



ABN 96 009 217 154

29 October 2021

Announcement to ASX

Electronic lodgement

SEPTEMBER 2021 QUARTERLY ACTIVITY REPORT

HIGHLIGHTS

- **Maiden cashflow positive** quarter after all capital and operating expenditure including some significant one-off payments
- **42,140 boe produced**, an increase of 69% from previous quarter
- **XST revenue of A\$ 3.2 million** (before royalties of A\$396,000) from Canadian production assets
- **XST share of net operating result was A\$700,000** for the quarter (after royalties and capex of A\$153,000)
- **Production rates increasing** at both the Red Earth and Alberta Plains assets.
- Subsequent to end of quarter:
 - **Blue Hydrogen** Opportunity identified for Borba

**Note: Approximately 60 day time lag between Canadian operating cashflow and Joint Venture cash distributions to Xstate results in variances to Appendix 5B reported numbers.*

CHAIRMAN'S COMMENT

Mr Andrew Childs, Executive Chairman commented; " We are delighted to deliver the Company's first quarter of positive cash flow since it's incorporation in 1995. Our Canadian assets now solidly underpin the Company with 468 BOEPD net production and over 2,200,000 BOE of Proved Reserves (1P) – see ASX release 14/7/21.

We look forward to Blue Sky Resources (Canadian Joint Venture Operator and XST substantial shareholder) driving down operating costs and increasing production.

CANADA: RED EARTH (25 WI%) AND ALBERTA PLAINS (35 WI%)

Xstate's September quarter share of production from the Company's Canadian assets were 42,140 boe delivering a total of A\$3.2 million in revenue.

Xstate's share of the Joint Venture's operating cashflow for the quarter's operations is estimated at A\$700,000 at an A\$16.62/boe average margin.

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

XST share of Oil and Gas production in Canada	September Quarter 2021	June Quarter 2021	March Quarter 2021
Gross Sales boe*	42,140	24,967	2,718
Net XST boe (after Royalty)	36,673	21,884	2,419

*barrels of oil equivalent (boe) - gas converted to boe using a 6:1 ratio



Xstate's Producing Assets in Canada

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

Post the end of the Quarter, the Operator of the Borba Joint Venture, announced it has initiated a feasibility study to produce hydrogen from the discovered natural gas at Borba as the Joint Venture 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.

The Joint Venture 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.

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 Gas Sales in Sacramento Basin for the September Quarter were around US\$5.70/mcf (AUD\$9.30/mcf). This represents a 33% premium to US Benchmark Henry Hub Natural Gas Price.

Oil and Gas production in California (mcf*)	September Quarter 2021**	June Quarter 2021	March Quarter 2021
Gross Gas	28,078	31,333	30,556
Net XST (after Royalty)	2,626	3,123	30,033
*mcf = thousand cubic feet of gas ** Overall gas flows were reduced due to operational interruptions			

XSTATE TENEMENT LISTING (as at 30 September 2021)

XSTATE RESOURCES LIMITED – SACRAMENTO BASIN TENEMENT LIST NORTHERN CALIFORNIA		
Project name	Category	Working Interest (WI)
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	35%

APPENDIX 5B DISCLOSURES

ASX Listing Rule 5.4.1: Exploration expenditure during the quarter of \$33,000 related to the Borba asset.

ASX Listing Rule 5.4.2: Production expenditure in Canada during the quarter was A\$98,000 for operational expenditures relating to the Canadian assets.

ASX Listing Rule 5.4.3: A tenement schedule is provided.

ASX Listing Rule 5.4.5: Payments to related parties was \$91,000 and includes director's salaries and superannuation and payments for corporate management services to a director related entity.

CORPORATE

On 27 July 2021 the company announced it had raised \$ 1 million (before costs).

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 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. SGC 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 September 2021

Consolidated statement of cash flows		Current quarter \$A'000	Year to date (9 months) \$A'000
1.	Cash flows from operating activities		
1.1	Receipts from customers	474	474
1.2	Payments for		
	(a) exploration & evaluation	(33)	(1,953)
	(b) development	-	-
	(c) production	(98)	(244)*
	(d) staff costs	(21)	(182)
	(e) administration and corporate costs	(120)	(316)
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	-	(4)
1.7	Government grants and tax incentives	-	-
1.8	Other (provide details if material)	-	-
1.9	Net cash from / (used in) operating activities	202	(2,226)

* Noted that the previous YTD balance has been adjusted after the compilation of the interim financial report. Some cash flows previously identified as production costs have been recognised as cash flows to acquire other non-current assets (oil and gas working interests).

2.	Cash flows from investing activities		
2.1	Payments to acquire or for:		
	(a) entities	-	-
	(b) tenements	-	-
	(c) property, plant and equipment	-	-
	(d) exploration & evaluation	-	-

Consolidated statement of cash flows		Current quarter \$A'000	Year to date (9 months) \$A'000
	(e) investments	-	-
	(f) other non-current assets	-	(1,775)*
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
2.4	Dividends received (see note 3)	-	-
2.5	Other (provide details if material)	-	-
2.6	Net cash from / (used in) investing activities	-	(1,767)
3.	Cash flows from financing activities		
3.1	Proceeds from issues of equity securities (excluding convertible debt securities)	1,000	5,000
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	(66)	(343)
3.5	Proceeds from borrowings	-	-
3.6	Repayment of borrowings	(14)	(80)
3.7	Transaction costs related to loans and borrowings	-	-
3.8	Dividends paid	-	-
3.9	Other (provide details if material)	-	-
3.10	Net cash from / (used in) financing activities	920	4,652
4.	Net increase / (decrease) in cash and cash equivalents for the period		
4.1	Cash and cash equivalents at beginning of period	386	815
4.2	Net cash from / (used in) operating activities (item 1.9 above)	202	(2,226)
4.3	Net cash from / (used in) investing activities (item 2.6 above)	-	(1,767)

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

Consolidated statement of cash flows		Current quarter \$A'000	Year to date (9 months) \$A'000
4.4	Net cash from / (used in) financing activities (item 3.10 above)	920	4,652
4.5	Effect of movement in exchange rates on cash held	9	43
4.6	Cash and cash equivalents at end of period	1,517	1,517

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	1,517	386
5.2	Call deposits	-	-
5.3	Bank overdrafts	-	-
5.4	Other (provide details)	-	-
5.5	Cash and cash equivalents at end of quarter (should equal item 4.6 above)	1,517	386

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	91
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>		

7.	Financing facilities <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>	Total facility amount at quarter end \$A'000	Amount drawn at quarter end \$A'000
7.1	Loan facilities		
7.2	Credit standby arrangements		
7.3	Other (please specify)		
7.4	Total financing facilities		
7.5	Unused financing facilities available at quarter end		-
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.		

8.	Estimated cash available for future operating activities	\$A'000
8.1	Net cash from / (used in) operating activities (item 1.9)	202
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)	202
8.4	Cash and cash equivalents at quarter end (item 4.6)	1,517
8.5	Unused finance facilities available at quarter end (item 7.5)	-
8.6	Total available funding (item 8.4 + item 8.5)	1,517
8.7	Estimated quarters of funding available (item 8.6 divided by item 8.3) <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>	N/A
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:	
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:	
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:	
<i>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.</i>		

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: 29 October 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.