XST	.2	1.0	6.3	2.7	17%
Trough 9 to 10-Gross 100%	1.7	8.1	36.3	15.9	17%
Trough 9 to 10- Net to XST	0.5	2.1	9.6	4.2	17%
Trough 10 to 11-Gross 100%	3.7	12.5	38	17.9	17%
Trough 10 to 11- Net to XST	1.0	3.3	10.0	4.7	17%
Trough 11 to 12-Gross 100%	2	6.9	22.2	10.3	17%
Trough 11 to 12- Net to XST	0.5	1.8	5.9	2.7	17%
Trough 12 to 13-Gross 100%	3.3	9.9	26.5	13.1	17%
Trough 12 to 13- Net to XST	0.9	2.6	7.0	3.5	17%
Trough 13 to 14-Gross 100%	3.2	9.3	23.7	12	17%
Trough 13 to 14- Net to XST	.8	2.5	6.2	3.2	17%
Trough 15 to 16 (TR2) -Gross 100%	2	9.6	43.2	18.9	29%
Trough 15 to 16 (TR2) - Net to XST -	0.5	2.5	11.4	5.0	29%
Deterministic Sum - (Gross 100%)				141.4	
Deterministic Sum – (Net to XST)				37.3	

Table 1. Unrisked Gross and Net to XST Prospective Resources

The oil and gas leases in the Borba AMI are standard Mineral Right leases with a total royalty of 21%. The net entitlement to Xstate (after royalties deducted) is 37 Bscf for the mean Unrisked Prospective Resource.

The Low-Best-High range of outcomes for each layer assessed is contained in Table 1.

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

Notes to the Unrisked Prospective Resources Table:

- 1) Prospective Resources are quoted as XST Net Entitlement (26.66%) as contained within the Borba AMI. Gross Deterministic Sum for the Borba AMI is 141.4 Bscf.
- 2) Net Entitlement is net of all royalties including ORRIs.
- 3) Unrisked mean totals are not representative of the expected total from the prospect and assumes a success case in all 11 reservoirs.
- 4) The Prospective Resources have not been adjusted for the chance of development. Quantifying the chance of development (COD) requires consideration of both economic contingencies and other contingencies, such as legal, regulatory, market access, political, social license, internal and external approvals and commitment to project finance and development timing. As many of these factors are out-with the knowledge of ERCE they must be used with caution.

Assessment of the Chance of Development was beyond the scope of the ERCE report and the capability of ERCE based on the information provided to them. **As Operator, Sacgasco assesses the Chance of Development to be 80%.**

The Borba 1-7 well has been planned test the presence of hydrocarbons in all 11 layers. Using the risking matrix in the Tables above, ERCE has aggregated, to a Prospect level, volumetrics based on the risks and volumetric distributions of each reservoir layer. To calculate this Chance of Success (COS), ERCE has made assumptions regarding the dependency of risk elements between each reservoir layer. The resulting volumetric distributions and risks were created by “Rolling Up” the risks, and assuming success in at least one drilled interval. The result determined Success Case prospect COS of 70%.

Probabilistic Rollup	Success Case				Prospect COS
	Gross and Net-to-XST Prospective Gas Resources (Bscf)				
	1U (Low)	2U (Best)	3U (High)	Mean	
Borba (Gross 100%)	5.3	27.4	78.5	37	70%
Borba (Net to XST after Royalty)	1.5	7.6	21.8	10.3	70%

Table 2. Gross and Net to XST Success Case Prospective COS and Resources (ERCE)

Notes to the Success Case Prospective Resources Table:

- 1) Success Case Prospective Resources are quoted as XST Net Entitlement (26.66%) as contained within the Borba AMI. Gross Mean for the Borba AMI is 37 Bscf.
- 2) Net Entitlement is net of all royalties including ORRIs
- 3) The Prospective Resources presented here are the result of a risked probabilistic aggregation of the individual stacked prospective layers in the Borba prospect; the success case estimates present the distribution of possible outcomes in the event that at least one prospective layer is successful.
- 4) Prospect COS represents the geological chance of success of at least one of the stacked layers which comprise the Borba prospect. To calculate this COS, ERCE has made assumptions regarding the dependency of risk elements between layers.

