

Announcement to ASX

26 October 2021

BORBA BLUE HYDROGEN OPPORTUNITY

Xstate Resources (ASX:XST) (“Xstate” or “the Company”) attaches a copy of an announcement made today by the Borba gas project joint venture operator, Sacgasco Limited. On behalf of the joint venture, Sacgasco has identified a blue hydrogen opportunity for the Borba gas project to capitalise on California’s expanding network of hydrogen refuelling stations with 47 stations currently online with a further 127 under development.

This release is authorised by the Board of the Company

David McArthur
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About Xstate Resources Limited

Xstate Resources (ASX:XST) is an ASX listed company focused on the oil and gas sector. The Company has existing assets located in the Sacramento Basin in California and associated production interests together with production interests in Alberta Canada. Xstate is presently pursuing new opportunities in the oil and gas sector in North America.



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Sacgasco to Advance Borba Hydrogen Project

- Blue hydrogen opportunity identified for Borba Project to capitalise on California’s expanding network of hydrogen refuelling stations - 47 stations online with 127 under development
- Represents a low capex opportunity to monetise Borba’s gas using existing equipment, proven technology, and established hydrogen transport infrastructure in California
- Feasibility study and partnership discussions with Equipment & Technology providers underway
- Sacgasco joins Californian Hydrogen Business Council (CHBC) as a Silver Member
- Hydrogen State & Federal Subsidies availability assessment underway; California legislators lobby for greater hydrogen investment in California

Sacgasco Limited (ASX: SGC) (“Sacgasco” or “the Company”) is pleased to announce that it has initiated a feasibility study to produce hydrogen from the discovered natural gas at Borba as the Company seeks to capitalize on California’s established and growing hydrogen transport infrastructure network of refueling stations and the State’s growing commitment to renewable energy as legislators lobby for a US\$300m Hydrogen Plan¹.

The Sacgasco operated JV has determined that establishing Borba as a hydrogen project is a unique and compelling opportunity for the Company given capex is likely to be relatively modest as existing ‘plug and play’ technology and equipment can be deployed at Borba to produce hydrogen. A much larger capital investment is required to connect the well to a gas pipeline that has available capacity.

Borba JV Participants:

Sacgasco (ASX:SGC)	67.67% Working Interest	Operator
Xstate (ASX: XST)	33.33% Working Interest	

California’s Hydrogen Market and Established Refuelling Network

California is undergoing a hydrogen revolution in transportation fuel. Some 47 hydrogen filling stations are in use and a further 127 stations are in development (*Refer Image 1: Map of hydrogen refuelling station locations on following page*).

¹ <https://www.forbes.com/sites/arielcohen/2021/06/17/california-legislators-push-300-million-hydrogen-plan/?sh=5987b06c5cfb>

