



ABN 96 009 217 154

30 July 2021

**Announcement to ASX**

**Electronic lodgement**

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## **JUNE 2021 QUARTERLY ACTIVITY REPORT**

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### **HIGHLIGHTS**

- **Sales Production of 24,967 boe from Canadian Assets delivering revenue of A\$1.6 million for the quarter**
- **Net Operating Cashflow of A\$609,000 for the quarter**
- **Xstate share of Canada Production is 287 BOEPD**
- **Testing of Borba 1-7 Kione Formation in California confirms 3,000 mcfpd production potential**
- **Study of Helium and Hydrogen potential of Canadian assets initiated**
- **Subsequent to the end of the quarter:**
  - **Xstate acquired an additional 25% working interest in the Alberta Plains asset, increasing total Canadian net production to 453 BOPD (effective July 1 2021)**
  - **The company raised A\$1,000,000 (before costs) via a private placement**

Xstate Resources Limited (**ASX: XST**) ("**Xstate**" or "**the Company**") is pleased to provide the Quarterly Activities Report for the calendar quarter ending 30 June 2021.

### **CANADA: RED EARTH (25 WI%) AND ALBERTA PLAINS (10 WI%- increasing to 35% effective 1 July 2021)**

Xstates's June quarter sales from the Company's Canadian assets were 24,967 boe delivering a total of A\$1.6 million in revenue. In the short time since Xstate acquired these assets, gross production from Red Earth and Alberta Plains has increased significantly. Daily gross production for both assets averaged ~1500 BOEPD, of which Xstate's share was 220 BOEPD in Red Earth and 67 BOEPD in Alberta Plains (Alberta Plains increasing to 222 BOEPD after July 1 2021).

Xstate's share of the Joint Venture's operating cashflow is estimated at A\$609,000 or A\$24/boe average margin.

For the June quarter, the Joint Venture decided to reinvest the operating cashflow (rather than distribute funds to the Joint Venture parties) into a number of production improvement projects and one-off acquisition related costs. The remainder of the net operating cashflow is currently being held in the Joint Venture account.

Reinvestment into the asset (\$475,000 net to Xstate) includes production improvement projects such as well workovers and restarts and optimization of oil transport routes as well as one-off acquisition related costs including reimbursement of prepaid lease fees and property taxes.

The focus for Xstate's Canadian assets continues to be optimizing production, margin and cashflow. A series of additional low-cost capital projects are being considered in relation to the optimization program including further well workovers and the restart of a JV-owned gas plant. It is currently intended that the optimization program will be funded entirely from the operating cashflow.

Oil and Gas production in Canada	June Quarter 2021	March Quarter 2021
Gross Sales boe*	24,967	2718
Net XST boe (after Royalty)	21,884	2419