ERCE has assumed full dependency between the trap element of risk and no dependency on the other risk elements (Trough 15 to 16 has been excluded from dependency as trap style is distinct)

- 5) The Success Case Prospective Resources have not been adjusted for the chance of development. Quantifying the chance of development (COD) requires consideration of both economic contingencies and other contingencies, such as legal, regulatory, market access, political, social license, internal and external approvals and commitment to project finance and development timing. As many of these factors are out-with the knowledge of ERCE they must be used with caution.

All prospective reservoirs in the Borba area of the northern Sacramento Basin produce high quality dry gas, so the hydrocarbon phase is expected to be natural gas.

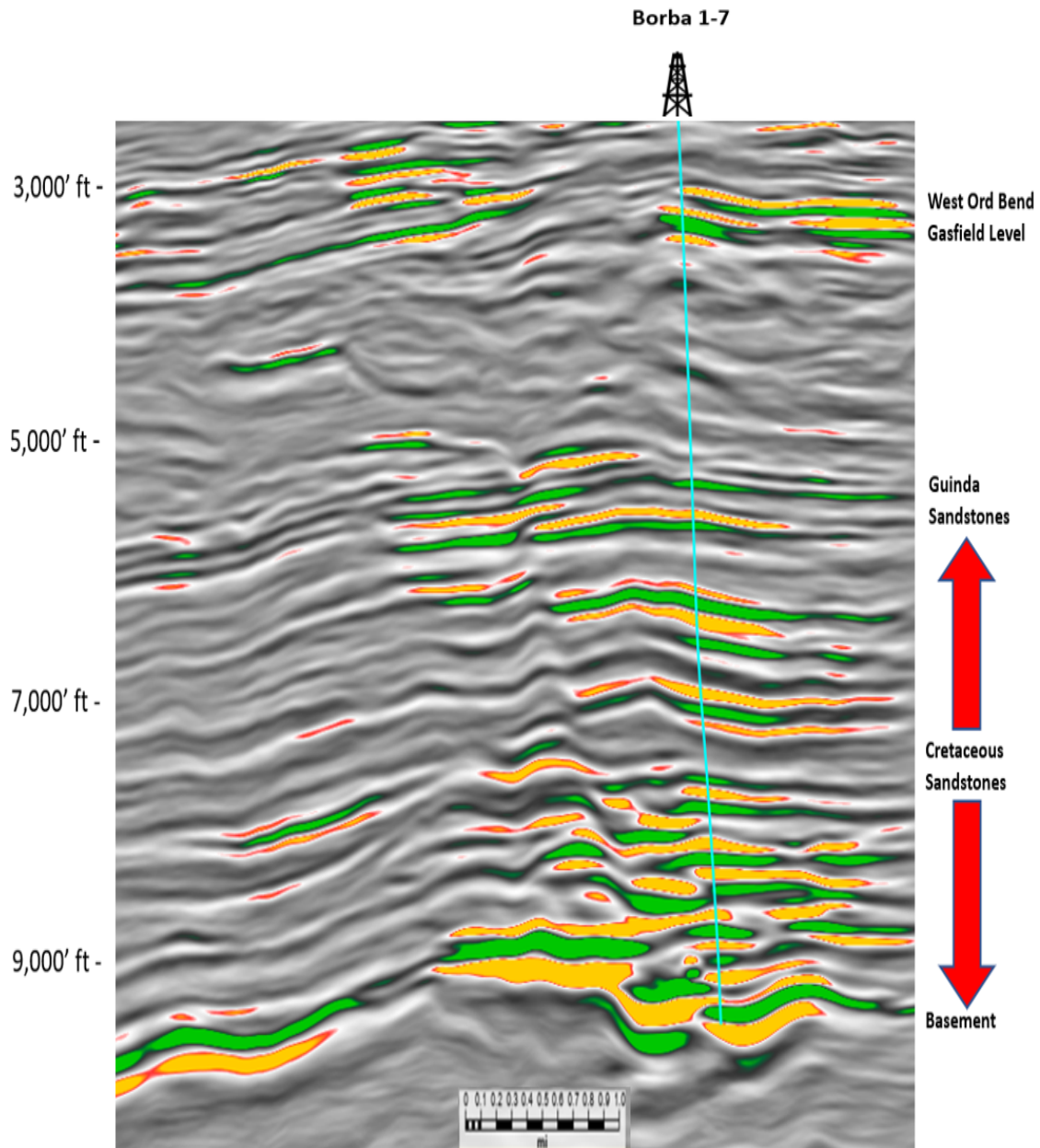


Figure 2. 3D Seismic line through Borba 1-7 well path

Natural Gas Prices in California

The drilling of Borba 1-7 coincides with a recent improvement of natural gas prices on the West Coast of the USA. Natural gas prices in Northern California have averaged A\$5/MMBtu in recent months. There are approximately 1,000,000 MMBtu in 1 BCF of recoverable gas.

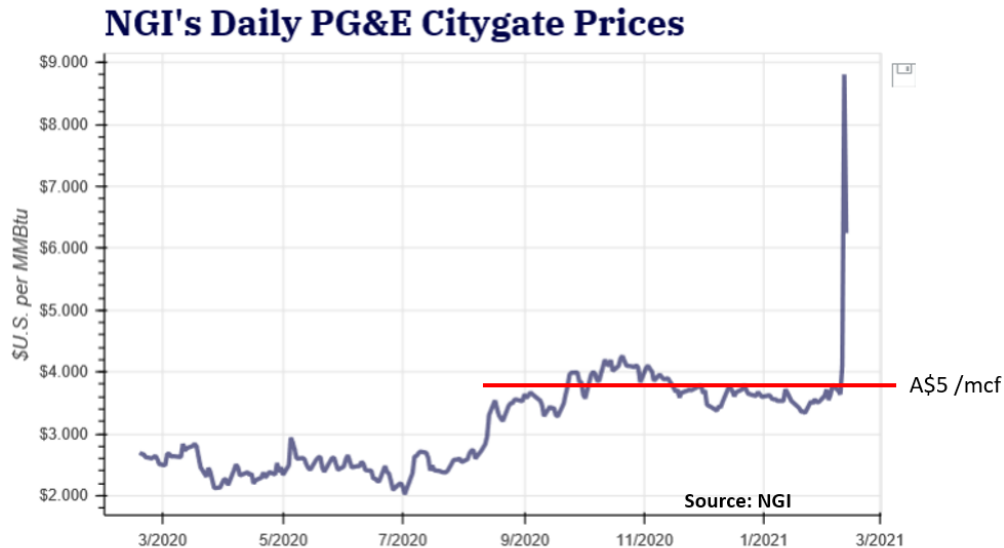


Fig.3. Natural Gas Sales Reference Price in northern Sacramento Basin

The Greater Borba-Dempsey Trend