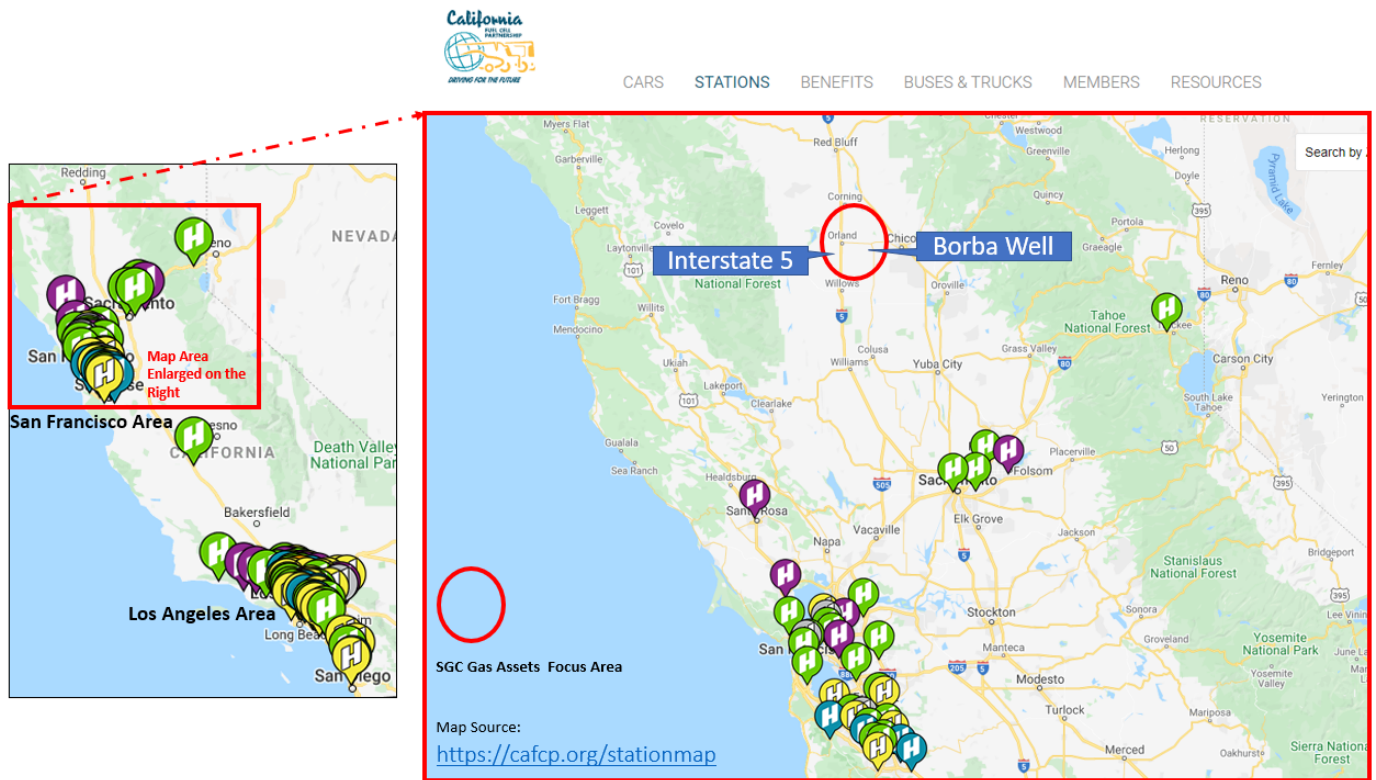


Image 1: Map of hydrogen refuelling stations and Borba well location

Sagasco is strategically well-placed to supply this fast-growing market with existing gas discoveries and proximity to market (**Refer Image 2: Hydrogen refuelling station in Sacramento**).

The Borba location is 9 miles from Interstate 5 (I5), one of the busiest interstate highways in the US conveying over 26,800 trucks and cars daily (2016 Statistic). As the Californian Hydrogen Filler Station Network expands northwards along I5, this will provide even greater demand.

Rationale for Selection of Borba Location

Following on from reviews of pipeline operating incidents, the local pipeline network owner recently imposed severe volume restrictions on the previously identified pipeline route for Borba natural gas. This restriction would have resulted in the Borba production being curtailed indefinitely to well below its potential.

As a result, Sagasco's team assessed other viable alternatives to monetise Borba's gas and surrounding prospects. Potential value, cost, lead-time, potential for expansion and regulatory approval processes were considered in the assessment of a range of options including hydrogen, alternative pipeline routes, CNG, mini-LNG and Gas to Power. Local generation of hydrogen to supply the growing Californian market provided a number of advantages over the alternatives, including:

- Excellent technology acceptance by community and support for the development of California's hydrogen economy by local legislators;
- Established and fast-growing market demand;
- Route to market by road, no need for pipelines construction or access;
- Limited land use and associated regulatory approvals with hydrogen facilities potentially co-located at well-site;
- Diversify traditional O&G activities into well-supported renewable energy markets.

Hydrogen Feasibility Project

The Borba 1-7 well was discovered in the first quarter of 2021. It has the potential to initially produce between 3 and 5 million cubic feet of gas per day of natural gas. This natural gas can be utilised on-site for the production of hydrogen, which in turn would be trucked out for sale to the local hydrogen economy in California.

The Sacgasco JV is developing partnerships with equipment and technology providers to support the project and has joined the Californian Hydrogen Business Council (CHBC) as a Silver Member. Associated production equipment includes proven 'plug and play' equipment available from established vendors.

Sacgasco understands that there may be State and Federal support for such a project given the commitment from legislators to increasing investment in growing California's hydrogen economy. With a successful Borba Hydrogen Project, Sacgasco has capacity to rapidly scale up its Hydrogen division by tapping into other existing producing gas wells and larger prospects that could be used for production or sequestration.

Sacgasco's Managing Director, Gary Jeffery commented on the Hydrogen Opportunity:

"Hydrogen is an expanding fuel source in California, and it is well supported by the local community and regulator. We have a unique opportunity to capitalize on the growth and development of the hydrogen economy here and monetise Borba's gas using proven technology and equipment and by tapping into established infrastructure.

California provides a lot of those advantages with its active approach to the energy transition that is taking place globally. Sacgasco's assets are well located to be part of the transition, and we are excited to embark on the Borba Hydrogen Project.

We carefully assessed a number of options to tie Borba into a nearby pipeline but capacity restrictions, which only recently materialized, meant we have to assess alternatives to generate acceptable returns from our investment. Auspiciously, the opportunity to establish a hydrogen division in a US state that is a leader in 'green' transport innovation is a compelling outstanding value opportunity for SGC.

It is also noteworthy that the geology of the Northern Sacramento basin is considered by our technical team to have many of the attributes necessary for the accumulation of Natural Hydrogen accumulations and this potential is also being actively assessed."



Image 2: Example of hydrogen refuelling station in Sacramento, California.

The Company looks forward to providing shareholders with an update on the progress of its assets in the Philippines and Canada shortly with a number of initiatives gathering momentum.

For and on behalf of the Board of Sacgasco Limited.

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About Sacgasco Limited (ASX: SGC)

Sacgasco Limited (ASX: SGC) is an Australian-based energy company focused on under-explored, recently over-looked, world class oil and gas opportunities near under-supplied markets. Sacgasco's Natural Gas activities include Hydrogen and Helium.

The Company is currently focussed on conventional oil and gas exploration and production in the Sacramento Basin in California, Alberta Province in Canada and offshore The Philippines.

Sacgasco has an extensive portfolio of natural gas and oil producing wells as well as prospects and discoveries at various exploration and appraisal stages. The Company is targeting supply to the local Californian and Canadian oil and gas markets and the burgeoning Asian market.

Sacgasco is in the process of acquiring additional undervalued oil and gas producing and exploration assets.

www.sacgasco.com

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