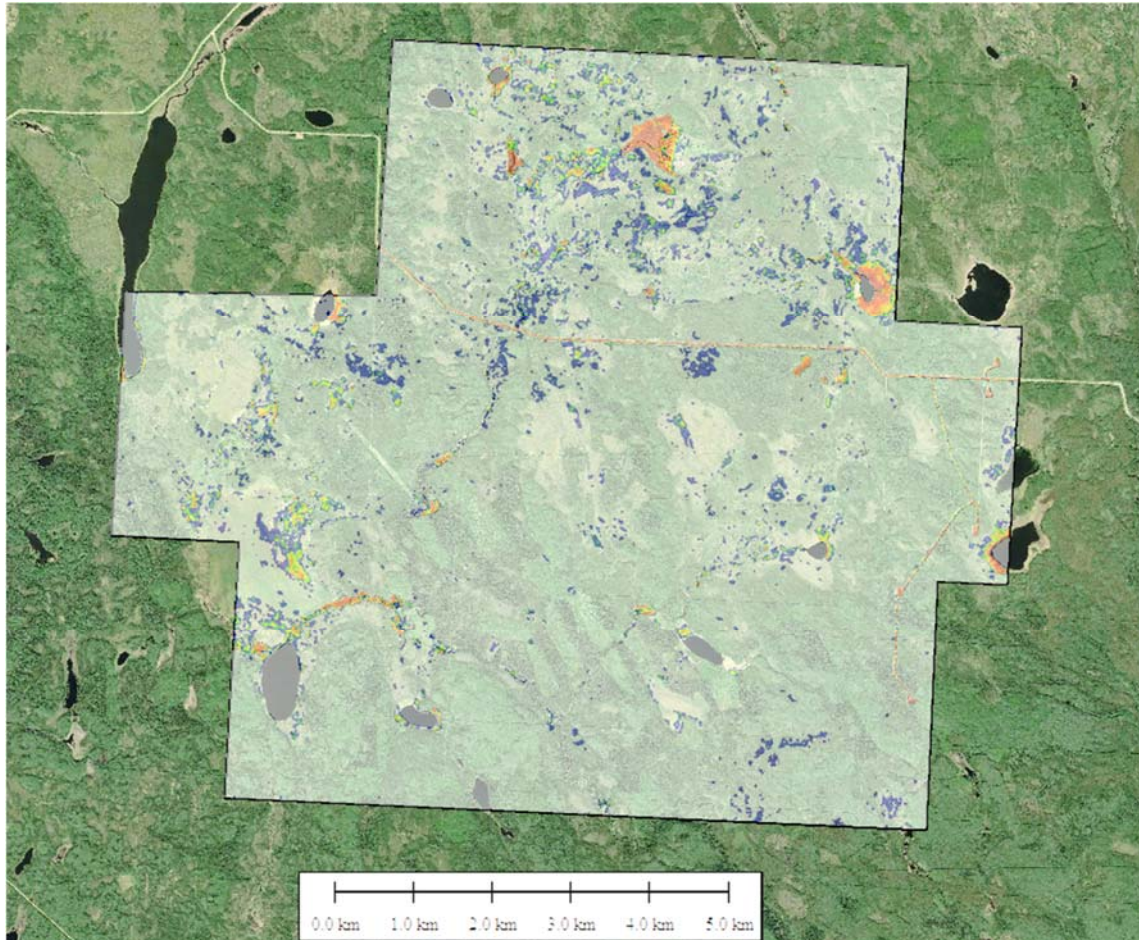
\*Gas converted to boe using a 6:1 ratio

It is expected that XState will start receiving cash remittances from the assets in the September quarter.



*Xstate's Producing Assets in Canada*

In addition to our increasing production, Xstate and the Joint Venture has embarked upon a multi-spectral satellite imagery study over our Canadian assets. The study is targeting the identification of hydrocarbon, hydrogen and helium anomalies. The results of the study will be integrated with the extensive subsurface well control and other geophysical data including seismic to define potential exploration targets within the areas of operations.



*Satellite Imagery over Xstate's House Creek leases highlighting potential helium anomalies in Orange*

#### **CALIFORNIA: BORBA NATURAL GAS DRILLING (XST WI 33.33%)**

The Borba 1-7 well was drilled to a Total Depth of 8,827ft. After determining sub-commercial flows in the lower formations, the Company tested a total of 13 feet of perforations at approximately 3,900 feet (1,200 metres) in the Kione Formations. These perforations are within an interval of 92 feet of reported gas play.

While the calculated flow from the Borba well at 1300 psi tubing pressure (equivalent to 400# of pressure drawdown) is 5,000 million cubic feet of gas per day (mmcfcpd)\*, the company plans to initially flow the Borba 1-7 well at 3,000 mcfpd. These parameters may be varied depending on operational pipeline pressures and observed reservoir behaviour.

A detailed review of the downhole pressure gauge data from the Borba 1-7 well test has modeled a theoretical Absolute Open Flow ("AOF") potential of 7.8 to 9.2 mcfcpd.