The Borba Prospect lies to the North of the Willows Gas field on an extensive prospective Cretaceous Sandstone trend for Natural Gas in the North Eastern Sacramento Basin. The potential traps mapped by joint venture operator Sacgasco along this trend range from Channel Sands wrapping around structural highs to stratigraphic traps created by sandstones onlapping onto structural highs. The interpretation of the 3D data reveals traps that are significantly larger than the Borba Prospect with Tcf-potential. Success at Borba 1-7 is expected to open-up these plays for follow-up evaluation within the Borba AMI and within JV AMI on trend with Borba.

ERCE Prospective Resources Assessment Methodology

ERCE has determined the Prospective Resource by examining the areas of consistent bright amplitude that were mapped by the Joint Venture using the 3D seismic data and well data relevant to the Borba AMI. The most relevant well penetration is Well Dempsey 1-15, which was drilled approximately five miles to the NW. ERCE determined there were 11 potential reservoirs within the Borba Prospect. Reservoir parameters including potential pool area and thickness, porosity, hydrocarbon saturation, gas expansion and recovery factor were estimated on a probabilistic low, mid and high basis. The unrisked 1U, 2U and 3U prospective resource was then calculated. The Prospective Resources distributions were then aggregated or "rolled up" into one success case distribution, and an estimate of the chance of success for at least 1 gas discovery was derived. This was modelled using Monte-Carlo analysis.