\*Note: 1 'mcfcpd' is 1,000 cubic feet of gas per day or approximately 1 sales unit of gas per day



Borba 1-7 flaring during short period of flow testing

Gas analysis confirmed the Borba gas contains 85.4% Methane and has a Gross heating Value of 856 Btu/mcf.

After reviewing multiple routes and connection alternatives, the Joint Venture is in the process of obtaining estimates for installing a direct pipeline connection from Borba to the Dempsey area facilities. The optimum route for the pipeline to provide future access for mapped prospects in the area is being finalized.

Integration of recently acquired proprietary and public airborne geophysical data with 2D and 3D seismic data and analysis of well histories over a 1000 square kilometres study area in the northern Sacramento Basin is proceeding. Results are expected to define extensive 'prospects and leads' focus areas near the Joint Venture's infrastructure. Opportunities to add natural sources of Helium and Hydrogen are being examined.

#### **CALIFORNIA: SACRAMENTO BASIN PRODUCTION (VARIOUS WIs)**

The Company continued to maintain leases in the Sacramento Basin during the quarter. Xstate has a working interests (WI) of between 10% and 33% in oil and gas leases. In addition to our existing Sacramento Basin production, the company is investigating workover and exploration opportunities to take advantage of the currently high gas prices in California.

California has an unsatiated average 7 Bcf per day gas market. California imports over 90% of this natural gas from other US States and Canada. Reference Natural Gas prices for Xstate's Gas Sales in Sacramento Basin for the June Quarter were around US\$4/mcf (AUD\$5 /mcf). This represents a 25% premium to US Benchmark Henry Hub Natural Gas Price, but these prices have risen steadily to a current price in excess of US\$5/mcf (AUD 6.85/mcf). Xstate's Natural Gas prices in California are currently 140% of the USA benchmark Henry Hub natural gas prices.

<b>Oil and Gas production in California</b>	<b>June Quarter 2021</b>	<b>March Quarter 2021</b>
Gross Gas mcf	31,333	30,556
Net XST mcf (after Royalty)	3,123	3,033

#### **XSTATE TENEMENT LISTING (as at 30 June 2021)**

<b>XSTATE RESOURCES LIMITED – SACRAMENTO BASIN TENEMENT LIST NORTHERN CALIFORNIA</b>		
<b>Project name</b>	<b>Category</b>	<b>Working Interest (WI)</b>
Alvares Project	Appraisal	25%
Dempsey 1-15 Well	Exploration & Appraisal	10%
Dempsey Trend - (Includes Borba)	Active leasing 3 large prospects	33%
Rancho Capay Field	Production	10%
Malton field	Production	30%
East Rice East Creek Field	Production	10%
Los Medanos Gas Field	Production	10%
Dutch Slough Field	Production	30%
Denverton Field	Production	30%
Red Earth	Production	25%
Alberta Plains	Production	10%*

*\* Increasing to 35% effective July 1 2021*

#### **EVENTS SUBSEQUENT TO THE REPORTING PERIOD**

##### **Acquisition of additional 25% in Alberta Plains Asset**

On 14 July 2021, Xstate announced it had increased its working interest in the Alberta Plains assets from 10% to 35%, effective from 1 July 2021. The purchase price of C\$1,250,000 was paid as C\$300,000 in cash and the remainder C\$950,000 in XST shares at an issue price of 0.4c.

##### **Capital Raising**

XST announced on 27 July 2021 that it has raised \$1,000,000 (before costs) via a private placement to new and existing domestic investors (the "Placement"). The Placement will result in the issue of 250 million new fully paid ordinary shares in the Company ("Shares"), at an issue price of \$0.004 per share.

Proceeds will be used to fund the Company's share of costs for Borba infrastructure, workovers in California and Canada to increase production and additional working capital for further production opportunities that are being assessed.

#### **CORPORATE**

##### **Management Changes**

Subsequent to the reporting period, on 14 July 2021 Mr David McArthur retired as the Managing Director and Mr Andrew Childs was appointed to the position of Executive Chairman

## Annual General Meeting

The Annual General Meeting was held on the 28 May 2021 and all Resolutions presented were passed by a poll.

## Share Registry Changed

On 12 April 2021, the Company announced that it had changed its Share Registry Services to Automic Pty Ltd.

## XSTATE CAPITAL STRUCTURE

ISSUED CAPITAL at 30 July 2021	
Ordinary Shares (ASX: XST)	2,689,587,516
Unlisted Options exercisable @ 0.5 cents by 31 December 2022	75,000,000

## APPENDIX 5B DISCLOSURES

Further details of selected items from the accompanying June 2021 Appendix 5B:

Appendix 5B Reference		Commentary	
		\$'000	
1.2 (a)	Payments for exploration and evaluation	3,024	Payments relating to 100% of the cost of Borba drilling and testing which were paid during the quarter.
2.1 (f)	Payments to acquire other non-current assets	326	Deposit paid during due diligence period for potential ABC acquisition. Expected to be refunded shortly.
6.1	Payments to related parties of the entity and their associates	69	Includes directors and company secretary salaries, superannuation, and fees (\$56k) and company management fees (\$13k).

**This release was approved by the board of the Company**

**Andrew Childs**

**Executive Chairman**

Xstate Resources Limited

Tel Office: +61 8 9435 3200

### ***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 onshore North America.*

**Leases:**

*US and Canadian exploration is conducted on leases granted by Mineral Right owners, including the respective Governments and private individuals or groups. Leases can vary in size from very small parcels (part of an acre) to large landholdings (covering a few square miles). Leases generally are for 5 years and rentals are paid annually. There are no firm work commitments associated with the leases. Some leases are 'Held By Production' (HBP) and royalties are paid to mineral right owners in lieu of rentals. XST has not listed all its leases as it is impractical and not meaningful for potential project value assessment in a conventional natural gas play. A detailed listing of leases may also lead to a loss of competitive advantage and consequent reduced value to XST shareholders.*

**Competent Person:**

*The technical information provided has been supervised and reviewed in detail by XST's Competent Person, Mr Greg Channon, who is also a Non-Executive Director of the company. 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 in the form and context in which it appears.*

## Appendix 5B

### Mining exploration entity or oil and gas exploration entity quarterly cash flow report

Name of entity

Xstate Resources Limited

ABN

96 009 217 154

Quarter ended ("current quarter")

30 June 2021

Consolidated statement of cash flows		Current quarter \$A'000	Year to date (6 months) \$A'000
<b>1.</b>	<b>Cash flows from operating activities</b>		
1.1	Receipts from customers	-	-
1.2	Payments for		
	(a) exploration & evaluation	(1,346)	(1,920)
	(b) development	-	-
	(c) production	-	(366)
	(d) staff costs	(46)	(161)
	(e) administration and corporate costs	(66)	(196)
1.3	Dividends received (see note 3)	-	-
1.4	Interest received	-	-
1.5	Interest and other costs of finance paid	-	(1)
1.6	Income taxes paid	(2)	(4)
1.7	Government grants and tax incentives	-	-
1.8	Other (provide details if material)	-	-
<b>1.9</b>	<b>Net cash from / (used in) operating activities</b>	<b>(1,460)</b>	<b>(2,648)</b>
<b>2.</b>	<b>Cash flows from investing activities</b>		
2.1	Payments to acquire or for:		
	(a) entities	-	-
	(b) tenements	-	-
	(c) property, plant and equipment	-	-
	(d) exploration & evaluation	-	-
	(e) investments	-	-
	(f) other non-current assets	(326)	(1,555)