Please refer to the disclaimers attached to this ASX release for more information on the prospective resource report.

About ERCE

ERCE is the largest global independently owned petroleum Reserves and Resources auditor, providing expert consultancy services to the upstream oil and gas industry for over 40 years. With over 50 full-time technical staff, ERCE provides geoscience, reservoir, facilities and cost engineering and economic/commercial expertise in conventional and unconventional projects. Examples of public clients include Carnarvon, Jadestone Energy, Tag Oil, Interra Resources, ADX Energy and Elixir Energy. ERCE has offices in UK, Singapore and Perth, WA.

ERCE is an independent consultancy specialising in petroleum reservoir evaluation. Except for the provision of professional services on a fee basis, ERCE has no commercial arrangement with any other person or company involved in the interests that are the subject of this report. The work has been supervised by Mr Stewart Easton, General Manager of ERCE's Asia Pacific office, a Professional Geologist registered as a Fellow of the Geological Society and a member of the Society of Petroleum Engineers with over 23 years of experience in the oil and gas industry. *He is qualified in accordance with ASX listing rule 5.41.*

Xstate Managing Director, David McArthur commented:

"The stage is now set for the drilling of a very significant exploration well for Xstate. Borba is a very low risk gas prospect with high upside immediately adjacent existing gas infrastructure. Success in intersecting gas at Borba 1-7 has the potential to transform the company almost instantaneously. An independent estimate of 70% chance of success means there must be high confidence in the quality, quantity and controls of the all the technical inputs required for geological success. This well, plus our growing Canadian oil production business puts Xstate on a very solid footing early in 2021."

This release is authorised by the board of the company.

David McArthur
Managing Director

Disclaimers:

Cautionary Statement for Prospective Resource Estimates - With respect to the Prospective Resource estimates contained within this report, it should be noted that the estimated quantities of gas that may potentially be recovered by the future application of a development project relate to undiscovered accumulations. These estimates have an associated risk of discovery and risk of development. Further exploration and appraisal is required to determine the existence of a significant quantity of potentially moveable hydrocarbons.

Hydrocarbon Resource Estimates Date – The Prospective Resource estimates for Borba presented in this report are prepared as at 1 February 2021.

Competent Person Statement Information – In this report information relating to hydrocarbon resource estimates have been supplied by ERCE, and the company has stated in the Report that it has been prepared in accordance with the definitions and guidelines set forth in the Petroleum Resources Management System, 2018, approved by the Society of Petroleum Engineers and have been prepared using probabilistic methods. ERC Equipoise Pte Ltd, the independent resource reviewer named in this document, has consented to the inclusion of information relevant to their review in the form and context in which it appears.

The report has been prepared under the supervision of Mr Greg Channon, who is a Non-Executive Director of Xstate. Mr Channon is a qualified geoscientist with over 35 years of oil and gas industry experience and a member of the American Association of Petroleum Geologists and the South East Asian Exploration Society and is a graduate of the Australian Institute of Company Directors. He is qualified as a competent person in accordance with ASX listing rule 5.41. Mr Channon consents to the inclusion of the information in this report relating to hydrocarbon Prospective Resources in the form and context in which it appears.

Forward looking statements – This document may include forward looking statements. Forward looking statements include, are not necessarily limited to, statements concerning XState’s planned operation program and other statements that are not historic facts. When used in this document, the words such as “could”, “plan”, “estimate”, “expect”, “intend”, “may”, “potential”, “should” and similar expressions are forward looking statements. Although Xstate believes the expectations reflected in these are reasonable, such statements involve risks and uncertainties, and no assurance can be given that actual results will be consistent with these forward-looking statements. The entity confirms that it is not aware of any new information or data that materially affects the information included in this announcement and that all material assumptions and technical parameters underpinning this announcement continue to apply and have not materially changed.