Consolidated statement of cash flows		Current quarter \$A'000	Year to date (6 months) \$A'000
2.2	Proceeds from the disposal of:		
	(a) entities	-	-
	(b) tenements	-	-
	(c) property, plant and equipment	-	-
	(d) investments	-	-
	(e) other non-current assets	-	-
2.3	Cash flows from loans to other entities	8	8
2.4	Dividends received (see note 3)	-	-
2.5	Other (provide details if material)	-	-
<b>2.6</b>	<b>Net cash from / (used in) investing activities</b>	<b>(318)</b>	<b>(1,547)</b>

<b>3.</b>	<b>Cash flows from financing activities</b>		
3.1	Proceeds from issues of equity securities (excluding convertible debt securities)	-	4,000
3.2	Proceeds from issue of convertible debt securities	-	-
3.3	Proceeds from exercise of options	-	75
3.4	Transaction costs related to issues of equity securities or convertible debt securities	-	(277)
3.5	Proceeds from borrowings	-	-
3.6	Repayment of borrowings	-	(66)
3.7	Transaction costs related to loans and borrowings	-	-
3.8	Dividends paid	-	-
3.9	Other (provide details if material)	-	-
<b>3.10</b>	<b>Net cash from / (used in) financing activities</b>	<b>-</b>	<b>3,732</b>

<b>4.</b>	<b>Net increase / (decrease) in cash and cash equivalents for the period</b>		
4.1	Cash and cash equivalents at beginning of period	2,177	815
4.2	Net cash from / (used in) operating activities (item 1.9 above)	(1,460)	(2,648)
4.3	Net cash from / (used in) investing activities (item 2.6 above)	(318)	(1,547)
4.4	Net cash from / (used in) financing activities (item 3.10 above)	-	3,732

Consolidated statement of cash flows		Current quarter \$A'000	Year to date (6 months) \$A'000
4.5	Effect of movement in exchange rates on cash held	(13)	34
<b>4.6</b>	<b>Cash and cash equivalents at end of period</b>	<b>386</b>	<b>386</b>

5.	Reconciliation of cash and cash equivalents at the end of the quarter (as shown in the consolidated statement of cash flows) to the related items in the accounts	Current quarter \$A'000	Previous quarter \$A'000
5.1	Bank balances	386	2,177
5.2	Call deposits	-	-
5.3	Bank overdrafts	-	-
5.4	Other (provide details)	-	-
<b>5.5</b>	<b>Cash and cash equivalents at end of quarter (should equal item 4.6 above)</b>	<b>386</b>	<b>2,177</b>

6.	Payments to related parties of the entity and their associates	Current quarter \$A'000
6.1	Aggregate amount of payments to related parties and their associates included in item 1	69
6.2	Aggregate amount of payments to related parties and their associates included in item 2	-
<i>Note: if any amounts are shown in items 6.1 or 6.2, your quarterly activity report must include a description of, and an explanation for, such payments.</i>		

<b>7.</b>	<b>Financing facilities</b> <i>Note: the term "facility" includes all forms of financing arrangements available to the entity.</i> <i>Add notes as necessary for an understanding of the sources of finance available to the entity.</i>	<b>Total facility amount at quarter end \$A'000</b>	<b>Amount drawn at quarter end \$A'000</b>
7.1	Loan facilities		
7.2	Credit standby arrangements		
7.3	Other (please specify)		
7.4	<b>Total financing facilities</b>		
7.5	<b>Unused financing facilities available at quarter end</b>		-
7.6	Include in the box below a description of each facility above, including the lender, interest rate, maturity date and whether it is secured or unsecured. If any additional financing facilities have been entered into or are proposed to be entered into after quarter end, include a note providing details of those facilities as well.		

<b>8.</b>	<b>Estimated cash available for future operating activities</b>	<b>\$A'000</b>
8.1	Net cash from / (used in) operating activities (item 1.9)	(1,460)
8.2	(Payments for exploration & evaluation classified as investing activities) (item 2.1(d))	-
8.3	Total relevant outgoings (item 8.1 + Item 8.2)	(1,460)
8.4	Cash and cash equivalents at quarter end (item 4.6)	386
8.5	Unused finance facilities available at quarter end (item 7.5)	-
8.6	Total available funding (item 8.4 + item 8.5)	386
8.7	<b>Estimated quarters of funding available (item 8.6 divided by item 8.3)</b>	<b>0.26</b>
<i>Note: if the entity has reported positive relevant outgoings (ie a net cash inflow) in item 8.3, answer item 8.7 as "N/A". Otherwise, a figure for the estimated quarters of funding available must be included in item 8.7.</i>		
8.8	If item 8.7 is less than 2 quarters, please provide answers to the following questions:	
8.8.1	Does the entity expect that it will continue to have the current level of net operating cash flows for the time being and, if not, why not?	
	Answer: No – expenditure in Q2 was strongly weighted toward costs for drilling of the Borba 1-7 well that occurred in late Q1. There is not anticipated to be any further large expenditure on Borba and the Operator of the project is in discussion with connecting up the well for export of gas into the Californian market. This commencement of production, along with the Canadian assets that have been brought back online are both expected to produce positive cash flows for the coming quarter from an operational standpoint.	
8.8.2	Has the entity taken any steps, or does it propose to take any steps, to raise further cash to fund its operations and, if so, what are those steps and how likely does it believe that they will be successful?	
	Answer: No – currently it is not anticipated that the entity will need to raise capital in the short-term as Canadian and Californian production interests are expected to generate cash flows in the near-term.	

8.8.3 Does the entity expect to be able to continue its operations and to meet its business objectives and, if so, on what basis?

Answer:

Yes, the entity expects to be able to continue operations for the points noted in 8.8.1 and 8.8.2 above, namely that exploration expenditure will not continue indefinitely at the rate it has in Q1, and that the Company expects cash inflows from Q2 onwards in relation to its newly acquired working interests.

*Note: where item 8.7 is less than 2 quarters, all of questions 8.8.1, 8.8.2 and 8.8.3 above must be answered.*

## Compliance statement

- 1 This statement has been prepared in accordance with accounting standards and policies which comply with Listing Rule 19.11A.
- 2 This statement gives a true and fair view of the matters disclosed.

Date: 31 July 2021

Authorised by: Board of Directors  
(Name of body or officer authorising release – see note 4)

## Notes

1. This quarterly cash flow report and the accompanying activity report provide a basis for informing the market about the entity's activities for the past quarter, how they have been financed and the effect this has had on its cash position. An entity that wishes to disclose additional information over and above the minimum required under the Listing Rules is encouraged to do so.
2. If this quarterly cash flow report has been prepared in accordance with Australian Accounting Standards, the definitions in, and provisions of, *AASB 6: Exploration for and Evaluation of Mineral Resources* and *AASB 107: Statement of Cash Flows* apply to this report. If this quarterly cash flow report has been prepared in accordance with other accounting standards agreed by ASX pursuant to Listing Rule 19.11A, the corresponding equivalent standards apply to this report.
3. Dividends received may be classified either as cash flows from operating activities or cash flows from investing activities, depending on the accounting policy of the entity.
4. If this report has been authorised for release to the market by your board of directors, you can insert here: "By the board". If it has been authorised for release to the market by a committee of your board of directors, you can insert here: "By the [name of board committee – eg Audit and Risk Committee]". If it has been authorised for release to the market by a disclosure committee, you can insert here: "By the Disclosure Committee".
5. If this report has been authorised for release to the market by your board of directors and you wish to hold yourself out as complying with recommendation 4.2 of the ASX Corporate Governance Council's *Corporate Governance Principles and Recommendations*, the board should have received a declaration from its CEO and CFO that, in their opinion, the financial records of the entity have been properly maintained, that this report complies with the appropriate accounting standards and gives a true and fair view of the cash flows of the entity, and that their opinion has been formed on the basis of a sound system of risk management and internal control which is operating effectively.